**AVISTA CORPORATION & AVISTA UTILITIES**

**EMPLOYEE**

**INCENTIVE PLAN FOR 2009**

**PLAN PROVISIONS**

**Purpose:** The Employee Incentive Plan (Plan) focuses on the customer while recognizing and rewarding employees for their contributions in achieving the goals of Avista.

**Plan Year:** January 1, 2009 – December 31, 2009

**Eligibility:**

* All regular full-time, regular scheduled part-time, regular seasonal and long-term (>6mo) temporary employees employed on December 31, are eligible to participate
* Subsidiary employees, short-term (<6mo) temporary, students, rehired retirees, contract services and contractor employees are not eligible to participate

# Details available in section *Exceptions to Eligibility and Circumstances for Proration*

**Performance Measurements:** The Employee Incentive Plan focuses on the customer. The Plan incorporates O&M Cost per Customer as a financial performance measurement plus three non-financial measurements: Customer Satisfaction Rating, Customer Average Interruption Duration Index (CAIDI), and System Average Interruption Frequency Index (SAIFI). These performance measures help to maintain reliable cost-effective service levels essential for the long-term success of the Company.

*O&M Cost per Customer (CPC).* This measure reflects operating efficiency and customer growth. The target is based on the projected number of customers and O&M expense for the Plan year. These components are combined to create the O&M Cost per Customer measure.

*Customer Satisfaction Rating (CSR).* This measure is derived from a Voice of the Customer survey, which is conducted each quarter by an independent agency. This survey is used to track satisfaction levels of customers that have had recent contact with our call center or service center.

*Customer Average Interruption Duration Index (CAIDI).* Providing reliable energy to our customers is the backbone of the Company’s business, and the Company tracks the average restoration time for sustained outages that affect our customers.

*System Average Interruption Frequency Index (SAIFI).* The Company also tracks the average number of sustained outages per customer.

**Award Opportunity:** The incentive award is divided into four separate payout opportunities based on the performance measurements: O&M CPC, CSR, CAIDI and SAIFI.

The CPC measurement consists of threshold, target and exceed performance levels. This measure is setup on a sliding scale concept with threshold (50%), target (100%) and exceed (150%). The threshold level must be met before a payout is generated. The CPC represents 75% of the total incentive award opportunity.

The other three non-financial measurements each have one target performance level. These measures are setup to either meet or not meet the target (a pass or fail concept). The target for each measure must be met or exceeded before a payout is generated. These measures (CSR, CAIDI and SAIFI) weigh 15%, 5% and 5%, respectively and represent the other 25% of the total award opportunity.

**Incentive Targets for 2009:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Performance Measurements** | **O&M**  **Cost per Customer** | **Customer**  **Satisfaction Rating** (satisfied/very satisfied) | **CAIDI**  (average restoration  time) | **SAIFI**  (average outage per customer) |
| **% of Target Opportunity** | 75% | 15% | 5% | 5% |
|  |  |  |  |  |
| Threshold | $325.74 |  |  |  |
| **Target** | **$318.24** | **90%** | **2 hrs 9 min** | **1.29** |
| Exceed | $311.22 |  |  |  |

**Establish Targets:** The Executive Council of the Company in conjunction with management reviews and reestablishes the targets for each measurement on an annual basis. The computations are described below:

*O&M Cost per Customer (CPC):* Based on budget labor costs, job levels and corresponding incentive target opportunities, we estimate the potential total target incentive amount (including taxes) at each performance level; threshold (50%), target (100%) and exceed (150%). We budget approximately half of the non-financial measures’ potential incentive amount. Certain items are excluded from the total budgeted O&M cost such as A/R Sale, Pacesetter, payroll accrual, certain accounting adjustments, and half of the non-financial measures (customer satisfaction, CAIDI and SAIFI) potential incentive amount which is already included in the O&M budget.

To compute the cost per customer threshold level, we reduce the net budgeted O&M costs by the potential threshold incentive payout amount. Then divide it by the beginning of the year actual customer count to determine the cost per customer at threshold. To compute the target level, we reduce the net budgeted O&M costs by the potential target incentive amount and divide it by the projected customer count (customer growth increment based on 12 months of actual growth from the prior year added to the actual year-end December customer count). To compute the exceed level, the same calculation for target is used except the O&M costs are reduced further with additional cost savings which must occur to meet the exceed level.

*Customer Satisfaction Rating (CSR):* This measure is derived from a Voice of the Customer survey, which is conducted each quarter by an independent agency. We use the rating from question Q3 which measures the customer’s *Overall Satisfaction* with the service they received. This measure is widely used in the industry for external reporting. In this Plan we use a combination of the satisfied and very satisfied ratings, rather than use the standard satisfied rating which is typically used. We set the target at 90% which is a reasonable stretch based on past experience and the current industry and economic environment.

*Customer Average Interruption Duration Index (CAIDI):* CAIDI is a widely used measurement in the utility industry. The formula used is: *outage duration multiplied by the number of customers affected for all sustained outages, divided by the number of customers which had sustained outages*. In this Plan we use a standard deviation of .72 (76% probability) to set the target which is 2 hours and 9 minutes restoration time, a reasonable stretch based on past experience.

*System Average Interruption Frequency Index (SAIFI):* SAIFI is a widely used measurement in the utility industry. The formula used is: *the number of customers which had sustained outages, divided by the number of customers served.* In this Plan we use a standard deviation of .72 (76% probability) rather than the standard deviation of 2 (98% probability) which is used in the baseline filed with the Washington Utilities Transportation Commission (WUTC). We set the target at 1.29 outages per customer which is a reasonable stretch based on past experience.

**Individual Target Opportunities for 2009:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Performance Level | **% Of Base Pay by Market Level or Union Contract** | | | | | | **Union Local #77** |
| **Levels**  **1 - 5** | **Levels**  **6 - 8** | **Levels**  **9 - 10** | **Levels**  **11 - 12** | **Levels**  **13 & over** | **Oregon Union** |
| **Target** | **5.0%** | **7.0%** | **9.0%** | **11.0%** | **17.0%** | **5.0%** | **$666.67** |

Each eligible employee will have a target opportunity based on the market level assigned to their position. Target opportunities will be expressed as a percentage of base salary. The percentage will vary by market level as indicated in the above table. The target opportunity for Local 77 bargaining employees will be expressed as a flat dollar amount rather than a percentage of base salary. Actual award payments will be calculated based on the employee’s base pay and target opportunity in effect as of December 31.

Cost per Customer represents 75% of the employee’s target opportunity. The award payout for CPC is calculated on a sliding scale. For example, if we achieve a CPC of $322.00, employees would receive approximately 78% of the CPC portion of their target opportunity or if we achieve $314.73 employees would receive approximately 125% of their CPC target opportunity. If we achieve less than threshold, employees would receive no award under the CPC portion of their target opportunity.

Customer Satisfaction, SAIFI and CAIDI represent the other 25% target opportunity. These measures are paid if we meet the establish targets. There is no sliding scale, it is pass or fail. For example, if we achieve Customer Satisfaction with a 94% rating, employees would receive 15% of their target opportunity or if we achieve 90%, employees still receive 15%. If we achieve 89%, employees would receive no award under the CSR portion of their target opportunity.

Incentive amounts in excess of 100% (up to 150%) of an individual’s target opportunity may be paid in the form of non-cash equivalents, at the discretion and approval of the Executive Council.

**Example Award Calculation:**

The Company achieved the targets indicated below:

Cost per Customer = 55% on the sliding scale

Customer Satisfaction = met

SAIFI = not met

CAIDI = met

##### Non-Bargaining in level 5 Base pay = $43,000 5.0% Target Opportunity = $2,150

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Cost per Customer | $2,150 | X | 75% | X | 55% | = | $886.88 |
| Customer Satisfaction | $2,150 | X | 15% | X | 100% | = | $322.50 |
| SAIFI | $2,150 | X | 5% | X | 0% | = | $0.00 |
| CAIDI | $2,150 | X | 5% | X | 100% | = | $107.50 |
| Total Payout = $1,316.88 | | | | | | | |

##### Local 77 $666.67 Target Opportunity

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Cost per Customer | $666.67 | X | 75% | X | 55% | = | $275.00 |
| Customer Satisfaction | $666.67 | X | 15% | X | 100% | = | $100.00 |
| SAIFI | $666.67 | X | 5% | X | 0% | = | $0.00 |
| CAIDI | $666.67 | X | 5% | X | 100% | = | $33.34 |
| Total Payout = $408.34 | | | | | | | |

**Distribution of Awards:** Incentive awards, if earned, will be distributed after the February meeting of the Board of Directors of the next Plan year. In most instances awards will be calculated using the participant’s base salary and employment status in effect as of December 31 of the Plan year. See *Exceptions to Eligibility and Circumstances for Proration* for details. Overtime earnings are not included in the calculation.

**Administration of Plan:** The Executive Council is responsible for administering the Plan and may delegate specific administrative tasks to corporate staff, as appropriate.

The Executive Council 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 the financial targets due to extraordinary occurrences and/or significant reorganizations

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*

**Proration:** Proration is determined by the change of status (COS) date. The employee will receive a full month of service no matter what day of the month the COS date occurs. If the COS date is the 5th or the 28th, the employee would receive credit for the full month. For example, an employee who is hired on February 28th and remains employed throughout the Plan year would be eligible for 11 months of their award.

**New Hires:** Employees hired on or after October 1 will not be eligible for an award under this Plan. No proration is applied to awards if hired during the month of January of the Plan year. Employees hired after January will be eligible to receive awards on a prorated basis.

**Regular Scheduled Part-time Employees:** Part-time employees will be eligible to receive awards on a prorated basis, based on the normal scheduled hours set up in the payroll system as of December 31.

**Temporary Employees:** Temporary employees on a long-term (> 6mo) assignment and that have at least 6 full months of active service will be eligible to receive awards on a prorated basis based on the date of hire. Temporary employees on short-term (< 6mo) assignments are not eligible to participate or receive an award under this Plan.

**Seasonal Unemploy/Reemploy:** During situations of seasonal unemployment/reemployment, employees will be eligible to receive awards on a prorated basis based on the number of full months of active service during the Plan year even if the unemployment period is in effect on December 31.

**Leave of Absence:** Eligible employees on approved unpaid leave of absence during the Plan year may receive an award on a prorated basis based on the number of full months of active service. *Short-term disability leave is excluded from this provision and may be eligible to receive awards.*

**Resignation/Termination:** Any employee who resigns or is terminated for reasons other than retirement, disability or death prior to December 31 will not be eligible to receive an award under this Plan. Employees who are employed as of December 31 but resign or terminate after the Plan year are eligible to 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 under the Retirement Plan for Employees, an eligible employee or estate must have at least 6 full months of service to be eligible to receive a prorated award.

**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 as of December 31 are not eligible to receive an award under this Plan.

**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 full months of active service in the eligible position or status, the employee may receive a prorated award. The award may be calculated using the status and the base pay as of December 31 or the status and the base pay prior to transfer to non-eligible position or status.

**Transfers between Union and Non-union Positions:**  To receive an award under the non-union opportunity, an employee must have at least 6 full months of active service in a non-union position. Awards will be prorated based on the number of full months of active service in each position. The non-union portion of the award will be calculated using the last recorded base pay and market level for the non-union position held by the union employee.

**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, management has full discretion to determine which plan the employee may receive an award under. Status and/or time in position may be factors considered in determining whether the employee will receive a prorated award from both plans or an award based on the employee’s position and/or status as of December 31.