

Agenda Date: October 28, 2010
Item Number: A5

Docket: UG-101463
Company Name: Avista Corporation

Staff: Vanda Novak, Regulatory Analyst

Recommendation

Take no action, thereby allowing Avista Corporation's proposed decoupling surcharge tariff revisions filed in docket UG-101463 on August 30, 2010, to become effective November 1, 2010, by operation of law.

Background

In February of 2007, the commission approved a multi-party settlement agreement establishing a three-year pilot program allowing Avista Corporation (Avista or company) to test a natural gas decoupling mechanism.¹ The parties to the settlement included Avista, commission staff, the Northwest Energy Coalition (NWECC), and the Northwest Industrial Gas Users (NWIGU). Not parties to the settlement were Public Counsel and The Energy Project.

Decoupling is a ratemaking and regulatory tool intended to break the link between a utility's recovery of fixed costs and a consumer's energy consumption. Some energy conservation advocates have identified decoupling as a tool to promote greater conservation efforts by utilities by removing financial disincentives.

Avista's pilot decoupling program is applicable to residential and small commercial customers receiving natural gas service under schedule 101.

Under the terms of the decoupling program, Avista may defer for later recovery up to 45 percent of fixed costs (margin) related to revenue reductions associated with conservation for the decoupling fiscal period July 2009 through June 2010 as calculated in the company's last general rate cases.² However, recovery is subject to several tests and limitations, including:

- An earnings test to ensure that Avista does not earn more than its authorized rate of return through the decoupling mechanism (8.25 percent).³
- A demand side management (DSM) test that conditions the level of recovery of any deferral on Avista achieving specific conservation targets as verified by an independent third party.

¹ Docket UG-060518, Order 04.

² Dockets UG-080417 and Docket UG-090135.

³ Docket UG-090135, Order 10.

Once the tests and limitations are applied, recovery of the deferred margin occurs through a surcharge applied to schedule 101 under Schedule 159.

Discussion

On August 30, 2010, Avista filed tariff sheets that would adjust the surcharge recovery rate for its natural gas decoupling mechanism effective November 1, 2010. The filing proposed a decrease in the surcharge rate from \$0.00499 to \$0.00490 per therm. This would have resulted in a decrease of 0.01% applicable to natural gas customers taking natural gas service under Schedule 101.

The revised surcharge recovers \$577,061 of deferred margin plus interest and revenue related expenses for a total of \$610,000. Staff reviewed the work papers supporting the above-mentioned tests and limitations. Staff believes the company met the requirements for recovery of 45% of the deferral amount.

Staff believes the company's revised rates filed on August 30, 2010, recover the portion of the deferral allowed by the commission's Order 10, Docket UG-090135 and should be allowed to go into effect.

Conclusion

Staff recommends the commission take no action, thereby allowing Avista Corporation's proposed decoupling surcharge tariff revisions filed in docket UG-101463 on October 30, 2010, to become effective November 1, 2010, by operation of law.