Exhibit T-____ (JH-T)
Docket Nos. UE-991606, UG-991607
Witness: Joanna Huang

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
Complainant,	)	**DOCKET NOs. UE-991606, UG-991607**
v.	)	
AVISTA CORPORATION,	)	
Respondent.	)	

DIRECT TESTIMONY

OF

JOANNA HUANG

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

May 5, 2000

Q: Please state your name and business address for the record.

A: My name is Joanna Huang. My business address is 1300 S. Evergreen Park Dr. SW, Olympia, WA 98504-7250.

Q: By whom are you employed and in what capacity?

A: I am employed by the Washington Utilities and Transportation Commission as a Revenue Requirements Specialist.

Q: What is your educational and professional background?

A: I received my B.B.A.degree majoring in Accounting from National Chung-Hsing University in 1987 and a Master of Accounting degree from Washington State University in 1991. Prior to my employment at the Washington Utilities and Transportation Commission, I was employed by the Department of Revenue as an Excise Tax Examiner. I performed desk audits on Business & Occupation tax returns. I accepted employment with the Washington Utilities and Transportation Commission in June 1996. I attended the National Association of Regulated Utility Commissioners Annual Utility School in October 1996. In addition, I have attended training seminars and conferences regarding utility regulations and operations.

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

A: I am responsible for the following adjustments as shown in Exhibit ___ (MPP-1) and Exhibit ___ (MPP-2):

Gas Inventory (Gas)

Eliminate B & O Taxes (Electric & Gas)

Proforma Property Tax (Electric & Gas)

Eliminate A/R Expense (Electric & Gas)

Reclass DADS/MOPS Revenue (Electric & Gas)

Lease Expense Adjustment (Electric & Gas)

Bonuses Adjustment (Electric & Gas)

Relocation Expense Adjustment (Electric & Gas)

Proforma Labor/Benefits Adjustment (Electric & Gas)

Proforma Revenue (Electric & Gas)

Proforma MOPs Adjustment (Electric & Gas)

Proforma Lost Revenue Fuel Efficiency (Electric & Gas)

Q: Which of the above-mentioned adjustments have you reviewed and concurred with the Company's presentation?

A: Eliminate B & O Taxes (Electric & Gas)

Proforma Property Tax (Electric & Gas)

Eliminate A/R Expense (Electric & Gas)

Reclass DADS/MOPS Revenue (Electric & Gas)

Lease Expense Adjustment (Gas only)

Proforma MOPs Adjustment (Electric & Gas)

Q: Would you describe each of the remaining adjustments for which you are responsible?

A Yes.

LABOR/BENEFITS ADJUSTMENT

Q: Please explain your Exhibit ___(JH-1), entitled " Avista Utilities, Proforma Labor/Benefit -Summary".

A: Exhibit ____(JH-1) has 4 columns.

- Column A is the line description.
- Column B is entitled "Non-Officer Labor/Benefit Adjustment".
- Column C is entitled "Officer Comp Proforma Adjustment".
- Column D is entitled "Total Labor/Benefit Adjustment"

I numbered each of the lines in the exhibit for ease of discussion.

Q: Did the Company also make an adjustment entitled "Pro Forma Labor/Benefit-Summary"?

A: Yes.

Q: How does your adjustment differ from the Company's adjustment entitled "Pro Forma Labor/Benefit-Summary"?

A: I made no change to the Non-officer Labor/Benefit Adjustment in column B. I also propose no change to the Proforma Non-officer Labor/Benefit adjustment, even though I do not agree with the methodology the Company used to calculate this Adjustment.

I make an adjustment in column C entitled "Officer Compensation Proforma Adjustment". The Company removed $417,021 of expense from its electric operation for officer compensation while I removed $884,000 for Washington Electric, as shown on Exhibit ____ (JH-1), column C, line 8. The Company removed $105,703 of expense from its gas operation for officer compensation while I removed $222,000 for Washington Gas, as shown on Exhibit _____(JH-1), column C, line 16.

Q: Why do you disagree with the Company's methodology regarding the non-officer Labor/Benefit adjustment?

A: The Company included some bonuses in its calculation of proforma non-officer wage increases. This methodology resulted in an overstated increase of total non-officer wage increases. Bonuses paid annually, if any, to Avista employees are not increased by the same percentage of increases given in wages. Only the test period base wages should be used for calculating 1999 proforma wages. I did not pursue the overstated non-officer wages because the net effect to regulated operations is minimal, but should be noted.

Q: Please explain the adjustments you made to officers' compensation.

A: I make five adjustments to the officers' compensation:

1. Mr. Matthews's salary.
2. Officers' signing bonuses.
3. Officers' restricted stock and dividend receipts.
4. Reduced officers' salary increases to 3.2%.
5. Allocation of officers' salaries between regulated and non-regulated operations.

Q. Please explain why you adjusted Mr. Matthews's base salary.

A. The Company had a CEO compensation study performed using two classes. One class was made up of companies with annual revenues from $1 to $3 billion, and the other class was comprised of companies with annual revenues from $3 to $6 billion. The study was broken into two components because from a revenue standpoint, Avista falls within the low end of the $3 to $6 billion class ($3.7 billion), but by the other criteria (assets, employees, and market capitalization) used in the study Avista falls within the $1 to $3 billion class. Avista based Mr Matthews's salary on the $3 to $6 billion class.

This would be consistent with the Company's approach on executive salaries where as stated in the Company's 1998 Proxy Statement (Ex. 374), the Company considers, but does not target, executive officer compensation at the median of similarly situated executives at the Company's competitors. The Company's stated justification for giving such compensation is that to retain the most competent executive officers, the Company must provide compensation opportunities reflective of the competitive marketplace. The competitive marketplace to which Avista refers is the non-regulated marketing and trading operations and other non-energy operations of Avista. The regulated utility is close to a monopoly operation. If the Company used these generous offerings to retain its competitiveness in the marketplace, then the competitive side of the operations should bear these costs, not the regulated operations.

Q. Did you use the data from the Company's own study to determine an appropriate level of salary for the CEO?

A. Yes. I used the companies in the $1 to $3 billion class because Avista more closely fits this class in 3 out of 4 of the criteria. However, in order to give weight to the fourth criteria (revenue) I included more companies with greater revenues than Avista, so Avista remains in the middle of the range. The class in my study, as shown in Exhibit ____

JH-2), extends from $1 to $4.2 billion.

Q. What was the result of your analysis?

A. This result shows the median level of CEO salary was $545,000.

Q. Is this the level you used?

A. No. I used the Company's data set for the $1 to $3 billion class. Since my review produced a level comparable to the Company's study, I chose to use the Company's own study results.

Q. Have you prepared an exhibit which details your analysis of the data set?

A. Yes, Exhibit ____ (JH-2). Page 1 of 2 shows the combined set of data with the result at the bottom. Page 2 of 2 shows each data set separately. The set on the left are the companies with revenues from $1 to $3 billion and the companies on the right are based on revenues with Avista in the middle.

Q: What is your recommended level of salary for Mr. Matthews for ratemaking purposes?

A: $570,000. This is a reduction of $180,000 from his actual annual base salary of $750,000 (Ex. 374) for rate making purposes.

Q: Why did you disallow the signing bonuses and restricted stocks given to Mr. Matthews, Mr. Meyer, and Mr. Turner?

A: Generally, signing bonuses and restricted stocks are used to make up for some of lost bonuses and the exercisable options officers lose when they leave an employer. I eliminated the signing bonuses and restricted stock to Mr. Matthews, Mr. Meyer, and Mr. Turner for the following two reasons.

- Signing bonus and restricted stocks are non-recurring and do not reflect ongoing normal business expenses.
- Signing bonus and restricted stocks relate to non-regulated enterprises.

Q: Why are the signing bonuses and restricted stocks non-recurring and non-regulated expenses?

A: The Company provided neither a qualitative nor quantitative analysis to show these expenses recur and are properly charged to regulated operations. Further, the Company's stated justification for giving such bonuses and restricted stocks is that to retain the most competent executive officers, the Company must provide compensation opportunities reflective of the competitive marketplace. The competitive marketplace to which Avista refers is the non-regulated marketing and trading operation and other non-energy operations of Avista. The regulated utility is close to a monopoly operation. If the Company used these generous offerings to retain its competitiveness in the marketplace, then the competitive side of operations should bear these costs, not the regulated operations.

William M. Mercer Inc., a New York consulting firm, conducted a study in 1999 of the latest proxy statements of 350 major U.S. companies. This study found that the highest executives' median salary and bonus is $1,688,088. Mr. Matthews's salary and potential performance bonus per year is even higher than that amount without including the signing bonus and restricted stocks.

The Puget Sound Business Journal (book of lists, 2000 edition) shows Mr. Matthews as the 22nd highest-paid executive compared to executives at other public companies in Washington in 1998. He is the only utility executive to make the top 50 highest paid executives, and that was with only one-half of a year's salary.

Q: Why did you reduce the officer salary proforma increase to 3.2%?

A: Exhibit ____(JH-1), page 4 of 4, shows that the Company made a proforma adjustment increasing the salaries of officers who worked a full year in 1998. The proforma salary adjustment indicates increases from 11% to 49%. No proforma increase was proposed for those officers who worked less than twelve months in 1998. The total proposed increase for non-officer wages for Avista Utilities is 2.14% in 1999. I use the overall U.S. wages and benefits increase of 3.2 % for 1999 officer salary increase as quoted in the Wall Street Journal, April 6, 2000, article entitled "Executive Pay."

Avista's financial performance shows that its regulated operating income actually decreased from $178,289,000 in 1997, to $143,153,000 in 1998. Cost per customer increased from $1.32 in 1997 to $1.61 in 1998. Obviously, Avista experienced no gain in productivity in 1998. The Company stated in its 1998 Proxy Statement (Ex. 374) that it failed to achieve its targeted performance measures for officers.

The Company's 1998 Proxy Statement stated that Avista "granted executive officers base salary increases that ranged from 3% to 11%". (Ex. 374) But Avista proposes proforma salary adjustment increases of 11% to 49%.

Q: How did you determine that officers' salaries were inappropriately allocated to regulated activities?

A: Mr. Matthews stated in cross examination that officers' salaries are allocated to regulated activities based on individual's subjective "thoughts and feelings" (Tr. 111) of where they spend the majority of their time. The Company provides no documentation to account for time spent on specific activities, or even for time spent at a particular subsidiary. Ms. Mitchell further explained that officers' time sheets follow a predetermined set allocation, rather than basing salary allocations to the regulated utility or subsidiaries by documenting how their hours are actually spent. (Tr. 642-643)

There is a further example that Avista's current allocation method is arbitrary. Mr. Matthews states that no one was specifically hired to replace Mr. Les Byran as President and Chief Operating Officer in 1998. Mr. Bryan's time was allocated 60% to the regulated utility and 40% to the non-regulated subsidiaries. In 1998, Mr. Turner was hired as Vice President and General Manager-Energy Delivery and he assumed Mr. Bryan's regulated responsibilities. Mr. Turner charges his time exclusively to regulated operations. Mr. Matthews, as Mr. Redmond's replacement, assumed Mr. Redmond's salary allocation of 60% regulated and 40% non-regulated. But since Mr. Matthews also took on Mr. Bryan's non-regulated business responsibilities, but not the utility responsibilities, it stands to reason that more of his salary should be allocated to non-regulated operations. Yet, the Company's proforma adjustment for Mr. Matthews still allocates his salary 60% to regulated operations and 40% to non-regulated operations.

Furthermore, Avista's organizational chart, as shown in Exhibit ____ (JH-3), (response to Record Request 004) indicates that Mr. Turner is also the President of Avista Services, Inc., a non-regulated operation. Yet the Company still allocates 100% of his salary to regulated operations.

Finally, from 1995 to 1999, Avista rapidly expanded its non-regulated operations while regulated operations remained steady. This is evidenced by the following facts: Revenue from non-regulated operations grew from $94 million in 1995, to $6.8 billion in 1999. In 1995, $94 million comprised 12% of the total corporate revenue. In 1999, by contrast, $6.8 billion comprised 86% of the total corporate revenue. The Company had only one subsidiary, Pentzer, in 1995. Avista's current organizational chart shows that Avista now has 13 subsidiaries.

As Avista expanded its non-regulated operations, the Company did not sufficiently allocate more executive salaries from regulated to non-regulated operations. Staff's adjustment allocates more executive salaries to the non-regulated operations. This adjustment allocates $280,000 to non-regulated operations.

Q: Please describe the methodology you used to derive the $280,000 additional allocation to non-regulated operations.

A: I used the three year average of revenues, number of employees, and non-officers wages between regulated and non-regulated operations for 1997, 1998, and 1999. When comparing revenue sources, employee numbers in each activity, and non-officer wages, this average of these three factors indicates that 52% of the Company was focused upon regulated activities, and 48% of the Company was focused upon non-regulated activities. Exhibit ____ (JH-4) details these calculations. Staff used a similar methodology in Docket UG-920840. The Commission accepted Staff's adjustment in that docket. This allocation, based on quantifiable business parameters, is reasonable and appropriate.

Q: Why did you use three years of data to calculate the allocation factor?

A: Avista expanded its non-regulated operations quickly from 1997 through 1999. If only the test year of 1998 were used, the allocation to non-regulated operations would be higher. The three year average is more conservative. Staff used a one year average in Docket UG-920840.

Q: Please continue your analysis of the proforma adjustment for officers' salaries.

A: For the officers' proforma salaries adjustment, I used the 1998 salary level less any signing bonuses, restricted stocks/dividend, and excess salaries paid to officers in 1998. This derived salary base, times the 3.2% increase mentioned earlier in my testimony for those officers who worked a full year in 1998, was used to calculate the 1999 proforma wage adjustment.

I disagree with the Company's methodology of amortizing the total signing bonus over a 5-year period and annualizing the restricted stocks and dividends to the full year level. Mr. Matthews, Mr. Meyer, and Mr. Turner worked only part of 1998. I removed all of the signing bonuses, restricted stocks and dividends in 1998. I also did not include the amortized signing bonuses and annualized restricted stock and dividend to full year level in 1999. My Proforma Labor/Benefit adjustment for officer's salary is a decrease of $884,056 for Washington Electric, and $222,275 for Washington Gas.

Q: How did the Company show a decrease of $152,265 in proforma officers' salaries while you propose an increase of $239,135?

A: The Company's proposed decrease of $152,265 is very misleading. The Company's proposal is a decrease from the test year level of officer salaries which include all of the signing bonuses of $1,250,000, and restricted stock and dividends in the amount of $221,275. I first removed the aforementioned items from the test year before calculating my proforma adjustment of $239,135.

Q: Why do you contest amortizing the signing bonuses over a 5-year period, and annualizing restricted stocks and dividends to the full year level in 1999?

A: Amortizing signing bonuses and annualized restricted stock and dividends are to recognize these as on-going normal business expenses. However, as stated earlier, the purpose of the signing bonuses and restricted stock payments is to attract officers with experience in competitive markets. The bonus payments and restricted stock bring no benefit to the regulated customers. These must be excluded from the test year expenses entirely.

Q: Did you disallow any stock options and performance bonuses given to Mr. Matthews, Mr. Meyer, and Mr. Turner in 1998?

A: No, I did not disallow these items. Stock options are not accounted for as an expense, and the company made no performance bonus payout to Mr. Matthews in 1998, according to the Company's 1998 proxy statement.

BONUS ADJUSTMENT

Q: What bonuses were paid to Avista's employees and expensed in the test year 1998?

A: Pacesetter and Team Incentive.

Q: How do test period 1998 bonuses compare to bonuses paid in other years?

A: Team Incentive bonuses fluctuated wildly from 1995 to 1998.

- In 1995, Team Incentive bonuses totaled $1,575,516.
- In 1996, they increased 20% to $1,895,544.
- In 1997, they decreased 45% to $1,039,373.
- In 1998, they quadrupled to $4,407,796.

The Company paid the highest bonus in the test period, 1998.

Q: What was included in the Team Incentive bonus given to employees in 1998?

A:

1998 Team Incentive		
Team Incentive	Recipient	Amount
Recorded in 97 & paid in 98	Non-officers	$ 231,273
Recorded in 98 & paid in 98	Non-officers	726,523
Recorded in 98 & paid in 99	Non-officers	2,976,965
Recorded in 98 & paid in 99	Officers	473,035
Total		$ 4,407,796

Q: What was the Team Incentive bonus in 1999?

A: In 1999, the Team Incentive bonus disappeared altogether.

Q: Why were 1998 Team Incentive bonuses more than four times the amount of the 1997 Team Incentive?

A: Bonuses paid out to Avista employees are paid at management's discretion, according to Ms. Mitchell (Tr. 630). The Company's explanation for this extraordinarily high Team Incentive payout in the test year 1998 is that 1998 was the first time the Team Incentives were available to all employees. To Ms. Mitchell's knowledge, Team Incentive bonuses were not available company-wide, including union employees, prior to 1998.

Q: What is the nature of Avista's Team Incentive plan?

A: The goals for the Team Incentive are to add value to the line of business and corporation, and to provide for the fundamental building of corporate value and savings, i.e., sustained earnings. (Ex. C-379). These bonuses were geared to ultimately provide greater shareholder value. The plans are not customer-service oriented and do not benefit regulated customers. Shareholders should bear these costs, not captive ratepayers.

Q: What is your adjustment to the Team Incentive bonus in 1998?

A: I removed all of it. This reduces electric operating expenses by $2,208,000, and reduces gas operating expenses by $434,000.

Q: What about the Pacesetter bonuses?

A: I left those in as they seemed to be at a constant level over recent years.

RELOCATION ADJUSTMENT

Q: How does the 1998 relocation expense compare to actual 1997 and 1999 relocation expense?

A: The 1998 relocation expense is $468,000, more than four times the 1999 level of $110,000. In 1997, the amount was $123,540. This data is not available for 1993 to 1996 according to Avista.

Q: What is your adjustment to the 1998 relocation expense?

A: I decreased the relocation expense $468,000 in 1998 to $116,000, a more representative level. Since data is not available for 1993 to 1996, the best information is that of 1997 and 1999. I averaged these two year to derive $116,000.

GAS INVENTORY ADJUSTMENT

Q: Why did you disallow the Company's gas inventory adjustment?

A: After the implementation of the Gas Benchmark beginning September 1, 1999, Avista Energy (subsidiary) assumed operational management of Jackson Prairie and Plymouth LNG. The inventory volume balance and the cost of inventory is controlled by Avista Energy, not Avista Utilities. The funds to purchase the inventory are now provided by Avista Energy, not Avista Utilities.

BUILDING LEASE EXPENSE ADJUSTMENT

Q: Do you adjust the building lease expense for the electric operation?

A: Yes. I reduced the building lease expense by $81,000 for the Washington electric operations. This keeps the adjustment consistent with the gas operations. The Company decreased building lease expense by $20,000 for the Washington gas operations, but did not adjust the Washington electric operations.

REVENUE ADJUSTMENT

Q: What is your adjustment to revenues for the Washington electric operations?

A: I decreased revenues by $1,067,000 for the Washington electric operations. Avista inadvertently omitted this item. This recognizes Avista's lost revenue for the fuel efficiency program. The revenue from participant contributions to the fuel efficiency program in January 2000 is near zero.

Q: Do you adjust revenues for the Washington gas operations?

A: Yes. I decreased revenues by $239,000 for the Washington gas operations. The Company inadvertently double subtracted PGA refunds from commercial and industrial customers. The actual gas revenues were understated in 1998. The difference between proforma revenues and actual gas revenues in 1998, is overstated (Tr. 964).

Q: Does this conclude your testimony?

A: Yes, it does.