

**Exhibit No. MC-8
Dockets UE-160228/UG-160229
Witness: Melissa Cheesman**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION d/b/a
AVISTA UTILITIES,**

Respondent.

**DOCKETS UE-160228 and
UG-160229 (*Consolidated*)**

**EXHIBIT TO
TESTIMONY OF**

MELISSA CHEESMAN

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Avista's Response to Staff Data Request 102

August 17, 2016

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

JURISDICTION:	WASHINGTON	DATE PREPARED:	07/01/2016
CASE NO.:	UE-160228 & UG-160229	WITNESS:	Jennifer Smith
REQUESTER:	UTC Staff - Cheesman	RESPONDER:	Annette Brandon
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 102	TELEPHONE:	509-495-4324
		EMAIL:	annette.brandon@avistacorp.com

REQUEST:

With regard to the company's work papers "3) PLAN DOC - 2015 Officer Incentive Plan Final.pdf" and "4) PLAN DOC - 2015 Non-Officer Incentive Plan Final.pdf" (top of pages 7 and 6, respectively) please provide additional narrative, support, and calculations on setting the financial and non-financial incentive plan goals (i.e., the threshold, target, and maximum) for 2015.

RESPONSE:

Incentive compensation for executive and non-executive employees is not additional compensation. Rather, it is one component of the overall compensation package which also includes base salary and benefits (401K, pension, medical, etc.). To some extent, components are interchangeable and each is carefully weighed within the overall plan to be competitive with other similar utilities and attract and retain employees within our industry. For instance, if the Company was to eliminate the short term incentive plan, base salaries would need to be increased in order to remain competitive. Incentive compensation represents compensation which is at-risk, encouraging employees to keep focused on cost control, customer satisfaction and reliability within the system.

The importance of a well-positioned compensation package is especially important in the current employment environment which includes a large percentage of employees eligible for retirement and a shortage of qualified candidates. At Avista alone, 34% of our employees and 77% of our executive officers are eligible for retirement within the next 5 years. In addition, nation-wide the number of qualified candidates has been reduced with many Universities nation-wide scaling back their engineering programs¹. Further, the complexities inherent within the utility industry lends itself to long learning curves (for instance, it can take 10 to 12 years to fully train a lineman²) which require sufficient incentives to retain the in-house talent. Currently, at least 80% of utilities within our region offer some level of pay-at-risk/incentive compensation.

The targets for the employee incentive plan are established by the executive officers of the Company in conjunction with management reviews. Metrics are reviewed and re-established on an annual basis. The goal of the overall incentive plan is designed to help motivate and focus employees on the stated goals while recognizing and rewarding contributions towards achieving those goals.

¹ Public Utilities Fortnightly March 2012 "Labor Costs and the Rate Case", page 53.

² Id.

The O&M Cost per customer metric is paid based on a sliding scale. For employees to receive at least 50% of their award percentage related to the metric, the Company must achieve or surpass the minimum or threshold level of performance. The better the Company performs the more employees may earn (up to the maximum payout). For employees to receive 100% of their award percentage the Company must achieve the level of performance selected for target. If the Company exceeds the target performance level, employees may earn up to a maximum of 183% (rounded up) of the award percentage for O&M Cost-Per-Customer. Performance below threshold results in no award payment for the O&M CPC portion of the total incentive.

For example, the 2015 O & M CPC target incentive metric was \$376.10, based on O & M Budget³ of \$265,836,705 divided by 706,822 customers. The Company achieved an O&M CPC of \$373.14 (final O & M of \$264,213,324 divided by 708,079 customers) which is a performance level of 133.2%. This metric weight within the overall plan is approximately 60%, contributing to approximately 79.9% of the overall payout for 2015 (133% x 60%). The all-or-nothing metrics Natural Gas Response, Reliability and Customer Satisfaction metrics were all achieved and paid out at 100%. The total O & M cost savings achieved by the Company in meeting the \$373.14 CPC was \$1,623,381, based on reduced expenses throughout the overall Company.⁴

The following table summarizes the components of the 2015 Plan:

	Target	Final	% of Incentive	Level Achieved	Total
Customer Satisfaction	90%	96%	15%	100.0%	15.0%
Natural Gas Response	93%	96%	10%	100.0%	10.0%
Reliability	1.00	1.00	15%	100.0%	15.0%
O&M / CPC	376.10	373.14	60%	133.2%	79.9%
			100%		119.9%

The Compensation and Organization Committee of the Board of Directors, in conjunction with management, reviews and re-establishes targets for each metric of the Executive Officer Incentive Plan. The goal of the plan is to align the interest of named executive officers and senior management with both shareholder and customer interests in order to achieve positive financial and operational performance for the Company. In addition to the metrics described above, the executive officer short term incentive plan also contains metrics related to earnings per share (EPS). Payout expenses related to EPS are borne entirely by shareholders. Please see the table below for the weight of each metric, along with the 2015 target and final results:

³ Total O & M Budget reduced for impact of regulatory deferrals, incentive budget (short term and long term restricted share units), and centralized credits.

⁴ Identifying specific savings is not practical as savings are not targeted by a specific department or function. Rather, savings are global in nature. Some departments may exceed their estimated costs while others have favorable results, the net result is the cost savings experienced by the Company as a whole.

	Target	Final	% of Incentive	Level Achieved	Total
Customer Satisfaction	90%	96%	8%	100.0%	8.0%
Natural Gas Response	93%	96%	4%	100.0%	4.0%
Reliability	1.00	1.00	8%	100.0%	8.0%
O&M / CPC	376.10	373.14	20%	133.2%	26.6%
EPS, Consolidated	1.96	1.90	60%	68.2%	40.9%
			100%		87.5%

Performance metrics are designed to be rigorous, but reasonably achievable with strong management performance. For example, during the 2011 incentive plan year the O&M/CPC metric achieved threshold level, rather than target level, resulting in a payout of 20% (overall total incentive payout of 39.6% for non-officers).

Please also see the Company's response to Staff_DR_077 for further explanation of peer group benchmarking and attached surveys.