BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-11\_\_\_\_\_\_

DOCKET NO. UG-11\_\_\_\_\_\_

DIRECT TESTIMONY OF

KAREN S. FELTES

REPRESENTING AVISTA CORPORATION

#### I. INTRODUCTION

**Q. Please state your name, employer and business address.**

A. My name is Karen S. Feltes. I am employed as the Senior Vice President of Human Resources and Corporate Secretary for Avista Corporation, at 1411 East Mission Avenue, Spokane, Washington.

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

A. Yes. I graduated from the University of Washington with a Bachelor of Arts Degree in Communications with concentrations in Public Relations and Journalism. I went on to receive my M.B.A. from Seattle City University. I have worked in the field of human resources for over 30 years. Prior to joining the Company in 1998, I held various senior level HR management positions in both public and private industry, including King County and Microsoft. I have attended formal training programs presented by the World at Work Association in executive and international compensation and have received my certification as a Compensation Professional. I am currently a member of the World at Work, formerly the American Compensation Association, as well as a member of the Society for Human Resource Management. In 2001, I was appointed Vice President of Human Resources for Avista Corporation and in 2006 I became Senior Vice President of Human Resources.

## Q. What is the scope of your testimony?

A. I will provide an overview of Avista’s Compensation Program, employee benefits and, in response to the Commission Order No. 7 in Docket Nos. UE-100467 and UG-100468, I will explain why the costs associated with Avista’s employee incentive plan are appropriate as part of the total compensation for employees.

**Q. Are you sponsoring exhibits in this proceeding?**

A.Yes. I am sponsoring Exhibit No.\_\_(KSF-2C) and Exhibit No.\_\_\_(KSF-3), which were prepared under my direction. Exhibit No.\_\_\_ (KSF-2C), pages 1 - 3 include a salary increase comparison, which shows actual 2010 wage increases and projected 2011 salary increases for similarly-sized energy companies, regional companies and utilities in the same labor markets. Page 4, Exhibit No.\_\_\_ (KSF-2C), is a Confidential table showing the comparison of historical and current lineman wages in the Northwest. Exhibit No.\_\_\_(KSF-3) is the plan document describing the employee incentive plan.

#### II. TOTAL COMPENSATION OVERVIEW

**Q**. **Please provide an overview of Avista’s total compensation program and philosophy.**

A. Avista is committed to providing a total compensation program that will attract and retain the qualified people needed to provide reliable service to customers. The overarching compensation philosophy is that success is measured by the ability to hire, develop and retain the most competent employees to work in a very complex industry. In an effort to recruit and retain such people, Avista provides base salaries, performance-based award programs and benefits that are competitive in the marketplace as benchmarked against other similarly-sized energy companies in regional and national markets. To this end, we also retain an independent consultant, Towers Watson, to review our executive compensation and to provide independent advice to our Board’s Compensation Committee.

Avista’s total compensation program is designed to, among other things:

* Attract and retain quality employees,
* Pay competitively compared to other employers within our market,
* Drive performance to meet goals and objectives, and
* Reward outstanding performance.

The market-based pay program reflects the competitive pay ranges and incentive target opportunities of other utilities, regionally and nationally, as well as other industries. Our compensation program is supported by performance management systems that focus on measuring and improving both utility and individual performance.

Avista’s benefits program offers a comprehensive package that strives to provide employees with the coverage needed to meet medical and retirement needs at competitive levels.

Avista recognizes that teamwork is vital to the success of the organization and, where appropriate, provides group-based awards measured on a company-wide basis. Additionally, consistent with competitive industry practice, individualized and group-based incentive programs are designed to reward outstanding individual and specific performance targets collectively. Avista also recognizes the specific efforts and achievements of groups and/or individuals through various monetary and non-monetary programs.

**Q. What are the factors that drive the design of the benefits program offered to employees?**

A.The Company’s benefit programs are designed to be cost effective, competitive with other organizations in the utility industry, and attract and retain qualified employees. Competitive market data is monitored on an on-going basis to ensure the total benefit program is competitive with other companies in the industry, and at the same time is cost effective.

The Company assesses the competitiveness of the benefits program by looking at comparable value indices developed by Towers Watson, a nationally recognized consulting firm and Mercer, an insurance broker. Also, comparable benefit data reviews are performed periodically with other regional utilities and other industries.

**Q. Please explain how market data is attained and used by the Company to determine whether its salary structure is competitive as compared to others in the industry?**

A.Avista participates in numerous confidential salary surveys provided by third-party consulting firms, which compare Avista’s pay programs to other organizations in the utility industry labor markets, as well as other industries, regionally and nationally. Salary surveys are used for projecting salary increase estimates and salary range changes, as well as benchmarking jobs to market data. Avista benchmarks many jobs within the Company and reviews the market data to determine if the salary range midpoints still accommodate the new estimated market values established by the benchmarking analysis process. An example of this report “Salary increase budget comparison 2010/2011” is included as Exhibit No.\_\_(KSF-2), pages 1 - 3.

In May 2010, the Avista Compensation Committee of the Board of Directors (Board) agreed to set a minimum salary increase budget of 2.5% for 2011 based on the compensation survey data received from the Conference Board (a third-party consulting firm). In November 2010, the Board reset the 2011 total salary estimate for non-union employees to 2.8% which was at or near the average projection for the utility industry as well as other industries, regionally and nationally, as shown in Exhibit No.\_\_\_(KSF-2), pg. 1.

Similarly, based on historical data collected from 2008 to 2010 on actual salary amounts granted by other organizations, Avista is estimating salary increases for 2012 to be at a minimum of 2.5% for non-union employees. This increase was presented to the Compensation Committee of the Board of Directors and was approved at the Board’s May 2011 meeting. (See Company witness Ms. Andrews’s testimony, Exhibit No. \_\_\_(EMA-1T), for salary increases included in the Company’s request).

Board approval in May 2011 of the minimum expected salary adjustment for 2012 provides certainty regarding the minimum increase in salary expense the utility will experience in 2012. As we move closer to 2012, the Board can choose to grant a higher salary adjustment if the updated market data shows that a higher increase is warranted. If the possibility were to occur that the minimum salary increase approved by the Board in May 2011 for 2012 is higher or lower than the updated market data would support, then the Board would make an appropriate salary adjustment for 2013 to ensure alignment with the market data over time.

**Q. Has the economic downturn impacted Avista’s compensation program as it competes for qualified employees?**

A.Yes.  Avista carefully explored various options surrounding compensation and benefit programs to assess whether eliminating or reducing various programs would be appropriate given the economic downturn regionally and nationally.  We concluded that freezing salaries or eliminating programs such as the incentive plan would have unintended consequences.  For example, we participate in annual benchmark surveys as discussed earlier.  We compete for engineers, technical professionals such as system operators, as well as individuals in finance that have utility experience.  If we were to freeze salaries or eliminate incentives, it is clear to us that within one to two years after freezing wages, Avista would have to make market adjustments to bring current employee salaries up to market levels.  Therefore, we have taken a measured approach to the salary adjustment that allows us to provide lower salary increases, yet keep pace with the market until such time that the economy returns to a more normal place.

Also, we know that to hire individuals into the Company we have to compete at the market level from a total compensation basis; therefore, if we were to freeze salaries internally, we most likely would have to pay new employees the going market level and would create compression for existing employees.  This creates dissatisfaction and can cause current employees to seek employment elsewhere. Avista recognizes that the economic downturn has led to increased unemployment and caused some companies to freeze all salaries or provide no or (as shown above for Avista) provide lower increases to its employees. However, the utility industry continues to face labor and managerial shortages that challenge our ability to lead key business functions and staff significant infrastructure projects. In order to fill needed skill sets and remain competitive in hiring, most utilities, including Avista, have not made significant changes to their compensation programs or instituted overall salary freezes.

Half of our employee population is unionized, which creates another level of complexity to our compensation program, in that we recruit from our union population to fill non-union positions that need technical skills to perform the duties. For example, our system operator positions tend to be staffed by employees with experience in transmission, generation or distribution operations. Recently we filled two positions for distribution dispatcher (a non-union position) from our line operation area. It was necessary to provide these individuals with a wage rate that was above the current contractual union rate, positioning their wages equal to or slightly above current non-union employees who have been performing the job over several years. This type of scenario creates pay issues within key/critical positions that are essential to safe and reliable energy service for our customers. In order to fill needed skill sets and remain competitive in hiring from the union sector to filling non-union positions, most utilities with union personnel, including Avista, have tried to keep wage increases parallel within their organizations whenever possible.

**Q. How are union wage increases determined?**

A.Union wage increases are governed by contract between the Company and the unions. The union contract was effective March 26, 2010 and expires March 25, 2014. Effective March 26, 2010 and March 26, 2011 the union received contractual wage increases of 3.5% and 3.0%, respectively. The contract also provides for a 3.0% wage increase for 2012 and 2013. Confidential Exhibit No.\_\_\_(KSF-2C) shows the historical lineman wages in the Northwest.

**Q. What steps has the Company taken to evaluate Officer Compensation?**

A. The Compensation and Organization Committee of the Board of Directors is responsible for overseeing and setting the officer compensation levels within the total compensation plan. The Committee, working in conjunction with their outside executive compensation consultant, conducts annual reviews of the marketplace data for the energy and utility industry. The Compensation Committee has articulated a clear philosophy to set the pay of executive officers at the middle of the market for the utility industry. This is the same philosophy that is set by Avista for all employees, both union and non-union. The compensation programs are intended to align the executive officer interests with those of our shareholders and customers by rewarding performance that meets or exceeds the goals the Compensation Committee establishes with the objective of increasing shareholder and customer value. In accordance with the pay-for-performance philosophy, the total compensation received by executive officers reflects corporate and operational performance measured against annual and long-term performance goals. With this in mind, the officer’s total compensation is comprised of a mix of base salary, annual incentive compensation and long-term incentive awards. A portion of the total base salary and annual incentive compensation is born by customers and a portion by shareholders, whereas the long-term incentive award is borne solely by shareholders.

The executive compensation programs are designed to focus our executive team on achieving solid financial results, controlling costs, maintaining system reliability, and delivering outstanding customer service. The compensation structure also serves as a tool to help motivate, retain, and attract a highly experienced, successful executive team to manage the Company.

The total compensation program does not provide for guaranteed bonuses and has multiple performance measures. Annual cash incentive components focus on both the actual results and the sustainability and quality of those results. Each component of the short and long-term plans is either fixed or capped with respect to the payout opportunity; so the plan does not result in an unlimited payout. The design of the annual cash incentive plan creates a balanced focus on financial results and system sustainability over time which helps to mitigate risky decision-making practices.

Because the Compensation Committee believes the total compensation program provided to executive officers is fair and market competitive, the Company does not provide any additional benefits in the form of perquisites to the CEO or any other officer.

#### III. EMPLOYEE BENEFITS

**Q. Please describe the Company’s employee benefit plans.**

A.The Company offers a comprehensive benefit plan for employees. Employees have several choices as to type of medical plan, dental plan, life insurance, etc., so that they can determine the best fit for their circumstances. The Company works with a third party administrator to determine the annual rates for the Company and for each individual employee based on their elections.

**Q. What is causing the increase in medical premiums included in this case?**

A.In recent years the Company has experienced increasing healthcare claims. Based on this actual experience, the Company increased health care costs by $4.7 million in this case, over the 2010 test year. This increase is consistent with the national trend of an aging workforce requiring more health care at an ever increasing cost. Large claims activity driven by various diagnostic categories such as cancer and heart disease are also to blame for a portion of the increase. The Company has taken measures to directly decrease its self-funded plan costs.

**Q. How is Avista addressing the rising cost of health care?**

A. In order to decrease plan costs, the Company is continually reviewing the stop loss insurance reimbursement level, to ensure we are optimizing the level of risk to cover the plan versus premium costs to the plan. Also, retirees are now paying the full premium increases on health insurance. A few years ago retirees under 65 were paying 10% of health insurance premiums and now they pay 50% on average. In addition to these measures, over the past five years the Company made changes to co-pay levels and out-of-pocket maximums to help reduce plan costs. The Benefits Planning and Administrative Committee constantly seek opportunities for benefit program changes that will reduce costs.

#### IV. EMPLOYEE INCENTIVE PLAN

**Q. Please explain the overall philosophy behind Avista’s Employee Incentive Plan.**

A.The goal of the incentive plan is to focus on three key elements: cost control, customer satisfaction, and reliability of the energy we provide to our customers. The Employee Incentive Plan is a pay-at-risk plan whereby employees are eligible to receive cash incentive pay if the stated targets are achieved. The Plan encourages employees at all levels to focus on common objectives that are designed to align the interests of employees with the interests of our customers.  Establishing specific targets for each element, measuring progress toward meeting the targets, and paying an incentive for achieving them motivates employees to focus on the key elements each year.

**Q. In general terms, how is the pay-at-risk component incorporated into a total compensation package for employees?**

A. Avista is committed to providing a totalcompensation program that provides base salaries, performance-basedaward programs and benefits that are competitive in the marketplace. Market data shows that pay-at-risk or variable pay plans are prevalent in over 80% of organizations, and most utilities, including Avista, have some kind of pay-at-risk plan.

The Company views the Plan as a competitive necessity, and a driver of desired behavior among employees, as well as a means to achieve cost-control. For example, if the existing incentive plan were to be eliminated, base salaries would need to be adjusted in order for Avista’s total compensation to remain competitive with other utilities.

A pay-at-risk component of compensation is not designed to pay out the full incentive opportunity every year, nor is it designed to have no payout for an extended period of time. Pay-at-risk plans are designed to help focus employees on making decisions that benefit the Company and its customers, while at the same time functioning as an integrated component of total compensation. As I noted earlier, most utilities have some form of pay-at-risk component in their total compensation program.

**Q. Please review the evolution of the Company’s incentive plan.**

A. In the Company’s most recent order No. 7, Dated November 19, 2010, in Docket Nos. UE-100467 and UG-100468, the Company was ordered to review its non-executive incentive plan, by identifying, explaining and to the extent possible, quantifying the program’s benefits to ratepayers as well as explain how the program complies with the Commission’s Final Orders in previous Avista general rate cases in Docket Nos. UE-991606 and UE-090134.

The incentive plan reviewed by the Commission in UE-991606 was the corporate plan that covered the period from January 1, 1999 to December 31, 1999. This Plan was based solely on Corporate Earnings per Share (EPS) which funded the incentive award pool of dollars. If the Company met EPS at or above the Threshold performance level, then 50% of the funds would be allocated equally to employees based on achieving the Company’s goals. The other 50% would be allocated at the discretion of management based on an assessment of the employee’s performance and contributions during the year. Payments under this Plan ranged from 0% to 200% depending on the level of performance achieved.

**Q. How has the Company changed its incentive program since 1999 to address the concerns by the Commission?**

A.In 2001, Avista reengineered its employee incentive plan to drive strategic objectives and to address concerns the Commission voiced in UE-991606 regarding the incentive plan of 1999.

The plan that was implemented in 2002 addressed the concerns of the Commission by focusing employees on controlling O&M costs per customer by improving our processes and driving efficiencies to better manage the business (O&M cost per customer and capital spending), while paying close attention to our customers’ voices regarding the products and services we provide (customer satisfaction and reliability). Avista has since continued to calibrate the Plan over the years to focus employees in the direction that the Company is striving for in order to benefit the customer.

As the Commission suggested, we created an O&M cost per customer metric to focus the business on controlling costs and driving efficiencies in order to keep our costs reasonable for our customers. When controlling costs, sometimes there are unintended consequences such as the level of service drops due to budget cuts or jobs are reduced that may impact how fast we can restore power to customers. In order to balance the focus of controlling costs and yet provide a satisfactory level of performance for our customers, we added three performance triggers to the Plan that we believe were critical to the business. First, we use a customer satisfaction survey to track satisfaction levels of customers that have had recent contact with us. Second, our reliability measure is the average restoration time for sustained outages. The industry acronym for this measure is CAIDI - Customer Average Interruption Duration Index. Third, the method previously tracked capital spending by comparing the actual capital dollars spent to the capital budget. In 2004, we eliminated the capital spending trigger from the employee Plan.

In 2005, we added another minimum performance trigger to create a more balanced approach to electric reliability. The industry acronym for this measure is SAIFI - System Average Interruption Frequency Index, which measures the number of customers which had sustained outages (> 5 minutes), divided by the number of customers served. Not only are we watching our restoration time, but we are watching how many outages our customers are experiencing. By starting with a sustainable design and a philosophy to benefit our customers we have the ability to make changes to the plan as we learn by focusing on these areas year over year.

In 2009, we reengineered the Plan template again. We kept the same measurements: O&M Cost per Customer, Customer Satisfaction, CAIDI and SAIFI, but revised the way the Plan worked. Each measure became an independent component to the total incentive award opportunity. Each had its own target to achieve. Avista still believes that customer satisfaction and reliability of service is the core objective to our business therefore, these non-financial measures were designed as a meets or not meets metric. If the acceptable standard target set is not met, then the plan does not pay out that portion to any employee.

In 2010, we kept the same Plan template from 2009 but revisited the reliability measure and recalibrated the methodology for creating the O&M Cost per Customer target. The Company combined three indices into one reliability index to be used in the Plan, and added a sharing mechanism to the cost per customer target.

As for the 2011 Plan, we again are keeping the same Plan template from 2009 and 2010, but introducing a new natural gas response time measure as a non-financial metric providing a balanced approach to both electric and natural gas reliability. The Company is also implementing another non-financial measure called “Performance Excellence”. This measure will be based on achieving a certain number of performance excellence milestones during 2011. Once final, the Board reviews and approves the plan each year.

**Q. How does the Company’s Incentive Plan benefit customers and how do employees contribute to the results?**

A. Avista’s Employee Incentive Plan provides several benefits to customers. The plan focuses work groups and individuals on key objectives of the Company, which are reliability, customer service and cost-control. When we have all employees focused on overall cost-control this translates into sustaining lower rates by reducing the level of expense below what it otherwise would have been.

Employees contribute to these measures in their daily work or on special projects in varying degrees. When employees are faced with problems or issues, they are engaged enough to take it upon themselves to come up with solutions, such as designing squirrel guards or osprey nests in order to reduce outages caused by animals, or save on printing costs by defaulting all Avista printers to black and white, using double-sided print copies, or choosing electronic pay statements rather than printed statements. In order to obtain sustainable, process improvements and efficiencies over time, it requires having all employees thinking about innovation and workable solutions.

There are many examples of productivity initiatives over the past year. We have provided the media and our customers direct access to outage information from our Outage Management Tool on Avista’s website. The number of media calls our Corporate Communications team had to field during outages was reduced by 55 percent (2010 calls as compared to 2008). The media and our customers received timely outage information and our Corporate Communications team could reallocate their time to other projects. This productivity initiative helps us avoid the future expense of having to add headcount in this area to handle all of the calls and inquiries. This sustainable solution provides a direct benefit to our customers and at the same time allowed us to use our internal resources more effectively.

Other examples of productivity initiatives include the installation of 65 electronic relay devices in substations across our service territory, for what our industry calls, ‘hot-line holds”, and the 2010 issuance of mobile dispatch technology to 65 of our electric trucks. These items are discussed further by Company witness Mr. Kopczynski.

These are just a few areas in which our employees have contributed to the measures in our incentive plan. As you can see, they are not always quantifiable and in some cases relatively small savings, however, in total they can add up to substantial amounts. Because we are working towards sustainable solutions, the savings is not always an expense reduction in the moment, but sometimes the solution allows us to avoid increased costs to correct a problem in the future. The incentive plan is a tool we use to recognize employee efforts in driving efficiencies and controlling costs for our customers.

Employee dedication and focus on customer satisfaction and efficiency has helped spearhead many of these efforts. Process improvement is part of Avista’s culture, and the incentive plan design contributes to the focus employees place on continually looking for more efficient ways to do work, and recognizes employees for their contributions in keeping service reliable and costs reasonable for our customers.

**Q. How does the Company’s Plan impact employee base salaries thereby reducing the level of pay included in customer rates?**

A. A compensation program without pay-at-risk would drive base wages upward, which in turn, would increase pension liability costs as well. Having a pay-at-risk component is another way the Company is working to not embed year-over-year costs, and helps to maintain reasonable rates for our customers. The Company’s current plan involves a meaningful amount of pay-at-risk for all employees. Therefore, the most direct benefit to customers from the structure of the Incentive Plan is that total compensation is dependent on employees achieving specific objectives that have a direct tie to customer satisfaction and cost efficiency.

**Q. Did Avista achieve cost-savings in 2010 as compared to planned expenses for the year?**

A. Yes. The Company saved approximately $10.9 million of O&M costs during the 2010 test period when comparing actual expenses to those planned for the year. A portion of those savings would have been paid out to employees as part of the incentive plan, but the balance of the savings (approximately $4.4 million) remain in the 2010 test year as a reduction in costs to the benefit of customers. Company witness Ms. Andrews provides additional details surrounding the expenses included in the test period and the accounting treatment included in this case.

**Q. Please describe the Employee Incentive plan in place during 2010.**

A. The 2010 Employee Incentive Plan was made up of three utility operations goals: Operating and Maintenance (O&M) Cost per Customer, Customer Satisfaction Rating, and an electricity reliability index. Avista’s 2010 Employee Incentive Plan Document is provided in Exhibit No. \_\_\_(KSF-3).

**Q. Please explain the Operating and Maintenance Cost per Customer measure.**

A. The O&M Cost per Customer measure reflects operating efficiency and customer growth which directly relates to maintaining reliable, cost-effective service levels to run the Company’s business efficiently. The 2010 Plan placed emphasis on aggregate utility costs per customer to encourage company-wide teamwork and consistent results in order to keep costs reasonable. The O&M Cost per Customer target is based on the projected number of customers, targeted O&M expense and a savings mechanism between employees and the Company. This measure provides an incentive for employees to keep actual O&M costs as low as possible. Payments under this portion of the Plan can range from 0% to 150% depending on the level of performance achieved.

**Q. Please explain the Customer Satisfaction rating measure.**

A. The customer satisfaction rating measures the customer’s overall satisfaction with the service they received during a recent contact with the service or call center. The rating is derived from a Voice of the Customer Survey, which is conducted each quarter by an independent agency. The measure is widely used in the industry for external reporting. The Company uses a combination of the “satisfied” and “very satisfied” ratings, rather than use the standard satisfied rating, which is typically used in the industry. By combining these two measures it actually makes the target more difficult to achieve. Payments under this portion of the Plan can only be achieved if the target is met. This element of the plan is set as a meets or not meets target. There is no payment under this portion of the plan if the target is not achieved. For 2010, the target was set at 90%.

**Q. Please now explain the reliability index measure.**

A.Providing reliable energy to our customers is the backbone of Avista’s business, therefore, it makes good sense for us to focus on reliable service levels for our customers. This target in the Employee Incentive Plan is a measure that 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. We combined three common industry indices in order to balance our focus of electric reliability. The Company tracks the average restoration time for sustained outages that affect our customers (CAIDI) and the average number of sustained outages per customer (SAIFI). The third metric is fairly new to the utility industry and measures the percentage of customers that experience more than three sustained outages in the year (CEMI3). We 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. Each metric has a set target to achieve and then are weighted equally (one-third of 100%) and combined into one index. Focusing on these measurements 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. Payments under this portion of the Plan can only be achieved if the target is met. There is no payment under this portion of the plan if the target is not achieved.

**Q. Does Avista’s Employee Incentive Plan apply to employees who are subject to collective bargaining agreements?**

A. Yes. Union employees are eligible under the same Plan as non-union employees. However, Local 77 union employees are paid a flat dollar amount rather than a percentage of base salary. Under the 2010 plan union employees received an average of $817 for achieving the goals set forth in the Plan.

**Q. How is the Company’s incentive plan structured for the Company’s executive officers?**

A.The executive officer incentive plan has the same operational components as the employee incentive plan plus two earnings components: Utility Earnings per Share (EPS) and Non-Utility Earnings per Share. The weightings for each component are: 50%-Utility EPS, 10%-Non-Utility EPS, 30%-O&M Cost per Customer, 6%-Customer Satisfaction, and 4%-Reliability Index. Although the weightings on the operational components are different from the employee plan, the goals or targets are the same. All incentive payouts associated with utility or non-utility EPS (60% of total incentive award) are excluded from utility expense and are paid by shareholders.

**Q. Overall, why should the Company’s incentive plan be included in rates?**

**A.** We believe Avista's total compensation philosophy creates the right focus for employees because the incentive plan places a portion of employees overall earning opportunity at risk.  Employees, as a whole, have to achieve the goals of the incentive plan for the plan to payout.  We believe this tension in plan design helps motivate and focus employees on the stated goals of the plan.  In order to achieve this additional level of compensation, employees have to keep working smarter and keep focused on cost control, customer satisfaction and reliability within the system.

We believe that Avista's existing total compensation plan is correctly weighted to motivate and retain current employees, while remaining competitive enough to attract qualified employees.

**Q. Does this conclude your pre-filed direct testimony?**

A. Yes.