

**Agenda Date:** October 27, 2011  
**Item Number:** A1

**Docket:** UG-111564  
**Company Name:** Avista Corporation

**Staff:** E.J. Keating, Regulatory Analyst  
Deborah Reynolds, Regulatory Analyst

### **Recommendation**

Take no action, thereby allowing Avista Corporation's proposed decoupling surcharge tariff revisions filed in Docket UG-111564 on August 30, 2011, and updated on October 13, 2011, to become effective November 1, 2011, by operation of law.

### **Background**

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.

In February 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.<sup>1</sup> In December 2009, the program was allowed to continue with some modifications to the original pilot program.<sup>2</sup>

Avista's 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 a certain percentage of fixed costs, (lost margin), related to revenue reductions associated with conservation for the decoupling fiscal period (in this case July 2010 through June 2011). The recovery is based on a comparison of the typical therm consumption<sup>3</sup> from the appropriate general rate case<sup>4</sup> to the same value in the current decoupling fiscal period, subject to several requirements and limitations, including:

- Removal of usage resulting from new customers.

---

<sup>1</sup> Docket UG-060518, Order 04.

<sup>2</sup> Docket UE-090134, UG-090135 and UG-060518 (*consolidated*), Order 10.

<sup>3</sup> The company takes the difference between the weather-adjusted Schedule 101 therm sales from the appropriate general rate case and the weather-adjusted Schedule 101 therm sales from the current decoupling period, and multiplies the difference by the margin rate from the appropriate general rate case

<sup>4</sup> Docket UE-090134, UG-090135 and UG-060518 (*consolidated*), Order 10 and Docket UE-100467 and UG-100468, Order 07 were in place during the decoupling fiscal period, leading to multiple sets of margin rates, baselines and weather normalization methodologies used in the decoupling filing.

- Annualization of usage resulting from customers that moved from Schedule 101 to another rate schedule.
- An annual two percent rate increase limitation.
- An earnings test to ensure that Avista does not earn more than its authorized rate of return (currently 7.91 percent).<sup>5</sup>
- A demand side management (DSM) test that conditions the level of recovery of any deferral on Avista achieving Washington-specific conservation targets as verified by an independent third party.

The following table shows the percentage amounts of lost margin allowed for recovery at given levels of DSM achievement:<sup>6</sup>

<b>Actual vs. Target DSM Savings</b>	<b>Amount Deferred</b>
<70%	0%
>70% and <80%	15%
>80% and <90%	25%
>90% and <100%	35%
>100%	45%

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, 2011, Avista filed tariff sheets that would adjust the surcharge recovery rate for its natural gas decoupling mechanism effective November 1, 2011. The company updated the filing on October 13, 2011 when it was discovered that deferred revenue remaining in the balancing account from previous filings had not been added to the new revenue deferrals.<sup>7</sup> The current filing proposed a decrease in the surcharge rate from \$0.00490 to \$0.00237 per therm. This would result in a decrease of 0.27 percent, or \$0.17 on the average bill of customers taking natural gas service under Schedule 101. There are approximately 146,000 Schedule 101 customers.

The revised surcharge in the current filing is intended to recover \$268,626 of deferred margin plus interest and revenue related expenses for a total of approximately \$284,000. The proposed recovery amount is based on Avista's savings achievement of 1,398,245 therms, or 91 percent of its IRP goal of 1,542,575 therms. These savings were verified by The Cadmus Group, an independent third party energy efficiency consulting firm. The 91 percent achievement rate allows for recovery of 35 percent of lost margin. The savings rates by sector were as follows:

---

<sup>5</sup> Docket UG-100468.

<sup>6</sup> Docket UE-090134, 090135 & UG-060518 (*consolidated*), Order 11.

<sup>7</sup> The original filing on August 30, 2011 proposed to recover \$205,773 before revenue related items. The updated filing on October 31, 2011 increased the proposed recovery by \$62,853 to \$268,626 before revenue related items.

<b>Sector</b>	<b>Savings Goal (therms)</b>	<b>Gross Achieved (therms)</b>	<b>Achievement Rate</b>
Residential	647,788	683,313	105%
Non-Residential	824,457	700,883	85%
Low-Income	70,330	14,049	20%
<b>Total</b>	<b>1,542,575</b>	<b>1,398,245</b>	<b>91%</b>

Staff reviewed the work papers supporting the above-mentioned tests and limitations and believes the filing complies with previous orders. Numbers used for baseline temperature-adjusted therms, margin and weather normalization methodology were from the appropriate general rate case.<sup>8</sup> As previously noted, staff confirmed that deferred revenue remaining in the balancing account was applied to the new revenue deferrals to determine the amount of the proposed surcharge.

Staff believes the company's revised rates filed on August 30, 2011, and subsequent updated filing on October 13, 2011, 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-111564 on August 30, 2011 and updated on October 13, 2011, to become effective November 1, 2011, by operation of law.

---

<sup>8</sup> Docket UE-090134, UG-090135 and UG-060518 (*consolidated*), Order 10 and Docket UE-100467 and UG-100468, Order 07 were in place during the decoupling fiscal period, leading to multiple sets of margin rates, baselines and weather normalization methodologies used in the decoupling filing.