

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: May 17, 2005**

REGULAR  CONSENT  EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

**DATE:** May 6, 2005

**TO:** Public Utility Commission

**FROM:** Carla Owings

**THROUGH:** Lee Sparling, Ed Busch and Judy Johnson

**SUBJECT:** AVISTA CORPORATION: Accept the 2005 Annual Budget of Expenditures.

**STAFF RECOMMENDATION:**

Avista Corporation's 2005 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 2005 officers' salaries for Avista Corporation (Avista or Company). The Company's executive officers are budgeted to receive total salaries of \$2.64 million and total compensation of \$2.84 million, excluding potential payments from Avista's executive incentive compensation plan. Total compensation is 7.6% higher than last year's budget. Schedule 2 shows budgeted salary history from 2000 through 2005.

Schedule 3 shows total officers' cash compensation (including bonuses) from 2000 through 2004. Bonuses are paid in the year after they have been earned; thus, bonuses earned in 2004 are paid in 2005. Therefore, bonuses shown in Schedule 3 are shifted to match with the salary earned in the same year (i.e., a bonus paid in 2005 is matched with the 2004 salary). Total cash compensation shown in Schedule 3 for comparable positions indicates a decrease of 0.1 percent from the previous year. However, the changes vary widely among the different officers.

On Schedule 4, the officers' salary changes are compared to the Consumer Price Index (CPI) changes for the years 1999 through 2004. The table shifts data between years in an effort to properly match time periods. Budgets present values at the beginning of the budget year; the 2005 budget, for example, is shown on this table as 2004. For the end of the period, the salaries (from Schedule 2, excluding bonuses) are 11.1 percent higher than the five year average of the CPI comparable. When bonuses are included (from Schedule 3), the difference from the CPI for comparable positions is 8.7 percent higher than the five year average of the CPI.

Memberships and Dues:

"Above-the-line" memberships and dues for Avista in utility industry, technical and professional organizations allocated to Oregon operations are budgeted to be \$39,766 compared to \$74,734, in 2004.

Pensions:

Avista's budget indicates that contributions to the pension plan for 2005 have not yet been determined. 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 \$12.29 million.

Political Activities:

Avista's budget shows \$58,000 for contract lobbyist fees and political contributions. This amount has remained constant in the previous two budget years.

**PROPOSED COMMISSION MOTION:**

Avista Corporation's 2005 Annual Budget of Expenditures be accepted for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

Attachments

**AVISTA CORPORATION**  
**2004 AND 2005 BUDGETED OFFICERS'**  
**COMPENSATION**

Schedule 1

POSITION	NAME	SALARY			PENSIONS AND OTHER FRINGE BENEFITS (1)			TOTAL BUDGETED COMPENSATION		
		2005 BUDGET	2004 BUDGET	% CHANGE	2005 BUDGET	2004 BUDGET	% CHANGE	2005 BUDGET	2004 BUDGET	% CHANGE
Chairman & Chief Executive Officer	Ely	\$643,229	\$566,041	13.6%	\$18,781	\$17,044	10.2%	\$662,010	\$583,085	13.5%
Sr. V.P. & Chief Counsel	Meyer	247,000	247,000	0.0%	22,087	19,886	11.1%	269,087	266,886	0.8%
Sr. V.P. & Chief Financial Officer	Malquist	308,750	268,636	14.9%	22,087	19,886	11.1%	330,837	288,522	14.7%
President of Avista Utilities	Morris	283,021	271,712	4.2%	22,087	19,886	11.1%	305,108	291,598	4.6%
Vice President-HR & Corp. Secretary	Feltes	206,863	190,396	8.6%	17,575	16,383	7.3%	224,438	206,779	8.5%
Vice President & Controller	Burmeister-Smith	190,396	172,787	10.2%	20,962	19,646	6.7%	211,358	192,433	9.8%
Vice President-Finance & Treasurer	Brukhardt *	0	188,337	-100.0%	0	10,252	-100.0%	0	198,589	-100.0%
Vice President-Trans & Distribution	Kopczynski	164,667	0	N/A	19,837	0	N/A	184,504	0	N/A
Vice President-State & Federal Regulations	Norwood	162,608	149,229	9.0%	19,747	19,106	3.4%	182,355	168,335	8.3%
Vice President-Business Development	Woodworth	208,921	208,921	0.0%	21,772	19,886	9.5%	230,693	228,807	0.8%
Vice President-Energy Resources	Peterson	222,300	184,221	20.7%	18,781	17,034	10.3%	241,081	201,255	19.8%
Vice President & Corporate Secretary	Syms	0	12,436	-100.0%	0	2,620	-100.0%	0	15,056	-100.0%
<b>TOTAL:</b>		<u>\$2,637,755</u>	<u>\$2,459,716</u>	<u>7.2%</u>	<u>\$203,716</u>	<u>\$181,629</u>	<u>12.2%</u>	<u>\$2,841,471</u>	<u>\$2,641,345</u>	<u>7.6%</u>
<b>COMPARABLE POSITIONS</b>		<u>\$2,473,088</u>	<u>\$2,258,943</u>	<u>9.5%</u>	<u>\$183,879</u>	<u>\$168,757</u>	<u>9.0%</u>	<u>\$2,656,967</u>	<u>\$2,427,700</u>	<u>9.4%</u>

\*Retired

(1) In addition to the benefits budgeted above, executive officers of the company are provided certain other benefits, including the Executive incentive compensation plan (payable 50 percent in cash and 50 percent in Avista common stock) and supplemental executive retirement and disability plans.

**AVISTA CORPORATION**  
**Officers' Budgeted Salary History - 2000**  
**through 2005**

Schedule 2

POSITION	NAME	2000	PERCENT		PERCENT		PERCENT		PERCENT		AVERAGE ANNUAL CHANGE		
			2001	CHANGE	2002	CHANGE	2003	CHANGE	2004	CHANGE	2005	CHANGE	2000 - 2005
Chairman & Chief Executive Officer	Matthews/Ely	750,000	455,000	-39.3%	518,750	14.0%	509,165	-1.8%	566,041	11.2%	643,229	13.6%	-3.02%
Sr. V.P. & Chief Counsel	Meyer	240,000	240,000	0.0%	249,000	3.8%	244,399	-1.8%	247,000	1.1%	247,000	0.0%	0.58%
Sr. V.P. & Chief Financial Officer	Eliassen/Malquist	237,600	237,600	0.0%	251,075	5.7%	252,350	0.5%	268,636	6.5%	308,750	14.9%	5.38%
President of Avista Utilities	Ely/Morris	275,000	175,000	-36.4%	190,900	9.1%	262,729	37.6%	271,712	3.4%	283,021	4.2%	0.58%
Vice President-HR & Corp. Secretary	Matthiesen/Feltes	168,700		N/A	160,930	N/A	169,043	5.0%	190,396	12.6%	206,863	8.6%	4.16%
Vice President & Controller	Burmeister-Smith	130,000	140,000	7.7%	169,112	20.8%	165,988	-1.8%	172,787	4.1%	190,396	10.2%	7.93%
Vice President-Finance & Treasurer	Brukhardt	145,000	164,000	13.1%	170,150	3.8%	174,134	2.3%	188,337	8.2%		N/A	-100.00%
Vice President-Trans & Distribution	Turner/Kopczynski	185,000	175,000	-5.4%		N/A	62,316	N/A		N/A	164,667	N/A	-2.30%
Vice President-State & Federal Regulation	Fukai/Norwood	192,820	192,820	0.0%	150,437	-22.0%	147,658	-1.8%	149,229	1.1%	162,608	9.0%	-3.35%
Vice President-Business Development	Woodworth	130,000	143,000	10.0%	155,625	8.8%	193,483	24.3%	208,921	8.0%	208,921	0.0%	9.95%
Vice President-Energy Resources	Peterson	130,000	140,000	7.7%	155,625	11.2%	161,914	4.0%	184,221	13.8%	222,300	20.7%	11.33%
Vice President & Corporate Secretary	Syms	106,600	111,000	4.1%	143,175	29.0%	147,658	3.1%	12,436	-91.6%		N/A	-100.00%
<b>TOTALS</b>		<b>2,690,720</b>	<b>2,173,420</b>	<b>-19.2%</b>	<b>2,314,779</b>	<b>6.5%</b>	<b>2,490,837</b>	<b>7.6%</b>	<b>2,459,716</b>	<b>-1.2%</b>	<b>2,637,755</b>	<b>7.2%</b>	<b>-0.4%</b>
NUMBER OF OFFICERS		12	11		10		12		11		10		
TOTALS-Comparable Positions 00/01		<b>2,522,020</b>	<b>2,173,420</b>	<b>-13.8%</b>									
TOTALS-Comparable Positions 01/02			<b>1,998,420</b>		<b>2,314,779</b>	<b>15.8%</b>							
TOTALS-Comparable Positions 02/03					<b>2,314,779</b>		<b>2,428,521</b>	<b>4.9%</b>					
TOTALS-Comparable Positions 03/04							<b>2,280,863</b>		<b>2,258,943</b>	<b>-1.0%</b>			
TOTALS-Comparable Positions 04/05									<b>2,258,943</b>		<b>2,473,088</b>	<b>9.5%</b>	<b>1.8%</b>

<b>AVISTA CORPORATION</b> <b>2000 THROUGH 2004 OFFICERS' CASH COMPENSATION</b>
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POSITION	NAME	2000 (1)					2001 (1)					2002 (1)					2003 (1)					2004 (1)				
		TOTAL	BUDGET SALARY	BONUS	TOTAL	% CHG	BUDGET SALARY	BONUS	TOTAL	% CHG	BUDGET SALARY	BONUS	TOTAL	% CHG	BUDGET SALARY	BONUS	TOTAL	% CHG	BUDGET SALARY	BONUS	TOTAL	% CHG				
Chairman & Chief Executive Officer	Matthews/Ely	\$750,000	\$455,000	\$130,000	\$585,000	-22.0%	\$518,750	\$0	\$518,750	-11.3%	\$509,165	\$250,371	\$759,536	46.4%	\$566,041	\$249,733	\$815,774	7.4%								
Sr. V.P. & Chief Counsel	Meyer	240,000	240,000	60,000	300,000	25.0%	249,000	0	249,000	-17.0%	244,399	72,385	316,784	27.2%	247,000	59,887	306,887	-3.1%								
Sr. V.P. & Chief Financial Officer	Eliassen/Malquist	237,600	237,600	59,400	297,000	25.0%	251,075	0	251,075	-15.5%	252,350	79,208	331,558	32.1%	268,636	74,863	343,499	3.6%								
President of Avista Utilities	Morris	0	175,000	0	175,000	N/A	190,900	0	190,900	N/A	262,729	80,119	342,848	79.6%	271,712	68,622	340,334	-0.7%								
Vice President	Fukal	192,820	192,820	33,744	226,564	17.5%	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A								
Vice President & Corporate Secretary	Feltes	275,000	0	0	0	N/A	160,930	0	160,930	N/A	169,043	37,429	206,472	28.3%	190,396	30,052	220,448	6.8%								
Vice President	Norwood	185,000	175,000	0	175,000	-5.4%	150,437	0	150,437	-14.0%	147,658	29,336	176,994	17.7%	147,658	23,619	171,277	-3.2%								
Vice President-Trans & Distribution	Kopczynski	168,700	0	0	0	N/A	0	0	0	N/A	0	0	0	N/A	0	23,919	23,919	N/A								
Vice President	Peterson	130,000	140,000	0	140,000	7.7%	155,625	0	155,625	11.2%	161,914	40,262	202,176	29.9%	161,914	32,296	194,210	-3.9%								
Vice President	Woodworth	130,000	143,000	0	143,000	10.0%	155,625	0	155,625	8.8%	193,483	41,071	234,554	50.7%	193,483	30,351	223,834	-4.6%								
Vice President & Controller	Burmeister-Smith	130,000	140,000	0	140,000	7.7%	169,112	0	169,112	20.8%	165,988	34,597	200,585	18.6%	165,988	27,659	193,647	-3.5%								
Vice President-Finance & Treasurer	Brukhardt	145,000	164,000	0	164,000	13.1%	170,150	0	170,150	3.8%	174,134	37,025	211,159	24.1%	174,134	0	174,134	-17.5%								
Vice President & Corporate Secretary	Syms	106,600	111,000	0	111,000	4.1%	143,175	0	143,175	29.0%	147,658	29,336	176,994	23.6%	147,658	0	147,658	-16.6%								
<b>TOTAL:</b>		<b>\$2,690,720</b>	<b>\$2,173,420</b>	<b>\$283,144</b>	<b>\$2,456,564</b>	<b>-8.7%</b>	<b>\$2,314,779</b>	<b>\$0</b>	<b>\$2,314,779</b>	<b>-5.8%</b>	<b>\$2,428,521</b>	<b>\$731,139</b>	<b>\$3,159,660</b>	<b>36.5%</b>	<b>\$2,534,620</b>	<b>\$621,001</b>	<b>\$3,155,621</b>	<b>-0.1%</b>								
<b>TOTALS - Comparable Positions 00/01:</b>		<b>\$2,247,020</b>	<b>\$1,998,420</b>	<b>\$283,144</b>	<b>\$2,281,564</b>	<b>1.5%</b>																				
<b>TOTALS - Comparable Positions 01/02:</b>			<b>\$1,980,600</b>	<b>\$249,400</b>	<b>\$2,230,000</b>		<b>\$2,153,849</b>	<b>\$0</b>	<b>\$2,153,849</b>	<b>-3.4%</b>																
<b>TOTALS - Comparable Positions 02/03:</b>							<b>\$2,314,779</b>	<b>\$0</b>	<b>\$2,314,779</b>		<b>\$2,428,521</b>	<b>\$731,139</b>	<b>\$3,159,660</b>	<b>36.5%</b>												
<b>TOTALS - Comparable Positions 03/04:</b>											<b>\$2,428,521</b>	<b>\$731,139</b>	<b>\$3,159,660</b>		<b>\$2,534,620</b>	<b>\$621,001</b>	<b>\$3,155,621</b>	<b>-0.1%</b>								
<b>Number of Officers:</b>		<b>12</b>			<b>11</b>				<b>11</b>				<b>11</b>				<b>11</b>									

(1) Budgeted salaries shown are the amounts in effect as of the end of the prior year. Bonuses shown for year in which paid (e.g., 2004 figure is executive bonuses awarded for 2003 and paid in 2004); these figures do not include the value of any shares of stock granted under the incentive program.

**AVISTA CORPORATION  
OFFICERS' CASH COMPENSATION CHANGES COMPARED WITH CPI CHANGES  
1999 THROUGH 2004**

PERCENT CHANGE FROM PRIOR YEAR

	ANNUAL AVERAGE CPI (1)	AVERAGE OFFICERS SALARY (2)	AVERAGE OFFICERS CASH COMPENSATION (2)
1999	1.6%	4.0%	-6.4%
2000	2.2%	-13.8%	1.5%
2001	3.4%	15.8%	-3.4%
2002	2.8%	4.9%	36.5%
2003	1.6%	7.3%	-0.1%
2004	2.7%	9.5%	N/A
<b>Average:</b>	<b>2.382%</b>	<b>4.2%</b>	<b>4.6%</b>

115.2

127.9

125.1

Index Value:  
(January 1, 1999 = 100)

% Difference from CPI:

11.1%

8.7%

- 1 - CPI changes have been shifted forward one year. Normally, we expect salary changes to reflect the prior year's inflation
- 2 - Officers' salary and salary/bonus compensation changes are for comparable positions. Changes have been shifted back one year from budget since budgets show amounts in effect as of the end of the prior year
- 3 - Information on 2004 bonuses to be paid in 2005 is not yet available. Therefore, for cash compensation comparison, average and index values are based on changes from 2000 through 2004
- 4 - CPI changes are found in Bureau of Labor Statistics, Labor Market Information Home Page, U. S. City average base period 1982-84.