

Exhibit No. MC-7
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 2015 Incentive Plans

August 17, 2016

2015 EXECUTIVE OFFICER ANNUAL CASH INCENTIVE PLAN

PLAN PROVISIONS Approved by Board February 2015

Purpose: The Executive Officer Annual Cash Incentive Plan (Plan) is designed to align the interests of our NEOs and senior management with both shareholder and customer interests to achieve overall positive financial and operational performance for the Company. The Plan is an important element of the overall compensation of our executives which provides a compensation structure that is competitive with compensation paid to comparable executives of companies within the energy/utility industry and ensures the Company can attract and retain quality employees in key positions to lead the Company.

Plan Year: January 1, 2015 – December 31, 2015

Eligibility:

- All executive officers hired prior to October 1st and actively employed on December 31st of the plan year, are eligible to participate
- Subsidiary officers are not eligible to participate
- Other details available in section *Exceptions to Eligibility and Circumstances for Proration*

Performance Measurements: The Plan focuses on shareholders by providing value through sound financial performance and on customers by controlling costs through driving efficiencies while paying close attention to our customers' voices regarding the products and services we provide. The Plan incorporates Earnings per Share (EPS) and Operating & Maintenance Cost per Customer (O&M CPC) as financial performance measurements plus three non-financial measurements: Customer Satisfaction Rating (Customer Satisfaction), Reliability Index (Reliability), and Dispatched Gas Emergency Response Time (Response Time). These performance goals help increase shareholder value, gain financial strength and maintain safe and reliable cost-effective service levels essential for our customers and for the long-term success of the Company, and, with the exception of the earnings per share goal, are identical to performance metrics used in the Company's annual cash incentive plan for non-executive employees. The Compensation Committee believes that having similar metrics for both the executive plan and the non-executive plan encourages employees at all levels of the Company to focus on common objectives.

Consolidated Diluted EPS - This metric reflects the financial strength and alignment of interests between officers and shareholders. Consolidated EPS includes Alaska Electric Light & Power (AEL&P) and other non-utility businesses within the corporation.

O&M CPC - The O&M CPC is a measure that focuses on controlling costs and driving efficiencies in order to keep our costs reasonable for our customers. The metric is based on targeted O&M expense and number of customers. These components are combined to create the O&M CPC metric.

Customer Satisfaction - This measure is derived from a Voice of the Customer survey, which is conducted each quarter by an independent agency. The rating measures the customer's overall satisfaction with the service they received during a recent contact with the Company's contact center and/or service center.

Reliability - This measure tracks how quickly the Company restores outages, how frequently customers are affected by outages and what percent of customers experience more than three sustained outages per year. The Company combined three common industry indices in order to balance our focus.

Response Time - The Response Time metric measures the percentage of time the Company responds within targeted time goals for dispatched natural gas emergency calls. The primary objective is customer and public safety while consistently treating customers the same throughout our service territory.

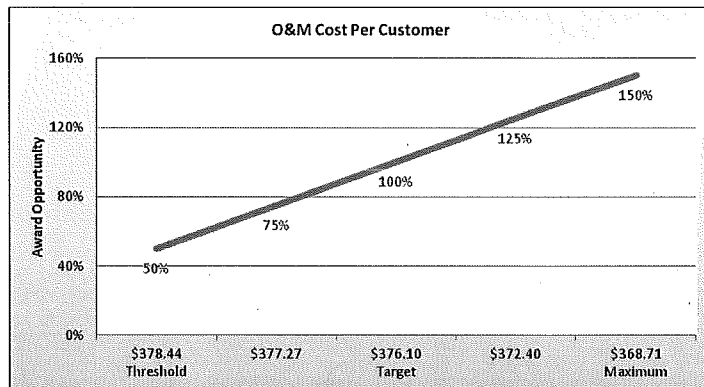
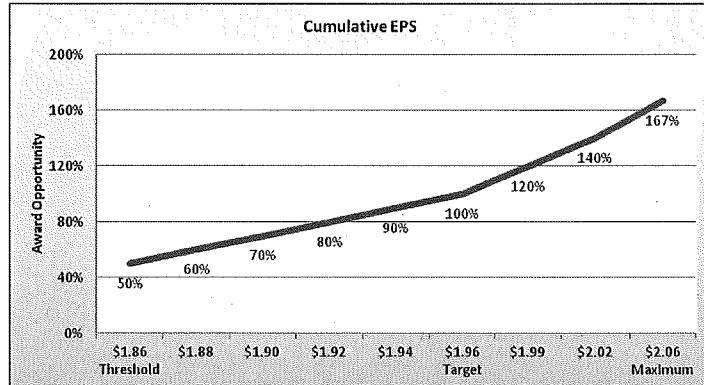
Award Opportunity: The Plan has five independent metrics, each having their own goal to achieve. The Plan is sliced into pieces – like a pie. Each piece or component makes up a portion of the employee's total incentive award opportunity as represented in the graph. Consolidated EPS makes up 60 percent of the total incentive award opportunity while O&M CPC is 20 percent, customer satisfaction and reliability each 8 percent, and response time 4 percent.

Non-financial metrics: The non-financial pieces of the award (customer satisfaction, reliability, and response time) are all-or-nothing goals. If the Company meets or exceeds the target goal for any one of the metrics, employees receive 100% of the incentive award percentage related to the metric such as 8% for reliability. If the Company fails to meet the target, employees would receive no award related to the metric. For example, if the Company achieves Customer Satisfaction with a 90% or better rating, employees would receive 8% of their total incentive award opportunity. If the Company achieves 88% which is below the target, employees would receive no award related to the metric. This works the same for each non-financial measurement.

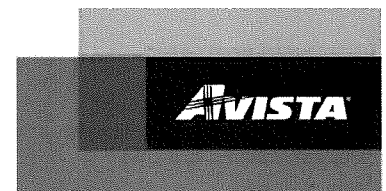
The maximum amount an employee could receive related to the non-financial metrics is 8% for customer satisfaction, 8% reliability and 4% response time.

Financial metrics: The Consolidated EPS and O&M CPC metrics work a little differently due to the various performance levels that can be met. Depending on the Company's level of performance under each metric, employees may earn more or less than 100% of the award percentage related to each financial metric. Increasing levels of performance are established between threshold and maximum by using a sliding scale. The following graphs represent the relationship between the Company's performance targets and the award opportunity. *Performance levels were rounded up for graphing purposes only.*

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 as seen in the graphs. For employees to receive 100% of their award percentage related to a financial metric 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 167% (rounded up) of the award percentage for Consolidated EPS and 150% (rounded up) for O&M CPC. Performance below threshold results in no award payment related to the metric.



For example, if the Company achieves O&M CPC of \$377.87 which is a performance level of 62% (rounded), employees would receive approximately 12% (20% multiplied by 62.1795% = 12.4359%) rather than 20% of their award opportunity related to CPC. If the Company achieves \$369.51 which exceeds target performance, employees would receive approximately 29% (20% multiplied by 144.5873% = 28.9175%) rather than 20%. If the Company achieves an amount below threshold such as \$382.23, employees would receive no award related to the O&M CPC metric. The maximum an employee may earn under the EPS portion of their total incentive award opportunity is



100% (60% multiplied by 166.666666% = 99.999996%) and 30% (20% multiplied by 150.0000% = 30%) for O&M CPC.

For ease of communication and display purposes performance levels may be rounded using the accounting rules such as to the nearest whole number or up to two decimals. To calculate actual payments and to ensure no overpayments occur the performance levels within the sliding scale actually extend out six (6) decimal places (ex. 166.666666%) for Consolidated EPS and four (4) decimals (ex. 149.9323%) for Cost per Customer. See **Calculation of Awards** section for more details on how payments are calculated.

Establish Targets: The Compensation and Organization Committee of the Board (Committee) in conjunction with management reviews and reestablishes the targets for each measurement on an annual basis. The computations for this Plan are described below:

Consolidated EPS: To determine the Consolidated EPS goal for the plan, the Committee, in conjunction with the Finance Committee of the Board and management, considered and incorporated the EPS target range contained in the Company's original publicly disclosed earnings guidance and reviewed this in light of the budgeted EPS numbers. The earnings guidance for the Consolidated EPS excludes the earnings impact associated with changes in the Energy Recovery Mechanism (ERM). The target in the Plan is Diluted Earnings per Share and includes executive incentive payout/accrual-pro-forma and net of taxes. The actual Consolidated EPS results will be affected by positive or negative changes in the ERM when computing the plan payout. Occasionally, adjustments to actual results may be deemed necessary. An example of such an adjustment was in 2008 when the positive effect of an accounting error related to Allowance for Funds Used during Construction (AFUDC) was excluded from EPS.

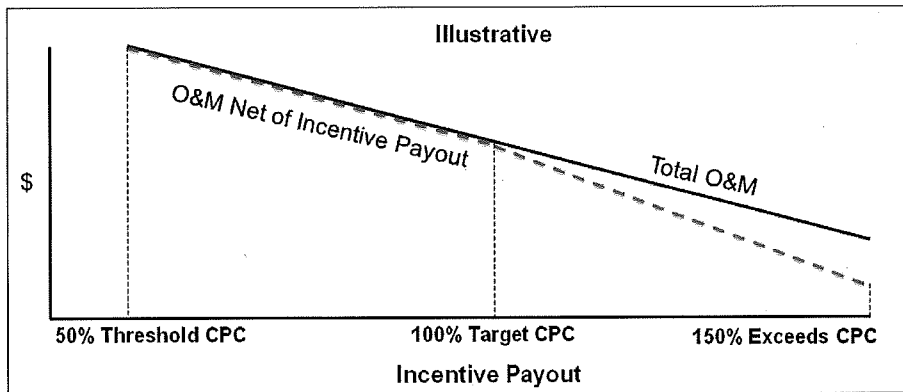
The Company's original 2015 guidance for EPS is \$1.86 to \$2.06. The projected ERM benefit is \$0.06, which is excluded for guidance. The Company used the low end of guidance to set the threshold level, the midpoint to set target and the top for the maximum level.

Since the portion of the incentive related to EPS indirectly benefits the customer it is charged below the line to account 417.

O&M CPC: For this measurement the Company uses the total budget for O&M expense (numerator) plus customer growth (denominator).

Numerator: The numerator of the formula is derived from the Company's total budget for O&M expense. Certain items are excluded from the total O&M budget such as, Pacesetters and certain accounting adjustments. For each performance level, the Company estimates the potential payout for the incentive which includes payroll taxes and subtracts the result from the total O&M budget. The estimation is based

on budgeted labor costs, employee job levels and the corresponding individual target award opportunities.



Using the sliding scale concept and to establish the performance levels between threshold and target, the Company assumes a 1:1 ratio between total O&M budget (solid line) and O&M net of the estimated incentive payout (dash line). Performance levels between target and maximum assumes a 2:1 ratio between total O&M budget and O&M net of incentive payout. Achieving maximum payout would result in an additional pre-tax expense of \$2.61M plus an additional \$2.61M in savings. Therefore \$5.22M in combined savings is required to achieve the maximum payout. The chart above illustrates the concept.

Denominator: The target uses a customer growth factor of 6,906, which is consistent with the factor used in the budget. Variability in the final customer count will impact the amount of O&M savings necessary to achieve an incentive payment. For example, missing the growth target by 1,000 customers would require an additional savings of approximately \$378K to achieve the target level payout.

Customer Satisfaction: For this measure, the Company uses the ratings from question Q3 from the Voice of the Customer survey which measures the customer's *Overall Satisfaction* with the service they received in a recent contact through the Avista contact center and/or service center. The *Overall Satisfaction* question from surveys such as this is widely used in the industry for external reporting purposes. Rather than using the standard "satisfied" rating, which is typically used in the industry, the Company uses the average of the combined "satisfied" and "very satisfied" ratings. By combining these two ratings the target is more difficult to achieve and more emphasis is placed on serving the customer. In this Plan, the target is set at 90% very satisfied/satisfied for the customer's Overall Satisfaction rating.

Reliability: This index combines *Customer Average Interruption Duration Index (CAIDI)*, *System Average Interruption Frequency Index (SAIFI)* and *Customer Experiencing Multiple Interruptions (CEMI³)*. CEMI³ measures the percentage of customers that experience more than three sustained outages in the year. The Company 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. Providing safe and reliable energy to our customers is the backbone of our business, therefore, it makes good sense to focus on service levels for our customers. By focusing on these measurements it 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.

To determine the target for the Reliability portion of the Plan, the Company sets a separate target for each metric, weighs them equally and combines them into one metric (see the formula below). In this Plan the target is set at 1.00.

$$\text{Index} = \frac{\text{CAIDI Target} / \text{CAIDI Actual}}{3} + \frac{\text{SAIFI Target} / \text{SAIFI Actual}}{3} + \frac{\text{CEMI}^3 \text{ Target} / \text{CEMI}^3 \text{ Actual}}{3}$$

The formula used to set the target for each metric is described below:

- Customer Average Interruption Duration Index (CAIDI): *outage duration multiplied by the number of customers affected for all sustained outages (> 5 minutes), divided by the number of customers which had sustained outages.* Per industry practice Major Event Days (MEDs) are excluded from this metric. In this Plan the Company uses a 5 year average with a standard deviation of 0.72 (76% probability) to set the target which is 2 hours and 7 minutes restoration time.
- System Average Interruption Frequency Index (SAIFI): *the number of customers which had sustained outages (> 5 minutes), divided by the number of customers served.* Per industry practice MEDs are excluded from this metric. In this Plan the Company uses a 5 year average and a standard deviation of 0.72 (76% probability) to set the target which is 1.17 outages per customer.
- Customers Experiencing Multiple Sustained Interruptions more than 3 (CEMI³): *the total number of customers that experience more than 3 sustained outages per year, divided by total number of customers served.* To be consistent with the other two indices, MEDs are excluded from this metric. In this Plan the Company uses a 5 year average with a standard deviation of 0.72 (76% probability) to set the target at 7.1% of our customers.

Response Time: This metric represents the percent of time the Company responds within targeted goals for natural gas emergency calls. The Company tracks the time between the receipt of the call to the time our crew or serviceman arrives on-site, assesses the situation and *reports back* to dispatch. The Company sets separate response goals for each type of emergency call: 60 minutes for priority 1 calls (blowing gas, explosions and/or fires, etc.) and 120 minutes for priority 2 calls (inside or outside odors, runaway furnaces, etc.). The Company wants crews and/or serviceman to respond within the targeted response time goal for each type of call. In this Plan the Company set the target at 93% of the time.

Incentive Targets for 2015:

| | Consolidated EPS | O&M Cost per Customer | Customer Satisfaction | Reliability Index | Response Time |
|---------------------------|---------------------|-----------------------------|--------------------------|----------------------|------------------|
| % of Total Opportunity | 60% | 20% | 8% | 8% | 4% |
| | Sliding Scale | | Meet/Not Meeting Goals | | |
| Minimum 50% | \$1.86 | \$378.44 | | | |
| Target 100% | \$1.96 | \$376.10 | 90% | 1.00 | 93% |
| Maximum 166.67%* | \$2.06 | | | | |
| Maximum 150%* | | \$368.71 | | | |

*rounded for display or communication purposes only

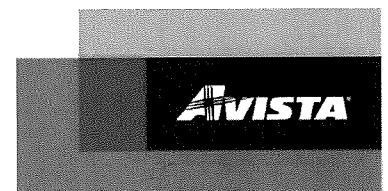
Individual Target Award Opportunities: During the February Board meeting, the Committee and the Chief Executive Officer (CEO) jointly review and approve the individual target award opportunities for the participants of the Plan. Each eligible employee has an incentive target award opportunity expressed as a percentage of their base salary. Target opportunities range from 40% to 100% of base salary and are assigned based on position. Actual award payments are calculated based on the employee's target award opportunity in effect as of December 31st and year-end regular earnings unless otherwise noted in the Plan document (see provisions under *Exceptions to Eligibility and Circumstances for Proration* section).

| 2015 Individual Target Award Opportunity % of Base Pay by Position Type | | |
|--|-----------|-----|
| CEO | Senior VP | VP |
| 100% | 60% | 40% |

Distribution of Awards: If earned, incentive award payments will be distributed as soon as feasible usually in February after the Compensation Committee of the Board certifies and approves the achievement of the performance goals.

Calculation of Awards: In most instances actual amounts will be calculated using the participant's regular year-end earnings (as defined in the provisions section of the Plan), individual target award opportunity and employment status in effect as of December 31st of the Plan year. See the section *Exceptions to Eligibility and Circumstances for Proration* for definitions and exceptions.

For purposes of calculating the actual payments and to ensure no overpayments or underpayments occur, the final performance results will be extended out six (6) decimal places (ex. 166.666666%) for Consolidated EPS and four (4) decimals (ex. 149.9323%) for Cost per Customer and rounded based on accounting rules. The following table shows how an overpayment can occur if the final performance level is rounded to two decimals and used to calculate the final payment.



Since the non-financial metrics have only two performance levels, 0% or 100%, rounding the final results is not an issue.

Once the total incentive amount is calculated, all cash payments will be rounded to the nearest penny (ex. \$22,855.27) based on accounting rules.

Example Award Calculation: Below is an example of the methodology the Company will use to calculate final payments.

The Company achieved the targets indicated below:

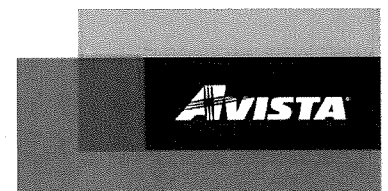
- 1) Consolidated EPS = 166.666666% on the sliding scale
- 2) Cost per Customer = 148.6468% on the sliding scale
- 3) Customer Satisfaction = 100% = met/pass
- 4) Reliability = 100% = met/pass
- 5) Response Time = 0% = fail to meet

| Non-CEO | | Average Earnings = \$290,000 | | Average Target Opportunity = 48% = \$139,200 | | | |
|---|-------------|------------------------------|-----------|--|-------------|---|--------------|
| Goal | Opportunity | | Weighting | | Pct Results | | Amount |
| Consolidated EPS | \$139,200 | x | 60% | x | 166.666666% | = | \$139,200.00 |
| Cost per Customer | \$139,200 | x | 20% | x | 148.6468% | = | \$41,383.27 |
| Customer Satisfaction | \$139,200 | x | 8% | x | 100% | = | \$11,136.00 |
| Reliability | \$139,200 | x | 8% | x | 100% | = | \$11,136.00 |
| Response Time | \$139,200 | x | 4% | x | 0% | = | \$0 |
| Total Payout = \$202,855.27 or 145.73% of Target | | | | | | | |

Communication: When communicating the results of the financial metrics and the payout, the Company will round results to the nearest 100th percent based on accounting rules. For example, if the O&M CPC result is 148.6468%, the Company will communicate the results using 148.65%.

When communicating the results of the non-financial metrics, the Company will round results to the nearest whole number or, in the case of reliability, out two decimal points based on accounting rules. For example, customer satisfaction would be rounded to 93% from 92.8% and reliability would be 1.23 from 1.232.

Recoupment Policy: All incentive awards earned by a participant under this Plan are subject to the Recoupment Policy adopted by the Company's Board of Directors as amended from time to time ("Recoupment Policy"). If a participant becomes subject to the Recoupment Policy any award may be forfeited in whole or in part and all or part of any



distribution payable to a participant or his or her beneficiary under this Plan may be recovered by the Company pursuant to the Recoupment Policy.

Administration of Plan: The Committee is responsible for administering the Plan and may delegate specific administrative tasks to corporate staff, as appropriate. The Committee has the authority to:

- Terminate, amend or modify this Plan in whole or in part for any reason at any time without prior notice to participants
- Modify or adjust financial targets due to extraordinary occurrences and/or significant reorganizations
- Grant discretionary awards up to 15% of the individual target award opportunity
- May pay incentive amounts in excess of 100% (up to 150%) of an individual's target opportunity in the form of non-cash equivalents

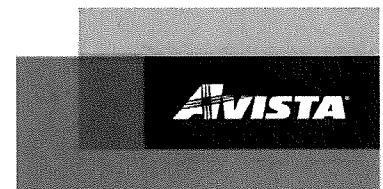
Participation in this Plan should in no way be construed as a contract or promise of employment and/or compensation.

Exceptions to Eligibility and Circumstances for Proration:

Pay Periods: There are 27 pay periods and pay dates during the Plan year. Normally a Plan year is 26 pay periods. However, about every 11 years the Company experiences an extra pay period which happens to fall within the 2015 Plan year. A pay period (pp) is made up of two pay weeks. Each pay week typically starts 12:00am Monday and ends 11:59pm Sunday. Employees are paid on the pay date, on the following Friday, after the end of the pay period. The first pay period of the year consists of the date range 12/15 – 12/28/2014 which is paid on pay date 1/2/2015. Changes effective during this pay period will count towards the 2015 plan since the earnings and pay date are part of 2015. Changes effective during the dates 12/28 – 01/10/2016 are *not included* in the 2015 Plan because the earnings and pay date are part of 2016.

Pay Period Schedule for 2015:

| Pay Period | Date Range | Pay Date | Pay Period | Date Range | Pay Date |
|------------|------------------------|----------|------------|---------------|----------|
| 1 | 12/15 – 12/28/2014 | 1/2 | 15 | 6/29 – 7/12 | 7/17 |
| 2 | 12/29/2014 – 1/11/2015 | 1/16 | 16 | 7/13 – 7/26 | 7/31 |
| 3 | 1/12 – 1/25 | 1/30 | 17 | 7/27 – 8/9 | 8/14 |
| 4 | 1/26 – 2/8 | 2/13 | 18 | 8/10 – 8/23 | 8/28 |
| 5 | 2/9 – 2/22 | 2/27 | 19 | 8/24 – 9/6 | 9/11 |
| 6 | 2/23 – 3/8 | 3/13 | 20 | 9/7 – 9/20 | 9/25 |
| 7 | 3/9 – 3/22 | 3/27 | 21 | 9/21 – 10/4 | 10/9 |
| 8 | 3/23 – 4/5 | 4/10 | 22 | 10/5 – 10/18 | 10/23 |
| 9 | 4/6 – 4/19 | 4/24 | 23 | 10/19 – 11/1 | 11/6 |
| 10 | 4/20 – 5/3 | 5/8 | 24 | 11/2 – 11/15 | 11/20 |
| 11 | 5/4 – 5/17 | 5/22 | 25 | 11/16 – 11/29 | 12/4 |
| 12 | 5/18 – 5/31 | 6/5 | 26 | 11/30 – 12/13 | 12/18 |
| 13 | 6/1 – 6/14 | 6/19 | 27 | 12/14 – 12/27 | 12/31 |
| 14 | 6/15 – 6/28 | 7/3 | | | |



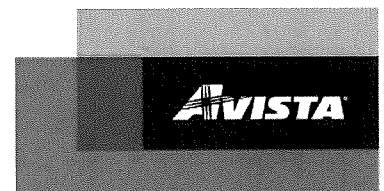
Proration: Prorating an employee's award is based on the number of pay dates associated with a change. Each change of status (COS) has an effective date. The date determines which pay period and pay date is to be counted as part of the proration.

Use the **Pay Period Schedule** above to count the pay dates. Using the effective date from the COS, search through the date ranges to find the pay period and pay date associated with it. Count the pay dates to the end of the Plan year or to the next COS effective date whichever comes first. The employee receives 1 pay period credit for each pay date counted.

For example:

- **Employee #1** is hired on 5/10 and remains employed through the end of the year. The date 5/10 falls in the date range associated with pay period 11 which is paid on pay date 5/22/15. Since employee #1 worked till the end of the year count the number of pay dates till the end of the year. The employee receives 17 pay periods towards his award.
- **Employee #2** is hired on 9/22 and remains employed through the end of the year. Her date falls in pay period 21 and is associated with pay date 10/9/15. She receives 7 pay periods towards her award. Employee #3 transfers temporarily from a union position to a non-union position on 5/20 and returns to his regular union position on 12/6.
- **Employee #3** receives credit for his time working in a non-union position. The transfer date of 5/20 falls within pay period 12 which is associated with pay date 6/5. Count the number of pay dates starting with 6/5 and end with 12/4 which is the pay date prior to the next COS date of 12/6. He receives 14 pay periods of credit towards his non-union portion of his incentive award. Remember you only count the pay periods until the next COS date or until the end of the year whichever comes first. He also receives 13 pay periods credited (27-14=13) toward his union incentive award.

| Pay Period | Date Range | Pay Date | EE #1 | EE #2 | EE #3 |
|--------------------------|---------------|----------|-----------|----------|-----------|
| 10 | 4/20 – 5/3 | 5/8 | | | |
| 11 | 5/4 – 5/17 | 5/22 | 1 | | |
| 12 | 5/18 – 5/31 | 6/5 | 1 | | 1 |
| 13 | 6/1 – 6/14 | 6/19 | 1 | | 1 |
| 14 | 6/15 – 6/28 | 7/3 | 1 | | 1 |
| 15 | 6/29 – 7/12 | 7/17 | 1 | | 1 |
| 16 | 7/13 – 7/26 | 7/31 | 1 | | 1 |
| 17 | 7/27 – 8/9 | 8/14 | 1 | | 1 |
| 18 | 8/10 – 8/23 | 8/28 | 1 | | 1 |
| 19 | 8/24 – 9/6 | 9/11 | 1 | | 1 |
| 20 | 9/7 – 9/20 | 9/25 | 1 | | 1 |
| 21 | 9/21 – 10/4 | 10/9 | 1 | 1 | 1 |
| 22 | 10/5 – 10/18 | 10/23 | 1 | 1 | 1 |
| 23 | 10/19 – 11/1 | 11/6 | 1 | 1 | 1 |
| 24 | 11/2 – 11/15 | 11/20 | 1 | 1 | 1 |
| 25 | 11/16 – 11/29 | 12/4 | 1 | 1 | 1 |
| 26 | 11/30 – 12/13 | 12/18 | 1 | 1 | |
| 27 | 12/14 – 12/27 | 12/31 | 1 | 1 | |
| Total Pay Periods | | | 17 | 7 | 14 |



Regular Earnings: Regular earnings will be used in calculating the final awards. The earnings to be used in the calculation are as follows: earnings designated regular (earnings code 01,32), light duty (29), alternative/dual (20), relief pay (08), retro pay (70), One Leave used (10), OL sick (14), OL supplement (15) & OL FMLA (16), short-term disability 100% (18) and STD 60% (80), workers compensation (19, 19A, 85, 85c, 86, 87, 88), holiday (25), jury duty (35), and military pay (36, 36c).

New Hires: Employees hired on or after October 1st will not be eligible for an award under this Plan. Employees hired prior to October 1st will have their awards calculated based on the provisions detailed above.

Leave of Absence: Eligible employees on approved unpaid leave of absence must have at least 6 full pay periods of active service during the Plan year to receive an award. Awards will be calculated based on the provisions detailed above. *Short-term disability leave does not affect an eligible employee's award and is excluded from this provision.*

Resignation/Termination: Any employee who resigns or is terminated for reasons other than retirement, disability or death prior to December 31st will not be eligible to receive an award under this Plan. Those eligible employees who terminate after the Plan year may receive an award at the time of distribution.

Death, Long-term Disability & Retirement: In the case of death, total disability (as defined under the Company's Long-term Disability Plan) or retirement (as defined under the Retirement Plan for Employees), an eligible employee or estate must have at least 6 pay periods of active service within the Plan year to be eligible to receive an award. Awards will be calculated based on the provisions detailed above.

Discipline or Poor Performance: Employees who receive a **fails to meet** performance rating for the Plan year or a **Last Chance Agreement** under the Company's formal discipline program and effective as of December 31st are not eligible to receive an award under this Plan.

Transfers from Subsidiaries to Corp/Utilities: Eligible employees who transfer from a subsidiary will be treated as a new hire to the Company and all Plan criteria apply as is. Prorated awards are at the discretion of the Committee and CEO.

Other Company Short-term Incentive Plans: Employees can only participate under one formal incentive plan a year. If the employee becomes eligible for a different plan during the year, the Committee and CEO has full discretion to determine which plan the employee may receive an award under. Status and/or time in position may be factors in determining whether the employee receives a prorated award from both plans or an award based on the employee's position and/or status as of December 31st.

2015 EMPLOYEE (Non-Officer) INCENTIVE PLAN

PLAN PROVISIONS

Purpose: The Employee Incentive Plan (Plan) is designed to help motivate and focus employees on the stated goals while recognizing and rewarding their contributions towards achieving those goals. The Plan is also an important element of the overall compensation of our employees which provides a compensation structure that is competitive with companies within the energy/utility industry and ensures the Company can attract and retain quality employees to work in a complex business.

Plan Year: January 1, 2015 – December 31, 2015

Eligibility:

- All regular full-time (F), regular scheduled part-time (P), regular seasonal and long-term (>6mo) temporary (T) employees hired prior to October 1st and actively employed on December 31st of the plan year, are eligible to participate
- Subsidiary employees, Subsidiary President (1100051), Manager Steam Plant Operations (1200110), short-term (<6mo) temporary (C, Q or O), students (S), rehired retirees (R), contract services and contractor employees are not eligible to participate
- Other details available in section *Exceptions to Eligibility and Circumstances for Proration*

Performance Measurements: The Plan focuses on the customer by controlling costs through driving efficiencies while paying close attention to our customers' voices regarding the products and services we provide. The Plan incorporates Operating & Maintenance Cost per Customer (O&M CPC) as a financial performance measurement plus three non-financial measurements: Customer Satisfaction Rating (Customer Satisfaction), Reliability Index (Reliability), and Dispatched Gas Emergency Response Time (Response Time). These performance goals help to maintain safe and reliable cost-effective service levels essential for our customers and for the long-term success of the Company.

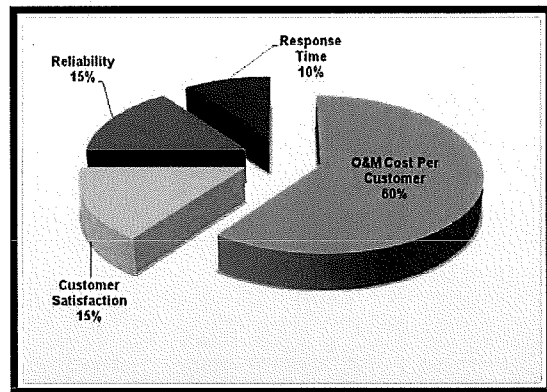
O&M CPC - The O&M CPC is a measure that focuses on controlling costs and driving efficiencies in order to keep our costs reasonable for our customers. The metric is based on targeted O&M expense and number of customers. These components are combined to create the O&M CPC metric.

Customer Satisfaction - This measure is derived from a Voice of the Customer survey, which is conducted each quarter by an independent agency. The rating measures the customer's overall satisfaction with the service they received during a recent contact with the Company's contact center and/or service center.

Reliability - This measure tracks how quickly the Company restores outages, how frequently customers are affected by outages and what percent of customers experience more than three sustained outages per year. The Company combined three common industry indices in order to balance our focus.

Response Time - The Response Time metric measures the percentage of time the Company responds within targeted time goals for dispatched natural gas emergency calls. The primary objective is customer and public safety while consistently treating customers the same throughout our service territory.

Award Opportunity: The Plan has four independent metrics, each having their own goal to achieve. The Plan is sliced into pieces – like a pie. Each piece or component makes up a portion of the employee's total incentive award opportunity as represented in the graph. O&M CPC makes up 60 percent of the total incentive award opportunity while customer satisfaction and reliability are each 15 percent, and response time 10 percent.



Non-financial metrics: The non-financial pieces of the award (customer satisfaction, reliability, and response time) are all-or-nothing goals. If the Company meets or exceeds the target goal for any one of the metrics, employees receive 100% of the incentive award percentage related to the metric such as 4% for response time. If the Company fails to meet the target, employees receive no award related to the metric. For example, if the Company achieves Customer Satisfaction with a 90% or better rating, employees would receive 15% of their total incentive award opportunity. If the Company achieves 88% which is below the target, employees would receive no award related to the metric. This works the same for each non-financial measurement. The maximum amount an employee could receive related to the non-financial metrics is 15% for customer satisfaction, 15% reliability and 10% response time.

Financial metric: The O&M CPC metric works a little differently due to the various performance levels that can be met. Depending on the Company's level of performance, employees may earn more or less than 100% of the award percentage related to the financial metric. Increasing levels of performance are established between threshold and maximum by using a sliding scale. The following graph represents the relationship between the Company's performance targets and the award opportunity. *Performance levels were rounded up for graphing purposes only.*

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 as seen in the graph. 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 CPC. Performance below threshold results in no award payment for the O&M CPC portion of the total incentive.

For example, if the Company achieves O&M CPC of \$377.87 which is a performance level of 62% (rounded), employees would receive approximately 37% (60% multiplied by 62.1795% = 37.3077%) rather than 60% of their award opportunity related to CPC. If the Company achieves \$369.51 which exceeds target performance, employees would receive approximately 105% (60% multiplied by 174.3121% = 104.5873%) rather than 60%. If the Company achieves an amount below threshold such as \$382.23, employees would receive no award related to the O&M CPC metric. The maximum an employee may earn under the O&M CPC portion of their total incentive award opportunity is 110% (60% multiplied by 183.3333% = 109.99998%).

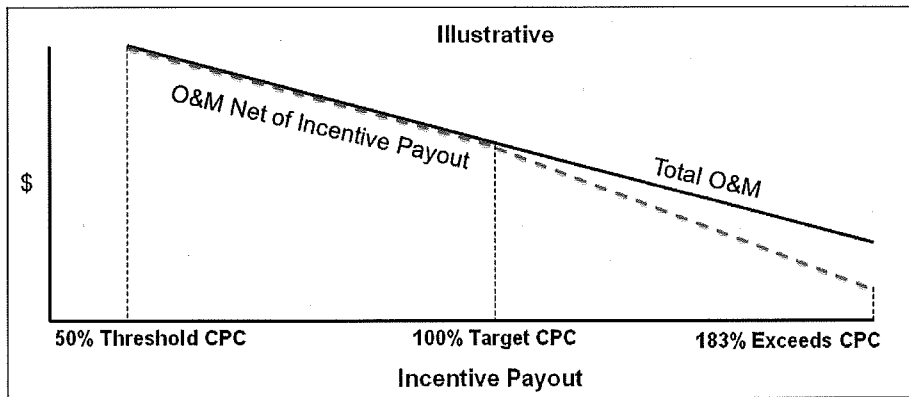
For ease of communication and display purposes performance levels may be rounded using the accounting rules such as to the nearest whole number or up to two decimals. To calculate actual payments and to ensure no overpayments occur the performance levels within the sliding scale actually extend out four (4) decimals (ex. 149.9323%). See **Calculation of Awards** section for more details on how payments are calculated.

Establish Targets: The executive officers of the Company in conjunction with management reviews and reestablishes the targets for each measurement on an annual basis. The computations for this Plan are described below:

O&M CPC: For this measurement the Company uses the total budget for O&M expense (numerator) plus customer growth (denominator).

Numerator: The numerator of the formula is derived from the Company's total budget for O&M expense. Certain items are excluded from the total O&M budget such as Pacesetters and certain accounting adjustments. For each performance

level, the Company estimates the potential payout for the incentive which includes payroll taxes and subtracts the result from the total O&M budget. The estimation is based on budgeted labor costs, employee job levels and the corresponding individual target award opportunities.



Using the sliding scale concept and to establish the performance levels between threshold and target, the Company assumes a 1:1 ratio between total O&M budget (solid line) and O&M net of the estimated incentive payout (dash line). Performance levels between target and maximum assumes a 2:1 ratio between total O&M budget and O&M net of incentive payout. Achieving maximum payout would result in an additional pre-tax expense of \$2.61M plus an additional \$2.61M in savings. Therefore \$5.22M in combined savings is required to achieve the maximum payout. The chart above illustrates the concept.

Denominator: The target uses a customer growth factor of 6,906, which is consistent with the factor used in the budget. Variability in the final customer count will impact the amount of O&M savings necessary to achieve an incentive payment. For example, missing the growth target by 1,000 customers would require an additional savings of approximately \$378K to achieve the target level payout.

Customer Satisfaction: For this measure, the Company uses the ratings from question Q3 from the Voice of the Customer survey which measures the customer's *Overall Satisfaction* with the service they received in a recent contact through the Avista contact center and/or service center. The *Overall Satisfaction* question from surveys such as this is widely used in the industry for external reporting purposes. Rather than using the standard "satisfied" rating, which is typically used in the industry, the Company uses the average of the combined "satisfied" and "very satisfied" ratings. By combining these two ratings the target is more difficult to achieve and more emphasis is placed on serving the customer. In this Plan, the target is set at 90% very satisfied/satisfied for the customer's Overall Satisfaction rating.

Reliability: This index combines *Customer Average Interruption Duration Index (CAIDI)*, *System Average Interruption Frequency Index (SAIFI)* and *Customer Experiencing*

Multiple Interruptions (CEMI³). CEMI³ measures the percentage of customers that experience more than three sustained outages in the year. The Company 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. Providing safe and reliable energy to our customers is the backbone of our business, therefore, it makes good sense to focus on service levels for our customers. By focusing on these measurements it 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.

To determine the target for the Reliability portion of the Plan, the Company sets a separate target for each metric, weighs them equally and combines them into one metric (see the formula below). In this Plan the target is set at 1.00.

$$\text{Index} = \frac{\text{CAIDI Target} / \text{CAIDI Actual}}{3} + \frac{\text{SAIFI Target} / \text{SAIFI Actual}}{3} + \frac{\text{CEMI}^3 \text{ Target} / \text{CEMI}^3 \text{ Actual}}{3}$$

The formula used to set the target for each metric is described below:

- Customer Average Interruption Duration Index (CAIDI): *outage duration multiplied by the number of customers affected for all sustained outages (> 5 minutes), divided by the number of customers which had sustained outages*. Per industry practice Major Event Days (MEDs) are excluded from this metric. In this Plan the Company uses a 5 year average with a standard deviation of 0.72 (76% probability) to set the target which is 2 hours and 7 minutes restoration time.
- System Average Interruption Frequency Index (SAIFI): *the number of customers which had sustained outages (> 5 minutes), divided by the number of customers served*. Per industry practice MEDs are excluded from this metric. In this Plan the Company uses a 5 year average and a standard deviation of 0.72 (76% probability) to set the target which is 1.17 outages per customer.
- Customers Experiencing Multiple Sustained Interruptions more than 3 (CEMI³): *the total number of customers that experience more than 3 sustained outages per year, divided by total number of customers served*. To be consistent with the other two indices, MEDs are excluded from this metric. In this Plan the Company uses a 5 year average with a standard deviation of 0.72 (76% probability) to set the target at 7.1% of our customers.

Response Time: This metric represents the percent of time the Company responds within targeted goals for natural gas emergency calls. The Company tracks the time between the receipt of the call to the time our crew or serviceman arrives on-site, assesses the situation and *reports back* to dispatch. The Company sets separate response goals for each type of emergency call: 60 minutes for priority 1 calls (blowing gas, explosions and/or fires, etc.) and 120 minutes for priority 2 calls (inside or outside odors, runaway furnaces, etc.). The Company wants crews and/or serviceman to respond within the targeted response time goal for each type of call. In this Plan the Company set the target at 93% of the time.

Incentive Targets for 2015:

| | O&M Cost per Customer | Customer Satisfaction | Reliability Index | Response Time |
|------------------------|-----------------------|-----------------------|-------------------------------|---------------|
| % of Total Opportunity | 60% | 15% | 15% | 10% |
| | Sliding Scale | | Meet/Not Meeting Goals | |
| Minimum 50% | \$378.44 | | | |
| Target 100% | \$376.10 | 90% | 1.00 | 93% |
| Maximum 183.33%* | \$368.71 | | | |

*rounded for display or communication purposes only

Individual Target Award Opportunities:

Non-union and union local 659 employees: Each eligible employee has an incentive target award opportunity expressed as a percentage of their base salary. Target opportunities range from 5% to 17% of base salary and are assigned based on position and union/non-union status. The percentage varies by market level and union contract as indicated in the table below. Actual award payments are calculated based on the employee's target award opportunity in effect as of December 31st and year-end regular earnings unless otherwise noted in the Plan document (see provisions under *Exceptions to Eligibility and Circumstances for Proration* section).

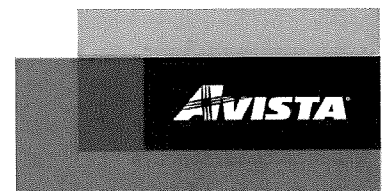
Union local 77 employees: Each eligible Local 77 bargaining unit employee has a target award opportunity expressed as a flat dollar amount rather than a percentage of annual base salary.

| 2015 Individual Target Award Opportunity % of Base Pay by Market Level or Union Contract | | | | | | |
|---|---------------|----------------|-----------------|---------------------|---------------|--------------|
| Levels 1-5 | Levels 6-8 | Levels 9-10 | Levels 11-12 | Levels 13 & over | Union #659 | Union #77 |
| 5% | 7% | 9% | 11% | 17% | 5% | \$666.67 |

Distribution of Awards: If earned, incentive award payments will be distributed as soon as feasible usually in February after the Compensation Committee of the Board certifies and approves the achievement of the performance goals.

Calculation of Awards: In most instances actual amounts will be calculated using the participant's regular year-end earnings (as defined in the provisions section of the Plan), individual target award opportunity and employment status in effect as of December 31st of the Plan year. See the section *Exceptions to Eligibility and Circumstances for Proration* for definitions and exceptions.

For purposes of calculating the actual payments and to ensure no overpayments or underpayments occur, the final performance results will be extended out four (4) decimals (ex. 149.9323%) for Cost per Customer and rounded based on accounting rules. The following table shows how an underpayment can occur if the final performance level is rounded to two decimals and used to calculate the final payment.



Since the non-financial metrics have only two performance levels, 0% or 100%, rounding the final results is not an issue.

Once the total incentive amount is calculated, all cash payments will be rounded to the nearest penny (ex. \$2,855.27) based on accounting rules.

Example Award Calculation: Below is an example of the methodology the Company will use to calculate final payments.

The Company achieved the targets indicated below:

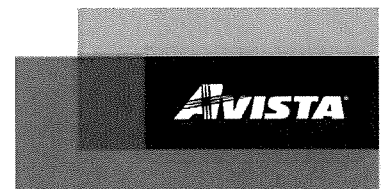
- 1) Cost per Customer = 183.3333% on the sliding scale
- 2) Customer Satisfaction = 100% = met/pass
- 3) Reliability = 100% = met/pass
- 4) Response Time = 0% = fail to meet

| Non-Union employee, level 7 Earnings = \$60,700 Target Opportunity = 7% = \$4,249 | | | | | | |
|---|-------------|---|-----------|---|-------------|------------|
| Goal | Opportunity | | Weighting | | Pct Results | Amount |
| Cost per Customer | \$4,249 | x | 60% | x | 183.3333% | \$4,673.89 |
| Customer Satisfaction | \$4,249 | x | 15% | x | 100% | \$637.35 |
| Reliability | \$4,249 | x | 15% | x | 100% | \$637.35 |
| Response Time | \$4,249 | x | 10% | x | 0% | \$0 |
| Total Payout = \$5,948.59 or 140.00% of Target | | | | | | |

| Local 77 employee Target Opportunity = \$666.67 | | | | | | |
|---|-------------|---|-----------|---|-------------|----------|
| Goal | Opportunity | | Weighting | | Pct Results | Amount |
| Cost per Customer | \$666.67 | x | 60% | x | 183.3333% | \$733.34 |
| Customer Satisfaction | \$666.67 | x | 15% | x | 100% | \$100.00 |
| Reliability | \$666.67 | x | 15% | x | 100% | \$100.00 |
| Response Time | \$666.67 | x | 10% | x | 0% | \$0.00 |
| Total Payout = \$933.34 or 140.00% of Target | | | | | | |

Communication: When communicating the results of the financial metric and the payout, the Company will round results to the nearest 100th percent based on accounting rules. For example, if the O&M CPC result is 148.6468%, the Company will communicate the results using 148.65%.

When communicating the results of the non-financial metrics, the Company will round results to the nearest whole number or, in the case of reliability, out two decimal points



based on accounting rules. For example, customer satisfaction would be rounded to 93% from 92.8% and reliability would be 1.23 from 1.232.

Administration of Plan: The top executive officers are responsible for administering the Plan and may delegate specific administrative tasks to corporate staff, as appropriate. The top executive officers have the authority to:

- Terminate, amend or modify this Plan in whole or in part for any reason at any time without prior notice to participants
- Modify or adjust the financial targets due to extraordinary occurrences and/or significant reorganizations
- May pay incentive amounts in excess of 100% (up to 150%) of an individual's target opportunity in the form of non-cash equivalents

Participation in this Plan should in no way be construed as a contract or promise of employment and/or compensation.

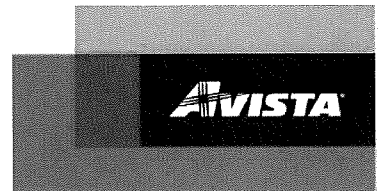
Exceptions to Eligibility and Circumstances for Proration:

Pay Periods: There are 27 pay periods and pay dates during the Plan year. Normally a Plan year is 26 pay periods. However, about every 11 years the Company experiences an extra pay period which happens to fall within the 2015 Plan year. A pay period (pp) is made up of two pay weeks. Each pay week typically starts 12:00am Monday and ends 11:59pm Sunday. Employees are paid on the pay date on the following Friday, after the end of the pay period. The first pay period of the year consists of the date range 12/15 – 12/28/2014 which is paid on pay date 1/2/2015. Changes effective during this pay period will count towards the 2015 plan since the earnings and pay date are part of 2015. Changes effective during the dates 12/28 – 01/10/2016 are *not included* in the 2015 Plan because the earnings and pay date are part of 2016.

Pay Period Schedule for 2015:

| Pay Period | Date Range | Pay Date | Pay Period | Date Range | Pay Date |
|------------|------------------------|----------|------------|---------------|----------|
| 1 | 12/15 – 12/28/2014 | 1/2 | 15 | 6/29 – 7/12 | 7/17 |
| 2 | 12/29/2014 – 1/11/2015 | 1/16 | 16 | 7/13 – 7/26 | 7/31 |
| 3 | 1/12 – 1/25 | 1/30 | 17 | 7/27 – 8/9 | 8/14 |
| 4 | 1/26 – 2/8 | 2/13 | 18 | 8/10 – 8/23 | 8/28 |
| 5 | 2/9 – 2/22 | 2/27 | 19 | 8/24 – 9/6 | 9/11 |
| 6 | 2/23 – 3/8 | 3/13 | 20 | 9/7 – 9/20 | 9/25 |
| 7 | 3/9 – 3/22 | 3/27 | 21 | 9/21 – 10/4 | 10/9 |
| 8 | 3/23 – 4/5 | 4/10 | 22 | 10/5 – 10/18 | 10/23 |
| 9 | 4/6 – 4/19 | 4/24 | 23 | 10/19 – 11/1 | 11/6 |
| 10 | 4/20 – 5/3 | 5/8 | 24 | 11/2 – 11/15 | 11/20 |
| 11 | 5/4 – 5/17 | 5/22 | 25 | 11/16 – 11/29 | 12/4 |
| 12 | 5/18 – 5/31 | 6/5 | 26 | 11/30 – 12/13 | 12/18 |
| 13 | 6/1 – 6/14 | 6/19 | 27 | 12/14 – 12/27 | 12/31 |
| 14 | 6/15 – 6/28 | 7/3 | | | |

Proration: Prorating an employee's award is based on the number of pay dates associated with a change. Each change of status (COS) has an effective date. The date determines which pay period and pay date is to be counted as part of the proration.



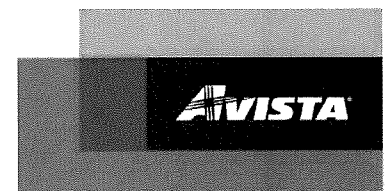
Use the **Pay Period Schedule** above to count the pay dates. Using the effective date from the COS, search through the date ranges to find the pay period and pay date associated with it. Count the pay dates to the end of the Plan year or to the next COS effective date whichever comes first. The employee receives 1 pay period credit for each pay date counted.

For example:

- **Employee #1** is hired on 5/10 and remains employed through the end of the year. The date 5/10 falls in the date range associated with pay period 11 which is paid on pay date 5/22/15. Since employee #1 worked till the end of the year count the number of pay dates till the end of the year. The employee receives 17 pay periods towards his award.
- **Employee #2** is hired on 9/22 and remains employed through the end of the year. Her date falls in pay period 21 and is associated with pay date 10/9/15. She receives 7 pay periods towards her award. Employee #3 transfers temporarily from a union position to a non-union position on 5/20 and returns to his regular union position on 12/6.
- **Employee #3** receives credit for his time working in a non-union position. The transfer date of 5/20 falls within pay period 12 which is associated with pay date 6/5. Count the number of pay dates starting with 6/5 and end with 12/4 which is the pay date prior to the next COS date of 12/6. He receives 14 pay periods of credit towards his non-union portion of his incentive award. Remember you only count the pay periods until the next COS date or until the end of the year whichever comes first. He also receives 13 pay periods credited (27-14=13) toward his union incentive award.

| Pay Period | Date Range | Pay Date | EE #1 | EE #2 | EE #3 |
|--------------------------|---------------|----------|-----------|----------|-----------|
| 10 | 4/20 – 5/3 | 5/8 | | | |
| 11 | 5/4 – 5/17 | 5/22 | 1 | | |
| 12 | 5/18 – 5/31 | 6/5 | 1 | | 1 |
| 13 | 6/1 – 6/14 | 6/19 | 1 | | 1 |
| 14 | 6/15 – 6/28 | 7/3 | 1 | | 1 |
| 15 | 6/29 – 7/12 | 7/17 | 1 | | 1 |
| 16 | 7/13 – 7/26 | 7/31 | 1 | | 1 |
| 17 | 7/27 – 8/9 | 8/14 | 1 | | 1 |
| 18 | 8/10 – 8/23 | 8/28 | 1 | | 1 |
| 19 | 8/24 – 9/6 | 9/11 | 1 | | 1 |
| 20 | 9/7 – 9/20 | 9/25 | 1 | | 1 |
| 21 | 9/21 – 10/4 | 10/9 | 1 | 1 | 1 |
| 22 | 10/5 – 10/18 | 10/23 | 1 | 1 | 1 |
| 23 | 10/19 – 11/1 | 11/6 | 1 | 1 | 1 |
| 24 | 11/2 – 11/15 | 11/20 | 1 | 1 | 1 |
| 25 | 11/16 – 11/29 | 12/4 | 1 | 1 | 1 |
| 26 | 11/30 – 12/13 | 12/18 | 1 | 1 | |
| 27 | 12/14 – 12/27 | 12/31 | 1 | 1 | |
| Total Pay Periods | | | 17 | 7 | 14 |

Regular Earnings: Regular earnings will be used in calculating the final awards for **non-union and union local 659 employees**. The earnings to be used in the calculation are as follows: earnings designated regular (earnings code 01,32), light duty (29), alternative/dual (20), relief pay (08), retro pay (70), One Leave used (10), OL sick (14),



OL supplement (15) & OL FMLA (16), short-term disability 100% (18) and STD 60% (80), workers compensation (19, 19A, 85, 85c, 86, 87, 88), holiday (25), jury duty (35), and military pay (36, 36c). Overtime earnings are not included in the calculation. For union local 77 employees incentive awards will be calculated using the flat dollar amount of \$666.67.

New Hires: Employees hired on or after October 1st will not be eligible for an award under this Plan. Employees hired prior to October 1st will have their awards calculated based on the provisions detailed above.

Transfers between Union Local 77 and Non-union or Union Local 659 Positions: Eligible employees who transfer between union local 77/local 659 positions and non-union positions may receive a prorated award for each type of position based on the number of pay periods paid in each eligible job. In order to calculate the revised individual target award opportunity for these transfers, use the **2015 Incentive Calculator – Special Calculations** excel spreadsheet. Collect documentation for auditing purposes.

The local 77 portion of the award is calculated using the **Proration** methodology to determine the number of pay periods paid while in the union position and the flat rate target amount of \$666.67.

The local 659 portion of the award is calculated using the **Proration** methodology to determine the number of pay periods and the associated earnings paid while in the union position and the individual target opportunity of 5%.

The non-union portion of the award is calculated using the **Proration** methodology to determine the number of pay periods, the associated earnings paid and the individual target opportunity based on the last recorded market level while in the non-union position.

To determine the new individual target award opportunity for these transfers, collect the last recorded market level, the number of pay periods and the associated earnings paid while in the non-union position.

- Market level – go to Ultipro Job History and click on the last effective date of the non-union position to confirm market level. Then print the job history page for the employee.
- Pay periods – On the Job History page find the starting effective date and ending date (if applicable), then find the effective date on the **Pay Period Schedule for 2015**. Use the **Proration** methodology to figure out the number of pay periods for each position.
- Earnings paid – go to Ultipro Pay and print the last pay statement of the Plan year. The earnings from the last pay statement will be entered into the **2015 Incentive Calculator – Special Calculations** excel spreadsheet (see detailed instructions in spreadsheet). Find and print the pay statement from the pay date prior to the COS effective date pay date. Sometimes employees start and return during the same

Plan year. If this occurs, make sure to print both pay statements for both effective dates. For example, if the employee starts a non-union position on 5/20/15, print the pay statement from pay date 5/22/15 not 6/5/15 (see Pay Period Schedule). If the employee returns to union status on 9/26/15, print the pay statement from pay date 9/25 not 10/9/15.

- Once all the data is collected and number of pay periods are determined go to the **2015 Incentive Calculator – Special Calculations** excel spreadsheet to calculate the new individual target award opportunity.

Transfers between Eligible and Non-eligible Positions or Status: As long as no break in service has occurred and the employee has at least 6 pay periods of active service in the eligible position or status, the employee may receive an award on a prorated basis. Awards will be calculated based on the **Proration** provision detailed above and the eligible position type, union or non-union.

Non-union 12 hour Shift Workers: Non-union employees working a 12 hour shift have a unique situation where 8 hours of their normal pay period is *scheduled* overtime. Due to this situation, the awards are calculated differently. These positions are: Distribution Dispatchers (1400094), System Operators (1400195, 1400196, and 1400197), Shift Schedulers (1400158), Real-time Assistant Schedulers (1400157) and CSR 24 hour (1400079). A **composite rate/salary** will be established in order to calculate the final awards for these employees. Each change in the annual base rate for an employee counts as a separate amount and is prorated based on the number of pay periods paid under the annual base rate. The Company will use the **Proration** methodology to count the number of pay periods associated with each new annual base rate for the Plan year. In order to calculate the **composite rate**, use the **2015 Incentive Calculator – Special Calculations** excel spreadsheet and collect documentation for auditing purposes.

To determine the composite rate for these employees, collect the information for the Plan year.

- Annual Rate/Salary – go to Ultipro Job History and click on the effective date for each change made to the employee's job history and print the job history page. Only print the pages that reflect pay increases or job changes that impact eligibility. Print the page reflecting the rate for the beginning of the Plan year. Sometimes the page is dated in the prior year like 10/07/2014. Occasionally employees start the year in a different position like a union position. If this is the case, follow the instructions for calculating a prorated union or a non-union award.
- Once the data is collected use the **2015 Incentive Calculator – Special Calculations** excel spreadsheet for **12 hour Shift Workers** to calculate the new individual target award opportunity (see detailed instructions in spreadsheet).

Example calculation for establishing a composite rate:

- The first 5 pp (12/15/14 through 2/22/15) of the year are paid at an annual base rate of \$59,366.94. Divide \$59,366.94 by 27 pp multiply by 5 pp equals \$10,993.88
- On 2/24/15 the employee receives a pay increase to an annual rate of \$60,431.70. There are 17 pp until the next pay increase. Divide \$60,431.70 by 27 pp multiply by 17 pp equals \$38,049.59
- On 10/24/15 the employee receives another pay increase to an annual rate of \$75,000.00. There are 5 pp left till the end of the year. Divide \$75,000 by 27 pp multiply by 5 pp equals \$13,888.89
- Add the prorated rates together to create the composite rate/salary of \$62,932.36 (\$10,993.88 + \$38,049.59 + \$13,888.89).

Temporary Employees: Temporary (T) employees on a long-term (> 6mo) assignment must have at least 6 full pay periods of active service to be eligible to receive awards. Awards will be calculated based on the provisions detailed above. Temporary employees on short-term (< 6mo) assignments (C, Q or O) are not eligible to participate or receive an award under this Plan.

Seasonal Unemployment/Reemployment: During situations of seasonal unemployment/reemployment, employees will be eligible to receive awards even if the unemployment period is in effect on December 31st. Awards will be calculated based on the provisions detailed above.

Leave of Absence: Eligible employees on approved unpaid leave of absence must have at least 6 full pay periods of active service during the Plan year to receive an award. Awards will be calculated based on the provisions detailed above. *Short-term disability does not affect an eligible employee's award and is excluded from this provision.*

Resignation/Termination: Any employee who resigns or is terminated for reasons other than retirement, disability or death prior to December 31st will not be eligible to receive an award under this Plan. Those eligible employees who terminate after the Plan year may receive an award at the time of distribution.

Death, Long-term Disability & Retirement: In the case of death, total disability (as defined under the Company's Long-term Disability Plan) or retirement (as defined under the Retirement Plan for Employees), an eligible employee or estate must have at least 6 pay periods of active service within the Plan year to be eligible to receive an award. Awards will be calculated based on the provisions detailed above.

Discipline or Poor Performance: Employees who receive a **fails to meet** performance rating for the Plan year or a **Last Chance Agreement** under the Company's formal discipline program and effective as of December 31st are not eligible to receive an award under this Plan.

Transfers from Subsidiaries to Corp/Utilities: Eligible employees who transfer from a subsidiary will be treated as a new hire to the Company and all Plan criteria apply as is.

Other Company Short-term Incentive Plans: Employees can only participate under one formal incentive plan a year. If the employee becomes eligible for a different plan during the year, top management has full discretion to determine which plan the employee may receive an award under. Status and/or time in position may be factors in determining whether the employee receives a prorated award from both plans or an award based on the employee's position and/or status as of December 31st. Employees in the following positions: Subsidiary President (1100051), Manager Steam Plant Operations (1200110) are not eligible for this plan. They are eligible for different plans.