BEFORE THE WASHINGTON UTILITIES AND TRANSPORTION COMMISSION

DOCKET NO. UE-99_____
DOCKET NO. UG-99_____

DIRECT TESTIMONY OF KATHERINE E. MITCHELL
REPRESENTING AVISTA CORPORATION

WUTC
DOCKET NO. UE-991606
EXHIBIT # T-365
ADMIT W/D REJECT

Exhibit T- 39

Q. Please state your name, business address, and present position with Avista Corporation.

A. My name is Katherine E. Mitchell. My business address is East 1411 Mission Avenue, Spokane, Washington. I am employed by Avista Corporation (the Company) as a Rate Analyst.

Q. Would you please describe your education and business experience?

A. I graduated from Washington State University in December of 1984 with a Bachelor of Arts Degree in Business Administration with concentrations in Accounting and Finance. The following year, I passed the Certified Public Accountant exam. Prior to joining the Company in 1989 as a Plant Accountant, I was employed in public accounting and in private industry. For the past 8 years, I have served in the Rates and Tariff Administration Section, which is part of the Company's External Relations Department.

Q. As a Rate Analyst, what are your responsibilities?

A. As a Rate Analyst, aside from special projects, I am involved in the preparation of normalized semi-annual Commission Basis reporting in the various jurisdictions in which the Company provides utility services.

Q. Have you previously testified before this Commission?

A. No.

Q. What is the scope of your testimony in this proceeding?

A. My testimony and exhibits in this proceeding will cover the Pro Forma Labor/Benefits Adjustment, including officer compensation.

Q. Are you sponsoring any exhibits to be introduced in this proceeding?

A. Yes. I am sponsoring Exhibit No(s). 40 – 42 as previously marked for identification, which were prepared under my supervision and direction.

Q. Please give an overview of the Pro Forma Labor/Benefit Adjustment.

A. Exhibit Nos. 40 and 41 for Washington Electric and Washington Gas, respectively, entitled Pro Forma Labor/Benefit - Summary, reflect known and measurable changes to salary levels as well as normalization of test period benefit costs.

Q. How is officer compensation treated in this adjustment?

A. Officer and non-officer compensation are separately analyzed in this adjustment. The officer piece is set at pro forma levels to reflect known and measurable changes. Please refer to Exhibit Nos. 40 and 41 to see the impact of officer and non-officer compensation individually.

Q. Let us focus initially on the non-officer component. How is this part of the adjustment handled?

A. The non-officer labor calculation is made in three steps. The first step identifies and removes officer salary payroll charges from utility operations. The second step adjusts for wage and salary increases that occurred in March 1998 as if the changes were in effect for the entire test period. The third step adjusts the restated 1999 level of wages for increases granted in March 1999.

Q. How are benefit costs treated in this adjustment?

A. The benefit portion of the adjustment is incorporated in the non-officer component and adjusts total benefit costs to the actual amount of employee benefits for the test period. The amount loaded onto labor charges through the estimated loading rate during the test period produced an expense level lower than the actual amount of employee benefits for the test period.

Q. Please clarify this further. How can the Company expense an amount for employee benefits other than what was actually incurred in a given period?

A. Employee benefits and taxes are initially charged to a clearing account. Labor loading rates are established prior to the beginning of a given year, typically as part of the budgeting process, for each clearing account. The goal being to keep the clearing account balance as close as possible to $0. As the rates are initially set based on budgets (estimates) and updates are limited to only once or twice a year, it would be unusual for actual expenses to equal the amount cleared (expensed). In fact, during the test period, the Company expensed (or cleared) 97.8% of the employee benefits and taxes actually incurred in that period. As a comparison, during the twelve months ended December 31, 1997, the Company expensed (or cleared) 104.5% of the employee benefits and taxes incurred in 1997.

Q. Regarding employee benefits, how is the Company recording pension expense?

A. The Company is accruing pension expense per the rules promulgated in Financial Accounting Standard 87 (FAS-87).

Q. Is that different than the method used in the Company's 1986 case?

A. Yes it is. In that case, the cash contribution to the pension fund was used for ratemaking.

Q. Why is a different method being used now?

A. Until 1996 the Company was deferring the difference between Cash Contributions and Net Periodic Benefit Cost for future ratemaking consideration. At that point in time the Company had not had a rate case since 1990 and had no plans to file in any of its jurisdictions due to the anticipated merger with Sierra Pacific. In the interest of simplifying the accounting records this deferral was dropped. More importantly, however, the table below demonstrates that Net Periodic Benefit Cost is subject to less annual fluctuations than is Cash Contribution. Cash Contribution tends to vary from year to year due to its tie to Pension Fund investment earnings and ERISA (Employment Retirement Income Security Act) funding limitations. The Company submits that Net Periodic Benefit Cost better reflects the cost to the Company of providing pension benefits to its employees for a given twelve-month period.

Year	Cash Contributions	Net Periodic Benefit Cost	Difference
1996	$233,956	$2,367,533	$2,133,577
1997	$3,084,521	$2,224,987	($859,534)
1998	$0	$1,466,593	$1,466,593
1999	$3,303,632	$2,440,020	($863,612)
	$6,622,109	$8,499,133	$1,877,024

Q. What then is charged to the Washington Electric and Gas jurisdictions during the test year?

A. The component charged to the test period operating expense for the Washington Electric jurisdiction is derived by multiplying the $1,466,593 for 1998 by the ratio of Washington Electric Labor to Total Company Labor (30.072%) giving $441,035. Likewise, the amount charged to the Washington Gas jurisdiction is derived by multiplying the $1,466,593 by the ratio of Washington Gas Labor to Total Company Labor (8.026%) giving $121,141.

Q. How is the Company recording Postretirement Benefits Other Than Pensions?

A. The Company is expensing Postretirement Benefits Other Than Pensions (PBOP) in accordance with Statement of Financial Accounting Standards No. 106 (SFAS-

106). Additionally, during 1993 through 1995 the Company elected to defer the difference between cash payments and the SFAS 106 expense level as permitted by the Commission's Policy Statement issued in Docket No. A-921197 for both its Washington Electric and Gas jurisdictions. The Company ceased accrual of this deferral and began amortizing the deferred balance as of January 1, 1996.

Q. Please summarize the non-officer component of this adjustment.

A. Referring back to Exhibit Nos. 40 and 41, Total Electric Expense and Total Gas Expense are increased by $1,011,382 and $271,674, respectively, per the column entitled "Non-Officer Labor/Benefit Adjustment".

Q. Moving on to officer compensation. How is this component handled in the adjustment?

A. Please refer to Exhibit No. 42. Total 1998 officer compensation is identified by account for both utility and subsidiary operations as "Officer Compensation Expensed in 1998" in Row A. Pro forma officer compensation (compensation as of July 1999) is totaled by officer. The pro forma compensation is allocated between utility operations and subsidiary operations and, is further identified by account. (See "Pro Forma Totals by Account" in Row B.) The pro forma totals are compared to the 1998 totals and the differences (Row C "Differences") are identified by type of operation and account. From there, the differences (adjustments) are allocated to electric and gas operations and then further by jurisdiction using the appropriate allocation factors. (Refer to Row D, "Allocation to Avista's Washington Electric/Gas Operations".)

Q. Doesn't the 1998 test period include a signing bonus for the Company's CEO?

A. Yes. The entire bonus was expensed in 1998, with forty percent being charged directly to subsidiary operations. This adjustment, however, compares 1998 expenses to a pro forma level, adjusting the 1998 amounts to that of the pro forma. The terms of the signing bonus were such that while it was paid in 1998 it is to be earned over a five-year period, and is subject to refund if the CEO were to leave before the end of his five-year contract. Therefore, the Company appropriately includes only one-fifth of the bonus, which after allocations to subsidiary operations, utility services and jurisdictions equals before taxes approximately $57,000 and $14,000 for Washington Electric and Washington Gas, respectively.

Q. What are the resulting officer salary pro forma adjustments for Avista's Washington Electric and Gas operations?

A. The resulting pro forma adjustments are decreases in expense of $417,021 and $105,703 for Washington Electric and Washington Gas, respectively.

Q. Please summarize the complete impact of Pro Forma Labor/Benefit Adjustment.

A. Referring back to Exhibit No. 40. The increase to Total Electric Expense for non-officer compensation of $1,011,382 is offset by the officer compensation reduction of $417,021 resulting in a $594,361 increase to Total Electric Expense. Exhibit No. 41 shows an increase to Total Gas Expense for non-officer compensation of $271,674 , which is offset by the officer compensation reduction of $105,703 resulting in an increase to total Gas Expense of $165,971.

Q. Does that conclude your direct testimony?

A. Yes, it does.