

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 19, 2006**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ N/A

DATE: August 29, 2006

TO: Public Utility Commission

FROM: Carla Owings

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: AVISTA CORPORATION: Accept the 2006 Annual Budget of Expenditures.

STAFF RECOMMENDATION:

Avista Corporation's 2006 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 2006 officers' budgeted salaries for Avista Corporation (Avista or Company). The Company's executive officers are budgeted to receive total salaries of \$3.26 million and total compensation of \$3.51 million, excluding potential payments from Avista's executive incentive compensation plan. Total compensation is 23.6 percent higher than last year's budget.

Schedule 2 shows budgeted salary history from 2001 through 2006. Schedule 2 shows overall average annual change as an increase of 8.6 percent. Comparable positions are shown below the table in Schedule 2 and indicate an average annual increase of 7.2 percent.

Schedule 3 shows total officers' cash compensation (including bonuses) from 2001 through 2005. Bonuses are paid in the year after they have been earned; thus, bonuses earned in 2005 are paid in 2006. 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 an increase of 23.0 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 2001 through 2005. 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 2006 budget, for example, is shown on this table as 2005. For the end of the period, the salaries (from Schedule 2, excluding bonuses) are 24.5 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 51.5 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 \$45,145 compared to \$39,766, in 2005.

Pensions:

Avista's budget indicates that contributions to the pension plan for 2006 have not yet been determined. All administration and actuarial costs will be paid directly from the pension fund. In 2003 and 2004, the most recent report years available, employer contributions to the retirement plan were \$12.0 million and \$15.0 million, respectively.

Political Activities:

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

PROPOSED COMMISSION MOTION:

Avista Corporation's 2006 Annual Budget of Expenditures be accepted for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

AVISTA CORPORATION
2005 AND 2006 BUDGETED OFFICERS'
COMPENSATION

Schedule 1

POSITION	NAME	SALARY			PENSIONS AND OTHER FRINGE BENEFITS (1)			TOTAL BUDGETED COMPENSATION		
		2006 BUDGET	2005 BUDGET	% CHANGE	2006 BUDGET	2005 BUDGET	% CHANGE	2006 BUDGET	2005 BUDGET	% CHANGE
Chairman & Chief Executive Officer	Ely	\$707,552	\$643,229	10.0%	\$19,231	\$18,781	2.4%	\$726,783	\$662,010	9.8%
Sr. V.P. & Chief Counsel	Meyer	247,000	247,000	0.0%	22,537	22,087	2.0%	269,537	269,087	0.2%
Sr. V.P. & Chief Financial Officer	Malquist	323,169	308,750	4.7%	22,537	22,087	2.0%	345,706	330,837	4.5%
Sr. V.P. & Chief Compliance Officer	Durkin	267,583	0	N/A	22,537	0	N/A	290,120	0	N/A
President of Avista Utilities	Morris	311,321	283,021	10.0%	22,537	22,087	2.0%	333,858	305,108	9.4%
Vice President-HR & Corp. Secretary	Feltes	225,480	206,863	9.0%	15,083	17,575	-14.2%	240,563	224,438	7.2%
Vice President & Treasurer	Burmeister-Smith	197,060	190,396	3.5%	21,253	20,962	1.4%	218,313	211,358	3.3%
Vice President-Finance & Controller	Wilson	169,818	0	N/A	19,782	0	N/A	189,600	0	N/A
Vice President-Operations	Kopczynski	200,696	164,667	21.9%	20,962	19,837	5.7%	221,658	184,504	20.1%
Vice President-State & Federal Regulations	Norwood	174,446	162,608	7.3%	20,265	19,747	2.6%	194,711	182,355	6.8%
Vice President-Business Development	Woodworth	216,223	208,921	3.5%	22,537	21,772	3.5%	238,760	230,693	3.5%
Vice President-Energy Resources	Peterson	224,368	222,300	0.9%	17,386	18,781	-7.4%	241,754	241,081	0.3%
TOTAL:		\$3,264,716	\$2,637,755	23.8%	\$246,647	\$203,716	21.1%	\$3,511,363	\$2,841,471	23.6%
COMPARABLE POSITIONS		\$2,827,315	\$2,637,755	7.2%	\$204,328	\$203,716	0.3%	\$3,031,643	\$2,841,471	6.7%

(1) In addition to the benefits budgeted above, executive officers of the company are provided certain other benefits, including the Long-Term Incentive performance shares (awarded in either cash or common stock, or both) and supplemental executive retirement and disability plans.

Schedule 2

AVISTA CORPORATION
Officers' Budgeted Salary History
2001 THROUGH 2006

POSITION	NAME	2001	2002	PERCENT CHANGE	2003	PERCENT CHANGE	2004	PERCENT CHANGE	2005	PERCENT CHANGE	2006	PERCENT CHANGE	AVERAGE ANNUAL CHANGE 2001-2006
Chairman & Chief Executive Officer	Ely	472,558	497,115	5.2%	528,205	6.3%	633,173	19.9%	676,442	6.8%	707,552	4.6%	8.6%
Sr. V.P. & Chief Counsel	Meyer	230,307	249,415	8.3%	240,000	-3.8%	249,231	3.8%	240,000	-3.7%	247,000	2.9%	1.5%
Sr. V.P. & Chief Financial Officer	Malquist	237,600	251,075	5.7%	254,036	1.2%	303,288	19.4%	311,531	2.7%	323,169	3.7%	6.5%
President of Avista Utilities	Durkin	175,000	216,523	23.7%	261,390	20.7%	283,250	8.4%	297,634	5.1%	311,321	4.6%	N/A
Vice President-HR & Corp. Secretary	Morris	140,000	160,930	N/A	176,296	N/A	205,346	16.5%	214,204	4.3%	225,480	5.3%	8.7%
Vice President & Controller	Feltes	140,000	169,112	20.8%	165,988	-1.8%	172,787	4.1%	190,396	10.2%	197,060	3.5%	7.3%
Vice President-Finance & Treasurer	Burmeister	164,000	170,150	3.8%	174,134	2.3%	188,337	8.2%	190,396	N/A	197,060	N/A	4.7%
Vice President-Trans & Distribution	Burkhardt	175,000	150,437	N/A	62,316	N/A	149,229	N/A	164,667	N/A	169,818	N/A	N/A
Vice President-State & Federal Regulations	Kopczynski	192,820	155,625	-22.0%	147,658	-1.8%	149,229	1.1%	162,608	9.0%	200,696	7.3%	N/A
Vice President-Business Development	Norwood	143,000	155,625	8.8%	193,483	24.3%	208,921	8.0%	208,921	0.0%	174,446	7.3%	-1.3%
Vice President-Energy Resources	Woodworth	140,000	155,625	11.2%	161,914	4.0%	184,221	13.8%	222,300	20.7%	216,223	3.5%	8.9%
Vice President & Corporate Secretary	Peterson	111,000	143,175	29.0%	147,658	3.1%	12,436	-91.6%	1	-100.0%	224,368	0.9%	10.1%
TOTALS		2,181,285	2,319,182	6.3%	2,513,078	8.4%	2,590,219	3.1%	2,688,704	3.8%	3,264,716	21.4%	8.6%

NUMBER OF OFFICERS 11 11 11 11 11 11 12

TOTALS-Comparable Positions 01/02	<u>2,181,285</u>	<u>2,319,182</u>	<u>6.3%</u>										
TOTALS-Comparable Positions 02/03		<u>2,319,182</u>		<u>2,513,078</u>	<u>8.4%</u>								
TOTALS-Comparable Positions 03/04				<u>2,513,078</u>		<u>2,590,219</u>	<u>3.1%</u>						
TOTALS-Comparable Positions 04/05						<u>2,577,783</u>		<u>2,688,703</u>	<u>4.3%</u>				
TOTALS-Comparable Positions 05/06								<u>2,688,703</u>		<u>3,064,020</u>	<u>14.0%</u>		<u>7.2%</u>

**AVISTA CORPORATION
OREGON ALLOCATED
2001 THROUGH 2005 OFFICER'S CASH COMPENSATION**

POSITION	NAME	2001 (1)			2002 (1)			2003 (1)			2004 (1)			2005 (1)		
		TOTAL	BONUS	% CHG	TOTAL	BONUS	% CHG	TOTAL	BONUS	% CHG	TOTAL	BONUS	% CHG	TOTAL	BONUS	% CHG
Chairman & Chief Executive Officer	Mathews/Ely	\$585,000	\$187,464	17.0%	\$684,579	\$250,371	13.7%	\$778,576	\$243,733	13.4%	\$882,906	\$510,159	75.4%	\$1,186,601	\$676,442	75.4%
Sr. V.P. & Chief Counsel & Regulatory	Meyer	300,000	59,988	3.1%	309,403	72,835	1.1%	312,835	59,987	-1.2%	308,118	98,940	41.2%	338,940	240,000	41.2%
Sr. V.P. & Chief Financial Officer	Eliassen/Maquire	297,000	60,488	4.9%	311,563	79,208	7.0%	333,244	74,863	13.5%	378,151	155,340	49.9%	466,871	311,531	49.9%
President of Avista Utilities	Morris	175,000	64,488	60.6%	281,011	80,119	21.5%	341,509	68,622	3.0%	351,872	149,646	50.3%	447,280	297,634	50.3%
Sr. V.P. & Chief Compliance Officer	Durkin	0	0	N/A	0	0	N/A	0	0	N/A	0	0	N/A	0	0	N/A
Vice President	Fukal	226,564	0	N/A	0	0	N/A	0	0	N/A	0	0	N/A	0	0	N/A
Vice President & Corporate Secretary	Felles	175,000	160,930	N/A	160,930	37,429	32.8%	213,725	30,052	10.1%	235,398	108,384	50.6%	322,568	214,204	50.6%
Vice President	Nowood	0	150,437	-14.0%	150,437	29,336	17.7%	176,994	23,619	-3.2%	171,277	147,658	37.9%	203,559	147,658	37.9%
Vice President-Trans & Distribution	Kopczynski	0	0	N/A	0	0	N/A	0	0	N/A	0	0	N/A	0	0	N/A
Vice President	Peterson	140,000	155,625	11.2%	155,625	40,262	29.9%	202,176	32,296	-3.9%	194,210	71,899	44.4%	233,813	64,313	44.4%
Vice President	Woodworth	143,000	155,625	8.8%	155,625	41,071	50.7%	234,554	30,351	-4.6%	223,834	193,483	35.8%	262,775	193,483	35.8%
Vice President & Controller	Burmester-Smith	140,000	189,112	20.8%	189,112	34,597	18.6%	200,585	27,659	-3.5%	193,647	63,148	38.0%	229,136	165,988	38.0%
Vice President-Finance & Treasurer	Brukhardt	164,000	170,150	3.8%	170,150	37,025	24.1%	211,159	174,134	-17.5%	174,134	0	0.0%	174,134	174,134	0.0%
Vice President & Corporate Secretary	Syms	111,000	143,175	29.0%	143,175	29,336	23.6%	176,994	147,658	-16.6%	147,658	0	0.0%	147,658	147,658	0.0%
TOTAL:		\$2,456,654	\$2,319,182	9.6%	\$2,691,610	\$731,589	18.2%	\$3,182,351	\$621,001	3.3%	\$3,285,124	\$1,400,614	25.7%	\$4,131,260	\$2,730,646	25.7%

TOTALS - Comparable Positions 01/02:	\$2,230,000	\$2,158,252	\$372,428	\$2,530,680	\$3,182,351	\$3,182,351	\$3,182,351	\$2,665,123	\$597,082	\$3,262,205	\$2,665,123	\$597,082	\$3,262,205	\$4,013,355	\$2,730,646	\$1,282,709	\$4,013,355
TOTALS - Comparable Positions 02/03																	
TOTALS - Comparable Positions 03/04																	
TOTALS - Comparable Positions 04/05																	

Number of Officers: 11

(1) Budgeted salaries shown are the amounts in effect as of the end of the prior year. Bonuses shown for the year in which it is paid (e.g., 2004 figure is awarded in 2003 and paid in 2004) these figures do not include the value of shares of stock or long-term incentive plans.

