

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 8, 2004**

REGULAR _____ CONSENT X EFFECTIVE DATE _____

DATE: March 23, 2004

TO: Lee Sparling through Ed Busch and Judy Johnson

FROM: Carla Owings

SUBJECT: AVISTA UTILITIES: Accept the Annual Budget of Expenditures for 2004

STAFF RECOMMENDATION:

Avista Utilities' 2004 Annual Budget of Expenditures be accepted for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

DISCUSSION:

Officers' Compensation

The attached Schedule 1 shows budgeted 2004 officers' salaries for Avista Utilities (Avista or Company). The Company's executive officers are budgeted to receive total salaries of \$2.46 million and total compensation of \$2.64 million, excluding potential payments from Avista's executive incentive compensation plan. Total compensation is 1.7 percent lower than in last year's budget due to an executive's retirement; however, for comparable positions, total budgeted compensation increased by 6.8 percent. Schedule 2 shows budgeted salaries allocated to Oregon for 2004 are lower by 4.6 percent than in 2003.

Schedule 3 shows total officers' cash compensation (including bonuses) for 1999 through 2003. Bonuses have been shown for the years they would normally have been paid. For example, 2003 bonuses, declared for the 2002 plan year, would normally be paid in 2003. Total cash compensation for comparable positions shows an increase of 18.4 percent due primarily to 2003 bonus awards for four officers compared to no bonuses paid in 2002. The change varies widely among officers.

On Schedule 4, officers' salary changes are compared to Consumer Price Index (CPI) changes for the years 1998 through 2003. The table shifts data between years in an effort to reflect proper matching. Since budgets present values at the beginning of the budget year, the 2004 budget, for example, is shown on this table as 2003. As of the end of the

period, salaries for comparable positions are 17.2 percent higher than they would have been if CPI percentage increases had been granted during the period. When bonuses are included, the difference from the CPI for comparable positions through 2002 is 31.6 percent higher. In a general rate case, staff typically proposes to exclude all officers' bonuses, and salary changes are limited to a percentage increase measuring cost changes, such as the CPI.

Memberships and Dues

"Above-the-line" memberships and dues in utility industry, technical and professional organizations allocated to Oregon operations are budgeted at \$74,734 in 2004, compared with \$14,055 in 2003. This increase is due to approximately eight new memberships in 2004.

Pensions

Avista's budget indicates that contributions to the plan for 2004 have not been determined, and all administration and actuarial costs will be paid directly from the pension fund. During 2002, the most recent report year available, employer contributions to the retirement plan were \$12.3 million.

Political Activities

As with the 2003 budget, Avista's 2004 budget shows no proposed payments for political advertising, and \$58,000 is budgeted "below the line" for lobbyist and political contributions.

PROPOSED COMMISSION MOTION:

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Attachments