

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-10\_\_\_\_\_

DOCKET NO. UG-10\_\_\_\_\_

DIRECT TESTIMONY OF

KAREN S. FELTES

REPRESENTING AVISTA CORPORATION

**I. INTRODUCTION**

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**Q. Please state your name, employer and business address.**

A. My name is Karen S. Feltes. I am employed as the Senior Vice President of Human Resources and Corporate Secretary for Avista Corporation, at 1411 East Mission Avenue, Spokane, Washington.

**Q. Would you briefly describe your educational background and professional experience?**

A. Yes. I graduated from the University of Washington with a Bachelor of Arts Degree in Communications with concentrations in Public Relations and Journalism. I went on to receive my M.B.A. from Seattle City University. I have worked in the field of human resources for over 30 years. Prior to joining the Company in 1998, I held various senior level HR management positions in both public and private industry, including King County and Microsoft. I have attended formal training programs presented by the American Compensation Association in executive and international compensation. I am currently a member of the World at Work, formerly the American Compensation Association, as well as a member of the Society for Human Resource Management. In 2001, I was appointed Vice President of Human Resources for Avista Corporation and in 2006 I became Senior Vice President of Human Resources.

**Q. What is the scope of your testimony?**

A. I will provide an overview of Avista's Compensation Program, employee benefits and, in response to the Commission Order No. 10 in Docket Nos. UE-090134 and UG-090135, I will explain why the costs associated with Avista's employee incentive plan are appropriate as part of the total compensation for employees.



- 1                   ▪       Pay competitively compared to others within our market,
- 2                   ▪       Drive performance to meet customer and shareholder needs, and
- 3                   ▪       Reward outstanding performance
- 4

5                   The market-based pay program reflects the competitive pay ranges and incentive target  
6 opportunities of other utilities, regionally and nationally, as well as other industries. Our  
7 compensation program is supported by performance management systems that focus on  
8 measuring and improving both utility and individual performance.

9                   Avista's benefits program offers a comprehensive package that strives to provide  
10 employees with the coverage needed to meet medical and retirement needs at competitive levels.

11                  Avista recognizes that teamwork is vital to the success of the organization and, where  
12 appropriate, provides group-based awards measured on a company-wide basis. Additionally,  
13 consistent with competitive industry practice, individualized and group-based incentive programs  
14 are provided that are designed to reward outstanding individual and specific performance targets  
15 collectively. Avista also recognizes the specific efforts and achievements of groups and/or  
16 individuals through various monetary and non-monetary programs.

17                  **Q.       What are the factors that drive the design of the benefits program offered to**  
18 **employees?**

19                  **A.**       The Company's benefit programs are designed to be cost effective, competitive  
20 with other organizations in the utility industry, and attract and retain qualified employees.  
21 Competitive market data is monitored on an on-going basis to ensure the total benefit program is  
22 competitive with other companies in the industry, and at the same time is cost effective.

23                  The Company assesses the competitiveness of the benefit program by looking at  
24 comparable value indices developed by Towers Watson (formally Towers Perrin), a nationally

1 recognized consulting firm and Mercer, an insurance broker. Also, comparable benefit data  
2 reviews are performed periodically with other regional utilities and other industries.

3 **Q. Please explain how market data is attained and used by the Company to**  
4 **determine whether its salary structure is competitive as compared to others in the**  
5 **industry?**

6 **A.** Avista participates in numerous confidential salary surveys provided by third-  
7 party consulting firms, which compare Avista's pay programs to other utility companies' labor  
8 markets. Salary surveys are used for projecting merit increases and salary range changes and  
9 benchmarking jobs to market data. Avista benchmarks many jobs within the Company and  
10 reviews the market data to determine if the salary range midpoints still accommodate the new  
11 estimated market values established by the benchmarking analysis process. An example of this  
12 report "Salary increase comparison 2009/2010" is included as Exhibit No.\_\_(KSF-2), pages 1  
13 and 2.

14 The 2010 actual annual merit increase (effective March 1, 2010) for non-union  
15 employees was 2.8% which was at or near the average projection for the utility industry and  
16 regional companies as shown in Exhibit No.\_\_(KSF-2). Salary increases for 2011 are expected to  
17 be at a minimum of 2.4% for non-union employees. This expected increase will be presented to  
18 the Avista Board of Directors at the Board meeting planned for May 2010 for approval, (See  
19 Company witness Andrews's testimony, Exhibit No. \_\_\_(EMA-1T), for salary increases  
20 included in the Company's request).

21 As I explained earlier, Avista maintains a total compensation program for its employees  
22 that are competitive with other comparable utilities, based on an annual assessment of Avista's  
23 program with other utilities. To the extent that adjustments need to be made over time to

1 maintain a competitive compensation package, the adjustments can be, and are made, on a year-  
2 to-year basis.

3 Board approval in May 2010 of the minimum expected salary adjustment for 2011 will  
4 provide certainty regarding the minimum increase in salary expense the utility will experience in  
5 2011. As we move closer to 2011, the Board can choose to grant a higher salary adjustment if the  
6 updated market data shows that a higher increase is warranted. If the possibility were to occur  
7 that the minimum salary increase approved by the Board for 2011 is higher than the updated  
8 market data would support, then the Board would make any appropriate salary adjustment for  
9 2012 to ensure alignment with the market data over time. I want to emphasize again that the  
10 2011 salary adjustment to be approved by the Board in May 2010 reflects a minimum salary  
11 adjustment level.

12 **Q. Has the economic downturn impacted Avista's compensation program as it**  
13 **competes for qualified employees?**

14 **A.** Yes. Avista carefully explored various options surrounding compensation and  
15 benefit programs to assess whether eliminating or reducing various programs would be  
16 appropriate given the economic downturn regionally and nationwide. We concluded that  
17 freezing salaries or eliminating programs such as the incentive plan would have unintended  
18 consequences. For example, we participate in annual benchmark surveys as discussed earlier in  
19 my testimony. We compete for engineers, technical professionals such as system operators, as  
20 well as individuals in finance that have utility experience. If we were to freeze salaries or  
21 eliminate incentives it is clear that within one to two years after freezing wages, Avista would  
22 have to make market adjustments to bring current employee salaries back to market levels.  
23 Therefore, we have taken a measured approach to salary adjustments that allows us to provide

1 lower salary increases, yet keep pace with the market until such time that the economy returns to  
2 a more normal place. For example, in late 2008, the original annual budgeted salary increase for  
3 non-union employees was determined to be 3.8% for 2009, based on preliminary data. As a  
4 direct result of the nation's economic turmoil and the rising cost pressure experienced within the  
5 industry, the Company adjusted the annual increase in 2009 down to 2.5%. Exhibit No.\_\_(KSF-2  
6 page 1) shows that the actual payout in 2009 for Avista was at or below the benchmarked  
7 utilities in all groups.

8 In addition, executive salaries were kept at 2008 levels (no increases were given to  
9 executive officers in 2009). Also, we know that to hire individuals into the Company we have to  
10 compete at the market level from a total compensation basis; therefore, if we were to freeze  
11 salaries internally, we most likely would have to pay new employees the going market level and  
12 would create compression for existing employees. This creates dissatisfaction and can cause  
13 current employees to seek employment elsewhere. Avista recognizes that the economic downturn  
14 has led to increased unemployment and caused some companies to freeze all salaries or provide  
15 no or (as shown above for Avista) provide lower increases to its employees. However, the utility  
16 industry continues to face labor and managerial shortages that challenge our ability to lead key  
17 business functions and staff significant infrastructure projects. In order to fill needed skill sets  
18 and remain competitive in hiring, most utilities, including Avista have not made significant  
19 changes to their compensation programs or instituted overall salary freezes.

20

1           **Q.     How are union wage increases determined?**

2           **A.**     Union wage increases are governed by contract between the Company and the  
3 unions. Effective March 26, 2009 the union had a contractual wage increase of 4.0%. The 2010  
4 and 2011 union contract merit increases are currently being negotiated. The union scheduled  
5 wage increase for 2009 was established and negotiated prior to the advent of the economic crisis.  
6 The current union contracts expire in April 2010. Confidential page 3 of Exhibit No. \_\_\_\_ (KSF-2)  
7 shows the historical lineman wages in the Northwest. The Company is currently in negotiations  
8 for future wage increases and other contract terms, and negotiations are expected to be  
9 completed by the end of the second quarter of 2010.

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**III.   EMPLOYEE BENEFITS**

12

**Q.     Please describe the Company's employee benefit plans.**

13

**A.**     The Company offers a comprehensive benefit plan for employees. Employees  
14 have several choices as to type of medical plan, dental plan, life insurance, etc., so that they can  
15 determine the best fit for their circumstances. The Company works with a third party  
16 administrator to determine the annual rates for the Company and for each individual employee  
17 based on their elections.

18

**Q.     What is causing the increase in medical premiums included in this case?**

19

**A.**     In recent years the company has experienced increasing healthcare claims. Based  
20 on this actual experience, the Company increased health care costs by 13.2% for 2010. As  
21 discussed by Company witness Andrews, the 2010 health care costs included in this case reflect  
22 a \$2.2 million increase over the test year. This increase is due to the national trend of an aging  
23 workforce requiring more health care at an ever increasing cost. Large claims activity driven by



1 various diagnostic categories such as cancer and heart disease are also to blame for a portion of  
2 the increase. The Company has taken measures to directly decrease its self-funded plan costs.

3 **Q. How is Avista addressing the rising cost of health care?**

4 **A.** Avista sponsors a self-funded benefit plan that provides various levels of  
5 coverage for medical, dental and vision. The main focus is on encouraging participants to  
6 manage their own health which will, overtime, lead to lower healthcare costs. Avista is  
7 challenged by a mature workforce, whose average age is 49. Data from the plan clearly shows  
8 that older participants have greater health care needs at a higher cost than younger participants.  
9 To mitigate this problem, Avista takes a systematic and comprehensive approach to help  
10 participants improve their overall well being and manage their chronic conditions. Avista  
11 encourages employees to take more responsibility for their health care decisions and make life  
12 style changes to avoid health care issues in the future. The Company also encourages  
13 participants to adopt and maintain healthy lifestyles, and use health care services wisely.

14 Proactive programs are set up to help individuals change their behaviors and live a  
15 healthier life. The Company addresses this by using a health continuum; low risk (Wellness),  
16 moderate risk (Wellness, Lifestyle Health Coaching) and high risk (Disease Management, Case  
17 Management).

18 After identifying the problem areas and cost drivers for the health plan, Avista's approach  
19 to health management uses biometric screening, health risk assessment tools and an incentive  
20 wellness program. A data-mining tool is also used to determine the underlying cost drivers and  
21 set strategy to address these drivers. The Company also works with a third party administrator to  
22 maximize the Case Management program for participants dealing with catastrophic medical  
23 issues.

1           **Q.     What additional steps is the Company taking to decrease health plan costs?**

2           **A.**     In order to decrease plan costs, the Company has increased the stop loss insurance  
3 reimbursement level, which decreases the premium expense with the third party administrator.  
4 The Company also negotiated a new contract with its prescription benefit administrator and a  
5 third party administrator (TPA) to pass through the drug manufacturer rebates (in the past these  
6 were left with the TPA). The Company has also converted the Dental plan to a Preferred  
7 Provider Organization (PPO) program that provides savings to the participant similar to medical  
8 plans with a PPO program. In addition to these measures, over the past five years the Company  
9 made changes to co-pay levels and out-of-pocket maximums to help reduce plan costs. The  
10 Benefits Planning and Administrative Committee constantly seek opportunities for benefit  
11 program changes that will reduce costs.

12           **Q.     What is the Company's philosophy around retirement programs?**

13           **A.**     The Company recognizes that retirement programs are crucial to attracting and  
14 retaining a skilled workforce within the utility industry. For active employees, a defined benefit  
15 pension plan and a defined contribution plan provide a balanced retirement opportunity for  
16 employees. The defined contribution plan, or 401(k) plan, provides tax-deferred savings  
17 providing partial matching dollars for the first 6% invested by the employee (except for union  
18 employees). The matching feature encourages employee participation in the plan and provides  
19 incentive for employees to maximize contributions to take full advantage of the Company match.  
20 These programs, in combination with pay and other benefits, are keys to attracting and retaining  
21 quality employees to run our business.

22           **Q.     What is causing the decrease in pension cost included in this case?**

1           **A.**     The decrease in pension cost from 2009 to 2010 is primarily attributable to the  
2 increase in plan assets during 2009. The increase in pension plan assets is due to Avista  
3 contributing \$48 million to the pension plan in 2009, as well as the actual return on plan assets.  
4 The increase in pension assets during 2009 resulted in an increase in the 2010 expected return on  
5 assets component of costs as well as a reduction in the net loss being amortized. Both of these  
6 items decreased the net pension cost by \$4.5 million, as discussed by Company witness  
7 Andrews.

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**IV. EMPLOYEE INCENTIVE PLAN**

10           **Q.**     **In the Commission’s Order No. 10 dated December 22, 2009, in Docket Nos.**  
11 **UE-090134 and UG-0901350 the Commission directed the Company to address, among**  
12 **other things, why customers should pay the incremental cost of incentives to achieve O&M**  
13 **savings when they are already paying the full costs of O&M. In response to the**  
14 **Commission’s order, please begin by explaining the overall philosophy behind Avista’s**  
15 **Employee Incentive Plan.**

16           **A.**     Avista's current incentive plan was designed in 2002. The goal of the incentive  
17 plan is to focus on three key elements, cost control, customer satisfaction and reliability of the  
18 energy we provide to our customers. To achieve that goal the plan was designed to focus the  
19 organization on efficient processes in every area. Since 2002, we have re-engineered and  
20 centralized many operational areas that have created greater satisfaction for customers and  
21 improved internal costs associated with delivering services. The Employee Incentive Plan is a  
22 pay-at-risk plan whereby employees are eligible to receive cash incentive pay if certain goals are  
23 achieved. The Plan encourages employees at all levels to focus on common objectives that are

1 designed to align the interests of employees with the interests of our customers. Market data  
2 shows that variable pay plans are prevalent in over 80% of organizations, and most utilities,  
3 including Avista have some kind of pay-at-risk plan.

4 **Q. In general terms, how is the pay-at-risk component incorporated into a total**  
5 **compensation package for employees?**

6 **A.** As I mentioned above, a pay-at-risk component provides the opportunity to more  
7 closely align employee interests with those of its customers. Avista's employee incentive plan  
8 targets certain performance measures, which are focused on achieving lower costs for customers,  
9 improving reliability, and increasing customer satisfaction. Establishing visible targets,  
10 measuring progress toward meeting the targets, and paying an incentive for achieving them  
11 motivates employees to focus on meeting the specific targets.

12 However, if the existing incentive plan were eliminated, base salaries would need to be  
13 increased in order for total compensation to remain competitive with other utilities.

14 A pay-at-risk component of compensation is not designed to pay out the full incentive  
15 opportunity every year, nor is it designed to have no payout for an extended period of time. Pay-  
16 at-risk plans are designed to focus employees on making decisions that benefit customers, while  
17 at the same time functioning as an integrated component of total compensation. As I noted  
18 earlier, most utilities have some form of pay-at-risk component of total compensation.

19 **Q. How does the Company's Incentive Plan benefit customers?**

20 **A.** Avista's Employee Incentive Plan provides several benefits to customers. First,  
21 the plan focuses work groups and individuals on the key objectives of the Company, including  
22 reliability, customer service and operational efficiency which also directly benefits customers,  
23 and overall operational efficiency translating into rates that are lower than they otherwise would

1 have been. There are a number of ways that Avista employees contribute to achieving incentive  
2 targets. For example, every time they come up with a more efficient way to do their job, it can  
3 reduce our O&M costs.

4 There are many examples of productivity initiatives from the past year. Our new  
5 Enterprise Voice Portal (EVP) system now handles 43 percent of our inbound calls. The  
6 functionality of Avistautilities.com has helped reduce our call volume by eight percent.  
7 Investments in fleet equipment and technology have resulted in cost savings for customers.  
8 We're also saving on printing costs by defaulting to black and white, double-sided print jobs, and  
9 choosing direct deposit and electronic pay statements. Employee ingenuity has helped spearhead  
10 these efforts. Being innovative is part of Avista's culture, and the incentive plan contributes to  
11 the focus and recognizes employees for their contributions in keeping service reliable and costs  
12 reasonable for our customers.

13 Second, the Employee Incentive Plan slows the base wage growth that would occur in a  
14 compensation system with base salaries only. A compensation program without pay-at-risk  
15 would drive base wages upward which in turn would increase the fixed cost of base salaries  
16 overtime and significantly impact pension liability. By having a pay-at-risk component, the  
17 Company can keep overall costs reasonable for our customers. The Company's current plan  
18 involves a meaningful amount of pay at risk for all employees. The most direct benefit to  
19 customers from the structure of the Incentive Plan is that total compensation is dependent on  
20 employees achieving specific objectives.

21 Third, the Incentive Plan is part of a comprehensive compensation and benefits package  
22 provided to employees that makes Avista an attractive employer to skilled, experienced talent in  
23 the market place. As mentioned earlier, the utility industry continues to face labor and

1 managerial shortages that challenge our ability to lead key business functions and staff  
2 significant infrastructure projects. Avista is no different. As of October 1, 2009, we had over 240  
3 employees eligible for retirement and as of October 1, 2010 we'll have over 280. Since 2005 we  
4 had record number of retirements except for 2009 which was directly affected by the economic  
5 downturn. As the economy improves and based on average age and service of eligible  
6 employees, we project 50 to 77 retirements in 2010. Being competitive with our compensation  
7 and benefit programs is essential to recruiting and retaining quality employees. Customers  
8 directly benefit from the contributions of a strong workforce that provides high-quality and  
9 efficient service. If we cannot compete, then premium packages may be necessary to attract  
10 qualified employees which results in higher costs. Exhibit No. \_\_\_\_ (KSF-3) provides a summary  
11 of the number of employees eligible to retire each year.

12 **Q. How does Avista establish the incentive goals for its employees?**

13 **A.** The incentive goals for employees are based on factors that are essential for the  
14 long-term success of the Company and benefit of customers. Each year in November the officers  
15 of the Company and the Board of Directors review the established goals in the Plan and assess  
16 whether they drive future business objectives. If it is determined that the goals need realignment  
17 in order to accomplish future objectives, then new goals are established and implemented for the  
18 next Plan year.

19 **Q. Please describe the Employee Incentive plan in place during 2009.**

20 **A.** The 2009 Employee Incentive Plan was made up of four utility operations goals:  
21 Operating and Maintenance (O&M) Cost per Customer, Customer Satisfaction Rating, and two  
22 electric reliability service goals (Customer Average Interruption Duration Index and Sustained  
23 Annual Interruption Frequency Index). Each goal is weighted: O&M-75%, Customer

1 Satisfaction-15%, Customer Average Interruption Duration Index (CAIDI)-5% and Sustained  
2 Annual Interruption Frequency Index (SAIFI)-5% to equal 100% of the total incentive  
3 opportunity for employees. Avista's 2009 Employee Incentive Plan Document is provided in  
4 Exhibit No. \_\_\_\_ (KSF-4).

5 **Q. Please explain the Operating and Maintenance Cost per Customer measure.**

6 **A.** The O&M Cost per Customer measure reflects operating efficiency and customer  
7 growth which directly relates to maintaining reliable, cost-effective service levels to run the  
8 Company's business efficiently. The 2009 Plan placed emphasis on aggregate utility costs per  
9 customer to encourage company-wide teamwork and consistent results in order to keep costs  
10 reasonable and energy services reliable for our customers. The O&M Cost per Customer target  
11 was based on the projected number of customers and targeted O&M expense for 2009. This  
12 measure provides an incentive for employees to keep actual O&M costs as low as possible.

13 **Q. Please explain the Customer Satisfaction rating measure.**

14 **A.** The customer satisfaction rating measures the customer's overall satisfaction with  
15 the service they received during a recent contact with the service or call center. The rating is  
16 derived from a Voice of the Customer survey, which is conducted each quarter by an  
17 independent agency. The measure is widely used in the industry for external reporting. The  
18 Company uses a combination of the "satisfied" and "very satisfied" ratings, rather than use the  
19 standard satisfied rating which is typically used in the industry. By combining these two  
20 measures it actually makes the target more difficult to achieve. The target was set at 90%. The  
21 actual customer satisfaction rating for 2009 was 93%.

22 **Q. Please now explain the two reliability measures.**

1           **A.**     Providing reliable energy to our customers is the backbone of Avista’s business,  
2 therefore, it makes good-sense for us to focus on reliable service levels for our customers. The  
3 last two goals in the Employee Incentive Plan measure how quickly the Company restores  
4 outages and how frequently customers are affected by outages. The Company tracks the average  
5 restoration time for sustained outages that affect our customers (CAIDI). The Company also  
6 tracks the average number of sustained outages per customer (SAIFI). Focusing on these two  
7 measurements enables the Company to direct our resources appropriately and efficiently in order  
8 to contain costs and plan for future infrastructure upgrades that will benefit the customer. In  
9 2009, the CAIDI target was set at 2 hours and 9 minutes and the actual was 2 hours and 6  
10 minutes. The SAIFI target was set at 1.29 outages per customer and the actual 2009 outages was  
11 1.52 per customer.

12           **Q.**     **Does Avista’s Employee Incentive Plan apply to employees who are subject**  
13 **to collective bargaining agreements?**

14           **A.**     Yes. Union employees are eligible under the same Plan as non-union employees.  
15 However, Local 77 union employees are paid a flat dollar amount rather than a percentage of  
16 base salary.

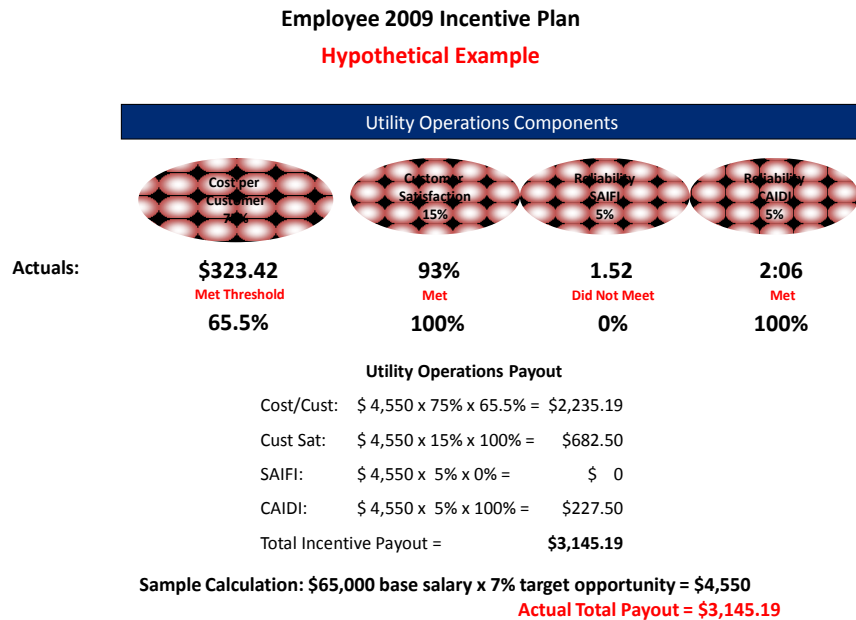
17           **Q.**     **What was the threshold requirement for a payout under the Employee**  
18 **Incentive Plan in 2009?**

19           **A.**     Based on labor costs, job levels and corresponding incentive target opportunity  
20 amount, the potential total target incentive amount at each performance level includes: threshold  
21 (50% of opportunity), target (100%) and exceed (150%). To compute the O&M cost per  
22 customer threshold level, the budgeted O&M costs were reduced by the potential threshold  
23 incentive payment amount. These O&M costs were then divided by the beginning of the year



1 actual customer count. Payments under this portion (75% of the Plan), can range from 0% to  
 2 150% depending on the level of performance achieved. The 2009 threshold goal was an O&M  
 3 cost per customer of \$325.74. Therefore, if O&M cost per customer is at or below \$325.74,  
 4 payments made to employees are based on the level of the performance (50% to 150%),  
 5 multiplied by 75% of the total opportunity. If cost per customer fails to meet threshold (\$325.74),  
 6 then no payments are received for this portion of the incentive. For 2009, the actual O&M cost  
 7 per customer was \$323.42, which resulted in achieving a 65.5% performance level for this  
 8 portion of the incentive. Please see Illustration No. 1 below for a hypothetical example of an  
 9 employee's payout.

10 **Illustration 1:**



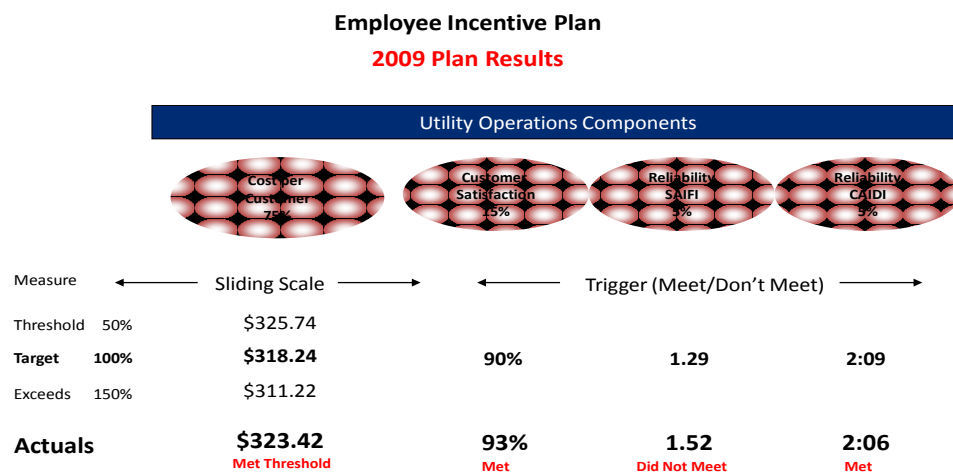
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12 The other three components of the incentive plan are set up to either meet or not meet the

13 goal. If the goal is met, then a payment is generated. If the goal is not met, then no payment is

1 generated (a pass or fail concept). For 2009 the Customer Satisfaction rating was at 93% and  
 2 CAIDI at 2 hours and 6 minutes, which resulted in meeting two out of the three goals. Since the  
 3 SAIFI target (1.52 outages) was not met, no payments were received for that portion of the  
 4 incentive. Employees received 100% of the customer satisfaction portion and 100% of the  
 5 CAIDI portion of the incentive plan. In total, employees (excluding executive officers) received  
 6 an average of 69% (65.5% of 75% plus 20%) of the total incentive opportunity. Please see  
 7 Illustration No. 2 below for the actual plan results for 2009.

8 **Illustration No. 2:**



9

10 **Q. How is the Company's incentive plan structured at the corporate executive**  
 11 **level?**

12 **A.** The executive officer incentive plan has the same operational components as the  
 13 employee incentive plan plus two earnings components: Utility Earnings per Share (EPS) and  
 14 Non-Utility Earnings per Share. The weighting for each component are: 50%-Utility EPS, 10%-

1 Non-Utility EPS, 30%-O&M Cost per Customer, 6%-Customer Satisfaction, 2%-CAIDI and  
2 2%-SAIFI. Although the weightings on the operational components are different from the  
3 employee plan, the goals or targets are the same. All incentive payouts associated with utility or  
4 non-utility EPS (60% of total plan) are excluded from utility expense and are paid by  
5 shareholders.

6 **Q. Overall, why should the Company's incentive plan be included in rates?**

7 **A.** We believe Avista's total compensation philosophy creates the right focus for  
8 employees because the incentive plan places a portion of employees overall earning opportunity  
9 at risk. Employees, as a whole, have to achieve the goals of the incentive plan for the plan to  
10 payout. We believe this tension in plan design helps motivate and focus employees on the stated  
11 goals of the plan and the Company. In order to achieve this additional level of compensation,  
12 employees have to keep working smarter and keep focused on cost control, customer satisfaction  
13 and reliability within the system. We believe that Avista's existing total compensation plan is  
14 correctly weighted to retain current employees, while remaining competitive enough to attract  
15 new employees. We also recognized and took action to make downward adjustments to our  
16 overall salary budget based on the economic situation. This keeps the salaries competitive with  
17 the market and keeps the compensation system stable so that large adjustments would not have to  
18 be made in the years that would follow a wage freeze.

19 **Q. Does this conclude your pre-filed direct testimony?**

20 **A.** Yes.