Exh. PJE-1T

REDACTED

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-22_____

DOCKET NO. UG-22_____

DIRECT TESTIMONY OF

PATRICK J. EVERITT

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, business address and present position with Avista Corporation?

A. My name is Patrick J. Everitt and I am employed as the Human Resources Analytics and Compliance Manager for Avista Corporation. My business address is 1411 East Mission Avenue, Spokane, Washington.

Q. Would you briefly describe your educational background and professional experience?

A. Yes. I am a 2004 graduate of Willamette University with a Bachelor of Arts degree in Environmental Science. In 2015 I graduated from Gonzaga University with a Master's degree in Organizational Leadership. I started with Avista in January 2017 in the role I currently occupy. Previous to Avista, I managed a custom analytics team at an Energy Management company now known as Engie Impact.

Q. What is the scope of your testimony in this proceeding?

A. My testimony will cover the drivers related to the increase in labor costs experienced by the Company. I will provide a brief overview of the Company's total compensation philosophy, discuss Executive Officer compensation, followed by Non-Executive labor for both non-bargaining and bargaining unit employee compensation. Finally, I will provide an update regarding the Bargaining Unit contract negotiations.

Q. Are you sponsoring any exhibits that accompany your testimony?

A. No. All labor-related adjustments impacting the Company's need for rate relief are sponsored by Company witness Ms. Andrews and included in her electric and natural gas Pro Forma Studies Exh. EMA-2 and Exh. EMA-3, with support for such adjustments also included in her workpapers.

II. LABOR COMPENSATION

Q. Would you please give a brief overview of the Company's total compensation philosophy?

A. Yes. Avista is committed to providing total compensation to employees that will attract, motivate, and retain qualified people required to meet the needs and expectations of all utility stakeholders, including but not limited to, customers, shareholders and regulators. To that end, the Company provides employees with cash compensation (base pay and variable pay in the form of pay-at-risk incentive compensation) and a comprehensive benefit package including medical and retirement. The overall package is designed to meet the following goals:

- Clearly identify the specific measures of Company performance that are likely to create long-term value for the Company's customers and shareholders;
- Keep employees focused on cost control, customer satisfaction, reliability and operational efficiencies by awarding variable pay for meeting pre-determined metrics;
- Promote a culture of safety;
- Pay competitively compared to others within our market;
- Reward outstanding performance; and
- Align elements of the incentive plans among all Company employees, including executive officers.

Each component is carefully considered within the overall package in order to provide total compensation which will be cost-effective for the Company, as well as attract, motivate and retain employees. Compensation components within the overall package may be adjusted over time to achieve the goal of recruiting and retaining qualified employees. The Company generally targets overall compensation levels within the range that is 15% above or below the market median of Avista's peer group.

The Company uses external peer group data provided by multiple surveys, and centralized in a tool named MarketPay[1] to benchmark against, and must react to external influences as they occur to remain competitive in the market and retain a qualified, high performing workforce. MarketPay enables our compensation team to quickly gather market information for similar positions in the areas we compete for talent. Avista also utilizes an external executive compensation consultant, Meridian Compensation Partners (Meridian), to monitor executive compensation, and purchases other compensation surveys to monitor all other employee positions. Regionally and nationally there is currently a tight labor market with many organizations struggling to fill roles in a timely fashion. Avista is not immune to this and I will discuss how the labor shortage is driving an increased cost to Avista to retain a talented workforce.

Avista participates in numerous confidential salary surveys provided by third-party consulting firms which compare Avista's pay programs and structure to other organizations in the utility industry, as well as other industries, regionally and nationally. Salary surveys are part of the input in the determination of salary increases and salary range updates (minimum, mid-point and maximum), as well as benchmarking jobs to market data. Avista benchmarks many jobs within the Company and reviews external market data to determine if the salary range midpoints still accommodate the new estimated values established by the benchmarking process. Based on the information provided in these surveys, salary recommendations are presented to the independent Compensation Committee of the Board of Directors for their

[1] "Payscale MarketPay is intended for global companies with large workforces, dedicated compensation teams, mature pay structures, and lots of survey data to manage. As our most advanced compensation platform, it streamlines survey management and enables native integration with Tableau." https://www.payscale.com/products/software/marketpay/

consideration and approval. The Compensation Committee can choose to grant higher or lower salary adjustments, based on the available market data. Based on the changes in the market, increases in inflation, and the competitive employee hiring and retention issues experienced by Avista, Avista believes the expected compensation levels included in the Company's Two-Year Rate Plan are necessary and reasonable.

Q. Turning to the Company's Two-Year Rate Plan, would you please provide an overview of the Company's <u>executive officer compensation</u> increase for the Company's pro forma period for Rate Year 1 and Rate Year 2?

A. Yes. Executive officer compensation as provided in Ms. Andrews electric and natural gas Pro Forma Studies, Adjustment (3.08) Executive Labor includes a 4% salary increase approved by the Compensation Committee of the Board of Directors (Board) on January 5, 2022. Although the Company is filing a Two-Year Rate Plan effective through December 2024 as discussed by Ms. Andrews, the Company <u>has not</u> pro formed executive officer compensation beyond the 2022 salary increases discussed here.

The Compensation Committee or Board, determines and approves the executive officer base salaries that go into effect in March annually, as with all components of executive officer compensation. The Board considers several internal factors such as individual and Company performance goals, succession planning, job complexity, experience and breadth of knowledge in the determination of base pay. Like non-executive compensation, the Board also utilizes external peer group data, provided by Meridian, to benchmark its executives against a group of companies with similar business profiles, similar revenue size and market capitalization. These companies are reasonably assumed to be the companies with which we compete for talent. The driver of this higher 4% increase is due to inflation and market pressure as will be discussed in more detail later in my testimony.

Q. Turning to <u>non-executive compensation</u>, please provide an overview of the Company's Non-Executive Labor adjustment over the Two-Year Rate Plan.

A. The Non-Executive Labor adjustments are provided in Ms. Andrews electric and natural gas Pro Forma Studies, Adjustments (3.07) for Rate Year 1 and (5.02) for Rate Year 2. Adjustment (3.07) reflects Board-approved increases in non-union labor costs from the historical test period (twelve-month period October 1, 2020 through September 30, 2021) through 2022 and 2023[2], for Rate Year 1 (hereafter "RY1"). Adjustment (5.02) reflects the estimated increase in 2024 for Rate Year 2 (hereafter "RY2").

For non-bargaining unit employees, the Board approved a 3% increase floor in March 2021, reflected in the test period results through September 30, 2021, and annualized in Adjustment (3.07). The Board also approved a [redacted] increase effective in March 2022, and a minimum merit increase of [redacted] for 2023.[3] These total increases have been reflected in the Company's pro forma labor adjustment (3.07) included in RY1, effective December 2022 through December 2023. For the pro forma labor adjustments for RY2 (5.02), effective December 2023 through December 2024, the Company has included an estimated [redacted] effective in March 2024.

Finally, for non-bargaining unit labor expense, the Company included a reduction in non-executive compensation in RY1 to reflect a larger than usual number of retirements that

[2] Ms. Andrews, completing the Company's revenue requirement for this case, prior to final Board approval of 2023 minimum increases on January 5, 2022, included a slightly higher increase than that approved by the Board. The Company will update for this change during the pendency of the case.

[3] Ms. Andrews has included 10 months of the March 2023 increase in RY1, given new rates would go into effect just before January 2023.

occurred in 2021. This adjustment (3.07) to labor expenses, reflects the reduction of approximately $534,000 for Washington electric and $113,000 for Washington natural gas assuming that these positions will be replaced at a lower wage due to entering into the position with less experience.[4] An assumption of an 88% Compa-ratio[5] was used to reflect the new salary for replacement personnel. Ms. Andrews provides the details behind this reduction in labor costs within Exh. EMA-2 and Exh. EMA-3, and workpapers provided to the parties.[6]

The increase in retirements is due, in part, to the current interest rate environment. Many of those who retired wanted to take advantage of the known lump sum discount rates which they anticipated would be more favorable than what would be in place for the next plan year. As you can see from our December retirements as shown in Illustration No. 1 below, the Company had 26 employees elect to retire, of which 24 elected the lump sum payment option.

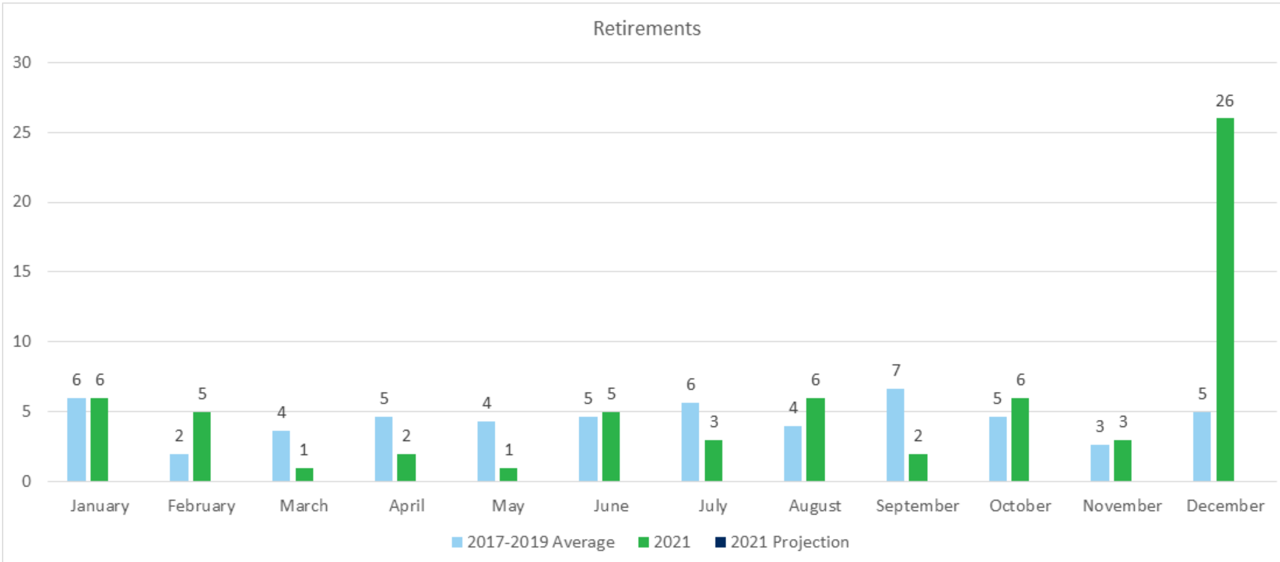
Also shown in Illustration No. 1 below, for 2021 cumulatively, we had 66 employee retirements, of which 26 employees were Local 77 bargaining unit employees, and 40 employees were Non-bargaining unit (NBU). Of the NBU, 85% elected the lump sum payment option and of the Local 77 we had 38% elect the lump sum.

[4] One position was eliminated and will not be replaced.

[5] Compa-ratio (comparison ratio) is a compensation metric that compares the salary an employee is paid to the midpoint of the salary range for their position or similar positions at other companies. Compa-ratios reveal how far an employee's pay is from the market midpoint. If an employee has a compa-ratio of 100 percent, they would be considered right "at market." https://www.paycor.com/resource-center/hr-glossary/compa-ratio/

[6] In Commission Order 08/05 in the Company's recently completed general rate case, Docket UE-200900, et. al, it stated "Does the cyclical nature of employee retirement or removal and new hires (who may be hired at a lower wage) create an offsetting factor that should be reviewed, especially considering such a stale test year? We have no evidence in the record – from any party – addressing this concern. We expect offsetting factors in future wage adjustments or explanations in testimony regarding why inclusion is unnecessary." The inclusion of the retirement labor O&M offset is meant to address this concern.

<u>Illustration No. 1 – 2021 Calendar Retirements</u>



Q. What has been included in the Non-Executive Labor Adjustment for <u>bargaining unit</u> employees?

A. The next component of the Non-Executive Labor adjustments is bargaining unit (Union) compensation. With the expiration of the bargaining unit contract in March of 2021, the bargaining unit did not receive a merit increase in 2021. The Company and the bargaining unit are continuing their negotiations at present time, as discussed in the Confidential section of my testimony below.

Bargaining unit compensation for RY1 is reflected in Adjustment (3.07) with expected increases from the test period (twelve-month period October 1, 2020 through September 30, 2021) through 2023. Increases expected for 2024 are included in RY2 Adjustment (5.02).

For RY1, the bargaining unit employee increase includes an estimate of [redacted] retroactive increase back to March 26, 2021, reflecting an incremental increase in expense for the period March 26 through September 30, 2021, and annualized in Adjustment (3.07). Also for RY1 and included in Adjustment (3.07), is an incremental expected [redacted] increase effective in March of 2022, and [redacted] for 2023.[7] These total increases have been reflected in the Company's pro forma labor increases for RY1, effective in December 2022.

For the pro forma labor increases for RY2, effective in December 2023, the Company has included an estimated [redacted] effective in March 2024,[8] which is included in RY2 Adjustment (5.02).

III. UNION CONTRACT NEGOTIATIONS

Q. [redacted]

A. [redacted]

[7] Ms. Andrews has included 9 months of the March 2023 increase in RY1.
[8] For RY2, Ms. Andrews has included 9 months of the March 2024 increase, as well as annualized the March 2023 increase by including 2 months of the increase, previously excluded from RY1 for the March 2023 increase.

[redacted]

Q. [redacted]

A. [redacted]

[redacted]

[redacted]

[redacted]

IV. COMPETITIVE MARKET CONDITIONS

Q. How has the economy impacted Avista's compensation program as it competes for qualified employees?

A. The labor market regionally and nationally is currently seeing a tightening that has led to limited qualified candidate availability.[9] A short supply of qualified employees has driven up wages. In addition, inflation across the United States has also driven up compensation expectations of current and future employees. Typically, utility compensation is in very close alignment with the inflation rate. Currently, inflation is increasing much faster than utility compensation. As discussed by Company witness Dr. Forsyth in Exh. GDF-1T, because of disruptions during the COVID-19 pandemic, markets are experiencing escalating inflation rates with a new above average inflation "spell" starting in February 2021, reaching a nearly 23% growth rate in November 2021. Dr. Forsyth has also presented analysis of four different indices, all showing inflation pressures building simultaneously through November 2021. As the cost

[9] (https://www.wsj.com/articles/jobless-claims-likely-remained-near-decades-low-economists-say-11639650604)

for items used daily increases for the workforce, so too do candidate and employee compensation expectations.[10]

In addition, the rise of remote work during the COVID-19 pandemic has created a new competitive landscape for quality candidates. No longer are workers necessarily tied to their geographic location for finding places of employment. Rather, quality candidates have the option to work for firms remotely in major metropolitan areas where pay is higher, all while living in a smaller market, such as Spokane. As Avista works through what level of remote work will support effective employee retention and recruitment, the Company has experienced turnover due to employees finding jobs that allowed completely remote work.

Furthermore, the level of base pay is determined based on position qualifications such as level of education, professional designations or certifications, experience, roles and responsibilities, and the market where we compete for talent. Avista competes for a workforce including engineers, technical professionals such as system operators, as well as individuals in finance that have utility experience. With the current tight labor market, Avista must pay new employees the going market level, which can create salary compression for existing employees, if not addressed. This creates dissatisfaction and may cause current employees to seek employment elsewhere. Retention is critical in a utility where often projects take years to complete. Consistency, depth and breadth of knowledge, including knowledge of state and federal regulations, are instrumental to successful project implementation and keeping costs as low as possible for our customers. This is especially important given the complex demands of the regulatory environment.

[10](https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/inflations-return-will-affect-compensation-planning.aspx).

Q. Does that conclude your pre-filed direct testimony?

A. Yes, it does.