

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-12 _____

DOCKET NO. UG-12 _____

EXHIBIT NO. ____ (KSF-5)

KAREN S. FELTES

REPRESENTING AVISTA CORPORATION

AVISTA CORPORATION & AVISTA UTILITIES**EMPLOYEE
INCENTIVE PLAN FOR 2011****PLAN PROVISIONS**

Purpose: The Employee Incentive Plan (Plan) helps motivate and focus employees on the stated goals while recognizing and rewarding employees for their contributions towards achieving those goals.

Plan Year: January 1, 2011 – December 31, 2011

Eligibility:

- All regular full-time, regular scheduled part-time, regular seasonal and long-term (>6mo) temporary employees hired prior to October 1st and employed on December 31st of the plan year, are eligible to participate
- Subsidiary employees, short-term (<6mo) temporary, students, rehired retirees, contract services and contractor employees are not eligible to participate
- Other details available in section *Exceptions to Eligibility and Circumstances for Proration*

Performance Measurements: The Employee Incentive Plan focuses on the customer by controlling costs through driving efficiencies while paying close attention to our customers' voices regarding the products and services we provide. The Plan incorporates Operating & Maintenance Cost per Customer (O&M CPC) as a financial performance measurement plus four non-financial measurements: Customer Satisfaction Rating (Customer Satisfaction), Reliability Index (Reliability), Dispatched Gas Emergency Response Time (Response Time) and Performance Excellence. These performance measures help to maintain safe and reliable cost-effective service levels essential for the long-term success of the Company.

O&M CPC - The O&M CPC is a measure that focuses on controlling costs and driving efficiencies in order to keep our costs reasonable for our customers. The measure is based on our projected number of customers, targeted O&M expense and a savings mechanism between employees and the Company. These components are combined to create the O&M CPC metric.

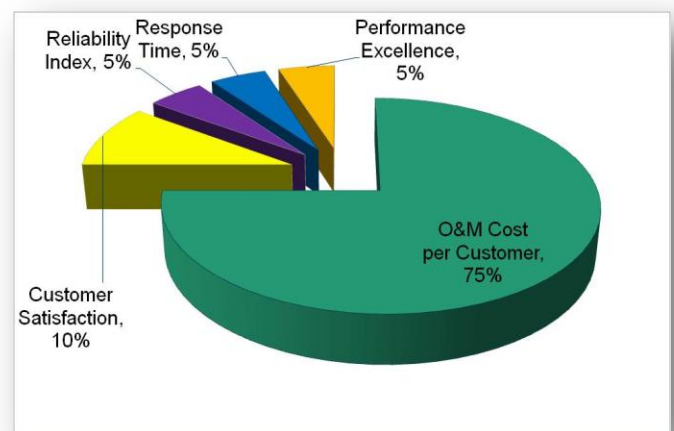
Customer Satisfaction - This measure is derived from a Voice of the Customer survey, which is conducted each quarter by an independent agency. The rating measures the customer's overall satisfaction with the service they received during a recent contact with the service and/or call center. The *Overall Satisfaction* question from surveys such as this is widely used in the industry for external reporting purposes. For this measure, the Company combines the "satisfied" and "very satisfied" ratings from the survey, rather than use the standard "satisfied" rating, which is typically used in the industry. By combining these two ratings it actually makes the target more difficult to achieve.

Reliability - Providing safe and reliable energy to our customers is the backbone of our business, therefore, it makes good sense to focus on service levels for our customers. This measure tracks how quickly the Company restores outages, how frequently customers are affected by outages and what percent of customers are experiencing more than three sustained outages per year. The Company combined three common industry indices in order to balance our focus. The industry names for the indices used are *Customer Average Interruption Duration Index (CAIDI)*, *System Average Interruption Frequency Index (SAIFI)* and *Customer Experiencing Multiple Interruptions (CEMI³)*. CEMI³ is a fairly new metric to the utility industry and measures the percentage of customers that experience more than three sustained outages in the year. The Company chose this level of outages over others because industry data received from JD Power's customer service surveys indicate that customers are more apt to be dissatisfied after three outages. By focusing on these measurements it enables the Company to direct our resources appropriately and efficiently in order to contain costs and plan for future infrastructure upgrades that will benefit the customer.

Response Time - The Response Time metric measures the percentage of time the Company responds within targeted time goals for dispatched natural gas emergency calls. The Company tracks the time between the receipt of the call to the time our crew or serviceman arrives on-site, assesses the situation and *reports back* to dispatch. The Company tracks two types of emergency calls: priority 1 (blowing gas, explosions and/or fires, etc.) and priority 2 (inside or outside odors, runaway furnaces, etc.). The primary objective is customer and public safety while consistently treating customers the same throughout our service territory.

Performance Excellence - Over the past year, our employees have learned a lot about their work as individuals and as a company through our Performance Excellence efforts. This metric combines two separate measurements into one. By the end of the year, the objective is to implement or complete 92 project milestones and through process improvements achieve \$6.2 million in value to redeploy where needed. The metric demonstrates the Company's commitment to continuously look for opportunities for efficiencies in order to keep costs reasonable for our customers in the long term.

Award Opportunity: The Plan has five independent metrics, each having their own goal to achieve. The Plan is sliced into pieces – like a pie. O&M CPC is the largest piece of the pie at 75 percent. Customer satisfaction makes up 10 percent of the pie while reliability, response time and Performance Excellence each weigh in at 5 percent.



Non-financial pieces: The non-financial pieces of the pie (customer satisfaction, reliability, response time and Performance Excellence) are all-or-nothing goals. If the Company meets the individual target for one of these metrics, employees receive the incentive award for that piece. If the Company fails to meet a goal, employees do not receive any of that incentive. For example, if the Company achieves Customer Satisfaction

with a 90% or better rating, employees would receive 10% of their total incentive award opportunity. If the Company achieves 88% which is below the target, employees would receive no award under this piece. This works the same way for each non-financial measurement.

Financial piece: The O&M CPC metric works a little differently due to the various performance levels that can be met. Depending on the Company's level of performance, the piece of pie employees could earn could be smaller or larger than the target goal amount. In order to receive 100% of the financial piece, the Company must achieve the performance level set at target which is \$346.85. If the Company meets the lowest performance level at threshold, employees could receive a minimum of 10% of this piece of the award. If the Company performs above target, employees could receive more than 100% or as high as 150% of this piece of award. If the Company fails to meet at least the threshold or minimum, employees do not receive any of the award under this metric. For example, if the Company achieves an O&M CPC amount of \$356.46, employees would receive approximately 16% of this portion (16% of 75%) of their overall award opportunity or if the Company achieves \$338.00, employees would receive the maximum of 150% of this portion (150% of 75%) of their award. If the Company achieves an amount such as \$359.46 which is below threshold, employees would receive no award under the O&M CPC portion of their award.

Incentive Targets for 2011:

	O&M Cost per Customer	Customer Satisfaction	Reliability	Response Time	Performance Excellence
% of Total Award	75%	10%	5%	5%	5%
	<i>Payout amount varies depending on level achieved</i>	<i>Payout depends on achieving target goal</i>			
Maximum 150%	\$341.70				
Goal Target 100%	\$346.85	90%	100%	93%	100%
Minimum 10%	\$357.52				

Establish Targets: The executive officers of the Company in conjunction with management reviews and reestablishes the targets for each measurement on an annual basis. The computations for this Plan are described below:

O&M CPC: For this measurement the Company used the total budgeted O&M cost to establish performance goals at different levels. Certain items are excluded from the total budgeted O&M cost such as A/R Sale, Pacesetter, payroll accrual, certain accounting adjustments, and the potential payout for the non-financial measures (customer satisfaction, reliability, response time and Performance Excellence) which are already included in the O&M budget. The Company excludes the amount for the non-financial measures because the Company budgets enough to cover most of the potential payout.

The Company also estimates, at each performance level, the potential payout for the O&M CPC award piece which includes payroll taxes and subtracts the result from the total budgeted O&M cost. The Company uses this methodology in order to build into the performance levels the amount that must be saved in order to pay the incentive. The estimation is based on budget labor costs, employee job levels and corresponding incentive target award opportunities.

Last year the Company used sharing bands where cost reductions were shared between the employee and the Company. In this Plan, the Company continues to use the sharing bands. The performance levels are constructed so that 25% of the first \$2 million in O&M savings is shared with the employees, the other 75% is shared with the Company. Then the next \$3 million in savings is shared 50/50 and any savings in excess of \$5 million is shared 75% with employees. These savings are then subtracted from the total budgeted O&M cost resulting in various levels of performance. The different results are divided by a customer growth target. Using this method, the Company creates various performance levels: threshold or minimum (10%), target (100%) and exceeds or maximum (150%) for this portion of the plan. In this Plan, the target is set at \$346.85, minimum at \$357.52 and maximum at \$341.70.

Customer Satisfaction: For this measure the Company uses the ratings from question Q3 from the Voice of the Customer survey which measures the customer's *Overall Satisfaction* with the service they received in a recent contact through the call or service center. In this Plan the Company uses the average of the combined "*satisfied*" and "*very satisfied*" ratings. The target is set at 90% very satisfied/satisfied for the customer's Overall Satisfaction rating.

Reliability: This index combines SAIFI, CAIDI and CEMI³. To determine the target for the Reliability portion of the Plan, the Company sets a separate target for each metric, weighs them equally and combines them into one metric (see the formula below). In this Plan the target is set at 100%.

$$\text{Index} = \frac{\text{CAIDI Target} / \text{CAIDI Actual}}{3} + \frac{\text{SAIFI Target} / \text{SAIFI Actual}}{3} + \frac{\text{CEMI}^3 \text{ Target} / \text{CEMI}^3 \text{ Actual}}{3}$$

The formula used to set the target for each metric is described below:

- Customer Average Interruption Duration Index (CAIDI): *outage duration multiplied by the number of customers affected for all sustained outages (> 5 minutes), divided by the number of customers which had sustained outages.* The Company excludes larger outages that impact a significant portion of the service territory, and typically last more than 24 hours from the data per industry practice. In this Plan the Company uses a 5 year average with a standard deviation of 0.72 (76% probability) to set the target which is 2 hours and 3 minutes restoration time.
- System Average Interruption Frequency Index (SAIFI): *the number of customers which had sustained outages (> 5 minutes), divided by the number of customers served.* The Company excludes larger outages that impact a significant portion of the service territory, and typically last more than 24 hours from the data per industry practice. In this Plan the Company uses a 5 year average and a standard deviation of 0.72 (76% probability) to set the target which is 1.43 outages per customer.
- Customers Experiencing Multiple Sustained Interruptions more than 3 (CEMI³): *the total number of customers that experience more than 3 sustained outages per year,*

divided by total number of customers served. Per industry practice large outages are not excluded from this metric. In this Plan the Company uses a 5 year average with a standard deviation of 0.72 (76% probability) to set the target at 12.8% of our customers.

Response Time: This metric represents the percent of time the Company responds within targeted goals for natural gas emergency calls. The Company sets separate response goals for each type of emergency call: 60 minutes for priority 1 calls (blowing gas, explosions and/or fires, etc.) and 120 minutes for priority 2 calls (inside or outside odors, runaway furnaces, etc.). The Company wants crews and/or serviceman to respond within the targeted response time goal for each type of call. The Company excludes anything below 85% (outliers) from the data. In this Plan the Company uses a 2 year average with a standard deviation of 0.72 (76% probability) to set the target at 93% of the time.

Performance Excellence: This metric measures the Company's performance under the Performance Excellence initiatives. The Company is focused on four key initiatives: Asset Management, Supply Chain, Enterprise Technology and Work & Resource Management. Each initiative has established milestones to complete and each has a projected dollar value represented by net present value and/or avoided costs which may occur outside three years. The Company sets a separate goal for each measurement: complete 102 milestones and achieve \$6.9 million in realized value. In this Plan the Company used 90% of the total to establish the targeted goals for each measurement: 92 (90% of 102) milestones and \$6.2 (90% of \$6.9) million in value. Both measurements must be achieved in order to meet this portion of the incentive award, therefore, the target for this metric is 100%.

Individual Target Award Opportunities: Each eligible employee has a target award opportunity based on their position and/or union/non-union status.

Non-union and union local 659 employees: Each eligible employee has an incentive target award opportunity expressed as a percentage of their base salary. Target opportunities range from 5% to 17% of base salary and are assigned based on position. The percentage varies by market level as indicated in the table below. Actual award payments are calculated based on the employee's target award opportunity in effect as of December 31st and year-end regular earnings (see regular earnings definition under *Exceptions to Eligibility and Circumstances for Proration* section).

Union local 77 employees: Each eligible Local 77 bargaining unit employee has a target award opportunity expressed as a flat dollar amount rather than a percentage of annual base salary.

% of Base Pay by Market Level or Union Contract	Individual Target Award Opportunity						Union Local #77
	Levels 1 - 5	Levels 6 - 8	Levels 9 - 10	Levels 11 - 12	Levels 13 & over	Union Local #659	
	5.0%	7.0%	9.0%	11.0%	17.0%	5.0%	

Incentive amounts in excess of 100% (up to 150%) of an individual's target opportunity may be paid in the form of non-cash equivalents, at the discretion and approval of the top executive officers.

Example Award Calculation:

The Company achieved the targets indicated below:

Cost per Customer = 130.1% on the sliding scale

Customer Satisfaction = 100% = met/pass

Reliability = 100% = met/pass

Response Time = 100% = met/pass

Performance Excellence = 0% = not met/fail

Non-Union employee, level 7 Base pay = \$58,000 Target Opportunity = 7% = \$4,060

Cost per Customer	\$4,060	X	75%	X	130.1%	=	\$3,961.55
Customer Satisfaction	\$4,060	X	10%		pass	=	\$406.00
Reliability	\$4,060	X	5%		pass	=	\$203.00
Response Time	\$4,060	X	5%		pass	=	\$203.00
Performance Excellence	\$4,060	X	5%		fail	=	\$0.00
Total Payout = \$4,773.55							

Local 77 employee Target Opportunity = \$666.67

Cost per Customer	\$666.67	X	75%	X	130.1%	=	\$650.50
Customer Satisfaction	\$666.67	X	10%		pass	=	\$66.67
Reliability	\$666.67	X	5%		pass	=	\$33.33
Response Time	\$666.67	X	5%		pass	=	\$33.33
Performance Excellence	\$666.67	X	5%		fail	=	\$0.00
Total Payout = \$783.83							

Distribution of Awards: Incentive awards, if earned, will be distributed after the February meeting of the Board of Directors of the next Plan year. In most instances actual amounts will be calculated using the participant's union status, regular year-end earnings, incentive target award opportunity percentage and employment status in effect as of December 31st of the Plan year. See the section *Exceptions to Eligibility and Circumstances for Proration* for exceptions.

In order to communicate and calculate payout amounts consistently for the financial based metric, the Company will round results to the nearest 10th percent based on accounting rules. For example, if the O&M CPC result is 130.12% or 130.072%, the Company will use 130.1% to communicate results and calculate the payment of the O&M CPC portion of the award. The non-financial metrics will be communicated and calculated differently. In order to communicate the results for each non-financial based metric, the Company will round results to the nearest whole percent such as 93% for customer satisfaction or 137% for reliability. Unlike the financial metrics which use the final results in the payment calculation (130.1% of the 75% O&M CPC portion of the total award), the non-financial metrics use the percent assigned to the metric (10% customer satisfaction, 5% reliability, 5% response time and 5% Performance Excellence) to calculate the payout amount. For example, if the Company achieves 137% under the Reliability piece, employees will receive 5% of their total award, not 137% of the 5% piece. See detail calculation above.

Administration of Plan: The top executive officers are responsible for administering the Plan and may delegate specific administrative tasks to corporate staff, as appropriate.

The top executive officers have the authority to:

- Terminate, amend or modify this Plan in whole or in part for any reason at any time without prior notice to participants
- Modify or adjust the financial targets due to extraordinary occurrences and/or significant reorganizations

Participation in this Plan should in no way be construed as a contract or promise of employment and/or compensation.

Exceptions to Eligibility and Circumstances for Proration

Proration for Non-Union & Union 659: Proration is determined by the change of status (COS) date as well as the number of pay periods during the eligibility period. There are 26 pay periods during a Plan year. No matter if the COS date occurs on the first day or the last day of the pay period, the employee would receive credit for the full pay period. For example, an employee who is hired on the third day of the 12th pay period of the year and remains employed throughout the Plan year would be eligible for 15 pay periods of their award.

Proration for Union Local 77: Proration is determined by the change of status (COS) date. The employee will receive a full month of service no matter what day of the month the COS date occurs. No matter if the COS date is the 5th or the 28th, the employee would receive credit for the full month. For example, an employee who is hired on February 28th and remains employed throughout the Plan year would be eligible for 11 months of their award.

Regular Earnings: Regular earnings (pensionable earnings) will be used in calculating the awards for non-union and union local 659 employees. The earnings to be used in the calculation are as follows: earnings designated regular, alternative/dual, One Leave (used, sick, & FMLA), short-term disability (100% and 60%), workers compensation, holiday, jury duty, and military pay. Overtime earnings are not included in the calculation.

New Hires: Employees hired on or after October 1st will not be eligible for an award under this Plan.

Temporary Employees: Temporary employees on a long-term (> 6mo) assignment and have at least 3 full months of active service will be eligible to receive awards on a prorated basis (see proration section above for methodology). Temporary employees on short-term (< 6mo) assignments are not eligible to participate or receive an award under this Plan.

Seasonal Unemployment/Reemployment: During situations of seasonal unemployment/reemployment, employees will be eligible to receive awards on a prorated basis even if the unemployment period is in effect on December 31st.

Leave of Absence: Eligible employees on approved unpaid leave of absence during the Plan year may receive an award on a prorated basis. *Short-term disability leave is excluded from this provision and may be eligible to receive awards.*

Resignation/Termination: Any employee who resigns or is terminated for reasons other than retirement, disability or death prior to December 31st will not be eligible to receive an award under this Plan. Employees who are eligible for an award and employed as of December 31st but resign or terminate after the Plan year may receive an award at the time of distribution.

Death, Long-term Disability & Retirement: In the case of death, total disability (as defined under the Company's Long-term Disability Plan) or retirement (as defined under the Retirement Plan for Employees), an eligible employee or estate must have at least 3 full months of service within the Plan year to be eligible to receive an award on a prorated basis.

Discipline or Poor Performance: Employees who receive a **fails to meet** performance rating for the Plan year or a **Last Chance Agreement** under the Company's formal discipline program as of December 31st are not eligible to receive an award under this Plan.

Transfers between Eligible and Non-eligible Positions or Status: As long as no break in service has occurred and the employee has at least 3 full months of active service in the eligible position or status, the employee may receive an award on a prorated basis. Depending on the eligible position (union or non-union), the award may be calculated using the union local 77 flat rate award opportunity or the last recorded market level and regular earnings received during the period of eligibility.

Transfers between Union Local 77 and Non-union or Union Local 659 Positions: Non-union awards will be calculated using the last recorded market level and actual earnings received during the period worked in the non-union position. Union local 77 awards will be calculated using the flat rate amount and prorated based on the period worked in the union position. For example, if a union employee worked a non-union position for 5 months out of 12, the non-union award would be prorated based on the actual earnings received during the period worked in the non-union position and the union award would be prorated based on the period worked in the union position.

Transfers from Subsidiaries to Corp/Utilities: Eligible employees who transfer from a subsidiary will be treated as a new hire to the Company and all Plan criteria apply as is.

Other Company Short-term Incentive Plans: Employees can only participate under one formal incentive plan a year. If the employee becomes eligible for a different plan during the year, top management has full discretion to determine which plan the employee may receive an award under. Status and/or time in position may be factors considered in determining whether the employee will receive a prorated award from both plans or an award based on the employee's position and/or status as of December 31st.