

**AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	WASHINGTON	DATE PREPARED:	03/05/2015
CASE NO:	UE-150204 & UG-150205	WITNESS:	Mark Thies/Jennifer Smith
REQUESTER:	ICNU	RESPONDER:	Annette Brandon
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	ICNU – 031	TELEPHONE:	(509) 495-4324
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REQUEST:

Please provide a description of current executive compensation, including but not limited to base salary, non-equity incentive pay, and incentive pay, and stating what elements and amounts are included in rates for the Company and what elements and amounts are not recovered through rates.

RESPONSE:

Please see the Company's response to ICNU_DR_032 for a description of how levels of executive compensation are set, ICNU_DR_030 for a description for the Company's policy on managing costs and reducing expenses in relation to benefits and compensation, and ICNU_DR_033 for a narrative on the appropriateness of these costs.

Executive Compensation is a combination of base pay, short term incentive compensation, and long term incentive compensation. The table below summarizes each component in total and by amounts included in the pro-forma cross check studies:

Executive Compensation	Per WA Pro-Forma Cross Check Study			Utility System Total*
	WA - Elect	WA - Gas	Total WA	
Base Salary	\$ 1,683,398	\$ 501,226	\$ 2,184,624	\$ 3,503,364
Short Term Incentive Plan	\$ 168,454	\$ 49,958	\$ 218,412	\$ 349,150
Long Term Incentive Plan	\$ 238,529	\$ 70,758	\$ 309,287	\$ 494,517
Total	\$ 2,090,381	\$ 621,942	\$ 2,712,323	\$ 4,347,031
*excludes amounts charged to non-utility				

Base Salaries

Base salaries are provided to compensate executives for services rendered during the year. As noted in the Company's response to ICNU_DR_032, factors such as responsibilities and job complexity, experience and breadth of knowledge and competitive pay among executives in the utilities and diversified energy industry are considered when setting base pay.

Executive base pay is allocated between utility and non-utility operations based on a survey conducted in December 2014 that asked each officer to estimate the percentage of their time which will be spent on non-utility operations. Each officer considers a number of factors when developing their individual allocation percentage. Current and past job responsibilities, anticipated changes due to projects specific to the upcoming year(s), anticipated responsibility changes and/or overall upcoming strategic initiatives and

associated roles are all taken into consideration when developing these allocations. Throughout the year, these allocations are reviewed and updates are made in the timekeeping system for any material changes. The total amount allocated to utility operations in this case is approximately 89%. Please see Smith workpapers 3.03-03 Executive Labor for allocation amounts for each executive.

Approximately \$2.2M of total executive base pay is included in the Company's pro-forma cross check study. Approximately \$452,000 is allocated to non-utility with costs borne by shareholders.

Short Term Incentive Plan (STIP)¹

As noted in the Company's response to ICNU_DR_032, the STIP is designed to align the interest of executives with both customer and shareholder interests in order to achieve overall positive financial performance for the Company. The STIP is a pay-at-risk plan whereby employees are eligible to receive cash incentive pay if the stated targets are achieved.

The STIP has four operational components, plus two EPS components. The total amount associated with utility operational components is 40% and is broken down as follows: 20% O&M Cost-Per-Customer, 8% Customer Satisfaction, 8% Reliability, and 4% Response Time. The EPS components account for 60% of the total opportunity and are broken out into 50% utility EPS and 10% non-utility EPS. Only the operational components (40%) are proposed to be included in rates. They reflect measures that are designed to drive cost-control, and delivery of safe, reliable service with a high level of customer satisfaction. The remaining 60% relate to EPS targets are borne by shareholders. Please see ICNU_DR_031 Attachment A for the 2014 Executive Officer Short Term Incentive Plan document.

The amount of incentive included in the Company's pro-forma cross check studies is approximately \$218,000 based on a 6 year average payout for O & M and operational targets.

Executive Officer Long Term Incentive Plan (LTIP)

The LTIP is made up of two components: restricted stock for 25% of the award and performance shares accounting for 75% of the award².

The Restricted Stock portion (25%) of the LTIP is proposed to be included in rates in this filing. Restricted Stock is designed to provide an incentive for employees to remain employed by the Company and is therefore, appropriate to be included in rates. The long-term nature of large scale transmission and distribution projects spanning multiple years are completed more efficiently with experienced, consistent leadership. In addition, it is the Company's policy to promote from within when possible, preserving the values inherent in our culture such as customer satisfaction, reliability of service etc. Employees with a long tenure of employment with the Company are well versed in the Company's culture and will continue to cultivate the values we have built our Company on. The amount of the Executive Officer LTIP included in the Company's pro-forma cross check studies is approximately \$309,000 of total system restricted stock.

The Performance Share (75%) portion of the LTIP, which is directly related to total shareholder return, has been excluded from this filing. The Company rewards performance shares to provide a direct link to the long-term interests of customers and shareholders by assuring that shares will be paid only if the

¹ Total Officer Short Term Incentive expensed for the 12 months ending September 30, 2014 is approximately \$3.1 million. Approximately 71% (\$2.2 million) is allocated to non-utility operations.

² Total CEO Long Term Incentive Plan (Performance Shares and Restricted Stock) has been excluded because both the restricted stock and performance shares have financial performance-related triggers.

Company attains a specific performance level of Total Shareholder Return (TSR) relative to our peers (as reported in the S&P 400 Utilities Index). The amount of executive officer long term incentive compensation charged to non-utility operations related to performance shares is approximately \$1,941,395.

Other Benefits

In order to attract and retain executive officers and stay competitive within our peer group of companies, additional benefits are offered to executive officers over and above those provided to employees. These benefits are as follows:

1. Supplemental Executive Officer Retirement Plan (SERP):

In addition to the Company's retirement plan for all employees, the Company provides additional pension benefits through the SERP to executive officers of the Company who have attained the age of 55 and a minimum of 15 years of credited service with the Company. For employees who become executive officers after February 3, 2011, the SERP benefit only restores the benefit which would otherwise be payable from the retirement plan due to the limitations under IRS Sections 401(a)(17) and 415. The costs associated with SERP are excluded from retail rates.

2. Deferred Compensation:

The Executive Officer Deferred Compensation plan provides the opportunity to defer up to 75% of base salary and up to 100% of cash bonuses for payment at a future date. This plan is competitive in the market, and provides eligible employees and executive officers with a tax-efficient savings method. The costs associated with Deferred Compensation are excluded from retail rates.

3. Perquisites:

Because the total compensation program for 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.

Finally, executive officers participate in the Company's Pension Plan, 401(k) plan, and health/dental insurance plans. All direct compensation and benefits are considered as part of the Company's overall compensation plan.