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May 27, 2022

Amanda Maxwell
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: **Tariff WN U-29, Natural Gas Service**
Natural Gas Decoupling Rate Adjustment

Dear Ms. Maxwell:

Attached for electronic filing with the Commission is the following tariff sheet proposed to be effective August 1, 2022:

Eighth Revision Sheet 175 Canceling **Seventh Revision Sheet 175**

This filing is the "Natural Gas Decoupling Rate Adjustment", filed in compliance with the Commission's Order No. 05 in Docket UG-140189 and Order No. 9 in Docket UE-190335. In Docket UE-140188, the Commission approved a natural gas decoupling mechanism for Avista for a five-year period. In Docket UE-190335, the Commission extended the mechanism for an additional five-year period and approved moving the effective date of the annual decoupling tariff revisions from November 1 to August 1. This filing amortizes the 2021 deferral balances over the period August 1, 2022 – July 31, 2023.

The purpose of the natural gas decoupling mechanism is to decouple the Company's Commission-authorized revenues from therm sales, such that the Company's revenues will be recognized based on the number of customers served under the applicable natural gas service schedules. The decoupling mechanism allows the Company to: 1) defer the difference between actual decoupling-related revenue received from customers through volumetric rates, and the decoupling-related revenue approved for recovery in the Company's last general rate case; and 2) file a tariff to surcharge or rebate, by rate group, the total deferred amount accumulated in the deferred revenue accounts for the prior January through December time period.

The proposed tariff reflects a surcharge of 3.899 cents per therm for the Residential Group served under Schedules 101 and 102, which is designed to recover approximately $5.4 million from the Residential Group. The present surcharge rate of 0.925 cents per therm is presently designed to recover from customers approximately $1.3 million. Therefore, the net overall increase proposed for the Residential Group is 2.974 cents per therm, or an increase of approximately $4.1 million or 3.0% from the Residential Group customers.

In addition, the proposed tariff reflects a surcharge of 2.866 cents per therm for the Non-Residential Group served under Schedules 111, 112, 116, and 131, which is designed to recover approximately $1.7 million from the Non-Residential Group. The present surcharge rate of 0.813 cents per therm is presently designed to recover from applicable customers approximately $0.5 million. Therefore, the net overall increase proposed for the Non-Residential Group is a rate increase of 2.053 cents per therm, or an increase of approximately $1.2 million or 3.0% for the Non-Residential Group customers.

	Expiring Present Decoupling Revenue	Proposed Decoupling Revenue	Proposed Decoupling Increase
Residential Group	$1,276,010	$5,378,553	$4,102,543
Non-Residential Group	$476,613	$1,680,164	$1,203,550

Residential Group Rate Determination

The Company recorded $6,559,458 in the surcharge direction in deferred revenue for the natural gas Residential Group in 2021. The 3% incremental surcharge limitation, discussed later in this letter, resulted in a $1,642,757 reduction of the 2021 deferral surcharge. The proposed surcharge rate of 3.899 cents per therm is designed to recover $5,378,553 from the Company's residential natural gas customers served under rate Schedules 101 and 102. The following table summarizes the components of the Company's requested surcharge:

2021 Deferred Revenue	$6,559,458
Add: Earnings Sharing/DSM Adjustment	($57,986)
Add: Prior Year Carryover Balance	$24,802
Add: Interest through 07/31/2023	$266,044
Add: Revenue Related Expense Adj.	$228,992
Total Requested Recovery	$5,378,553
Customer Surcharge Revenue	$5,378,553
Carryover Deferred Revenue	$1,642,757

Attachment A, page 1 shows the derivation of the proposed surcharge rate to recover the 2021 deferred revenue (including prior period unamortized deferred revenue) plus interest and revenue-related expenses, based on projected sales volumes for Schedules 101 and 102 during the surcharge/amortization period (August 2022 through July 2023). As identified in Tariff Schedule 175 under Step 6 of "Calculation of Monthly Deferral", interest on the deferred balance accrues at the quarterly rate published by the FERC.[1] If the proposed surcharge is approved by the Commission, the 2021 deferral balance, less earnings sharing (if any), plus interest through July, will be transferred into a regulatory asset balancing account along with any residual regulatory asset balance approved for recovery in Docket UG-210379, Avista's 2021 Natural Gas Decoupling Rate Adjustment filing. The balance in the account will be reduced each month by the revenue collected under the tariff.

<u>Non-Residential Group Rate Determination</u>

The Company recorded $2,400,734 in the surcharge direction in deferred revenue for the natural gas Non-Residential Group in 2021. The 3% incremental surcharge limitation, discussed later in this letter, resulted in a $894,261 reduction of the 2021 deferral surcharge. The proposed surcharge rate of 2.866 cents per therm is designed to recover $1,680,164 from commercial and industrial customers served under rate Schedules 111, 112, 116, and 131. The following table summarizes the components of the Company's request for recovery:

2021 Deferred Revenue	$2,400,734
Add: Earnings Sharing/DSM Adjustment	($17,014)
Add: Prior Year Carryover Balance	$18,077
Add: Interest through 07/31/2023	$101,106
Add: Revenue Related Expense Adj.	$71,521
Total Requested Recovery	$1,680,164
Customer Surcharge Revenue	$1,680,164
Carryover Deferred Revenue	$894,261

Attachment A, page 3 shows the derivation of the proposed surcharge rate to recover the 2021 deferred revenue (including prior period unamortized deferred revenue) plus interest and revenue-related expenses, based on projected sales volumes for Schedules 111, 112, 116, and 131 during the surcharge/amortization period (August 2022 through July 2023). As identified in Tariff Schedule 175 under Step 6 of "Calculation of Monthly Deferral", interest on the deferred balance accrues at the quarterly rate published by the FERC. If the proposed surcharge is approved by the Commission, the 2021 deferral balance, less earnings sharing (if any), plus interest through July, will be transferred into a regulatory asset balancing account to be combined with any residual balance approved for recovery in Docket UG-210379, Avista's 2021 Natural Gas Decoupling Rate Adjustment filing. The balance in the account will be reduced each month by the revenue collected under the tariff.

Support showing the monthly calculation of the 2021 deferred revenue balances for both the Residential and Non-Residential Groups is provided as Attachment B. These calculations were also provided to the Commission in quarterly reports (see Docket UG-140189). The allowed decoupling baseline values that were updated when Docket UG-190335 rates became effective

[1] The FERC effective interest rate was 3.25% in 2021 and 3.25% in Q1 and Q2 of 2022. The current rate of 3.25% has been used going forward as an estimate for purposes of this rate determination.

April 1, 2020 remained in effect through September 30, 2021. The allowed decoupling baseline values were updated when the rates approved in Docket UG-200901 became effective October 1, 2021 and remained in effect for the remainder of 2021. Attachment B page 1, 2 and 11 shows the monthly deferral calculations for 2021, pages 2 – 5 and pages 7 – 9 are Docket UG-190335 and UG-200901, respectively, authorized decoupling baseline values associated with 2021 customer rates.

Earnings Test

The decoupling mechanism is subject to an annual earnings test based on the Company's year-end Commission Basis Reports that reflect actual decoupling-related revenues and various normalizing adjustments. If the earnings test rate of return exceeds the allowed rate of return approved by the Commission, one-half of the revenue in excess of the rate of return will be shared with customers through the decoupling rate adjustment.

The 2021 Washington Natural Gas Earnings Test sharing calculations are shown on page 6 of Attachment A.[2] The Earnings Test showed that the Company earned a 7.10% rate of return on a normalized basis in 2021 which does not exceed the allowed return of 7.19%.[3] Therefore, no earnings sharing adjustment is applied to the 2021 decoupling deferred balances.

Natural Gas Energy Efficiency Adjustment

In Order 09 in Docket UG-190335, the Commission approved Avista's request to institute a 5 percent conservation target for the natural gas decoupling mechanism. In 2021, Avista achieved 94% of its adjusted natural gas conservation target (that target including the additional 5 percent target above the planned 2021 IRP target). Consistent with the Commission's order, Avista has applied a $75,000 below-the-line natural gas decoupling adjustment to its 2021 results, allocating that adjustment to the Residential and Non-Residential Group on a percent of revenue basis.

3% Annual Rate Increase Test

Decoupling annual rate adjustment surcharges are subject to a 3% annual rate increase limitation. There is no limit to rebate rate adjustments. As described in Tariff Schedule 175 the 3% annual rate increase limitation "will be determined by dividing the incremental annual revenue to be collected (proposed surcharge revenue less present surcharge revenue) under this Schedule by the total "normalized" revenue for the two Rate Groups for the most recent January through December time period. Normalized revenue is determined by multiplying the weather-corrected usage for the period by the present rates in effect. If the incremental amount of the proposed surcharge exceeds 3%, only a 3% incremental rate increase will be proposed and any remaining deferred revenue will be carried over to the following year. There is no limit to the level of the decoupling rebate, and the reversal of any rebate would not be included in the 3% incremental surcharge test".

[2] The complete decoupling earnings test model is included as part of the electronic work papers to this filing.
[3] The allowed return was 7.19% for the rates in effect throughout 2021 as established by Docket UG-190335.

Revenue from 2021 normalized loads and customers calculated at the billing rates in effect since November 1, 2021 for the two rate groups are shown on line 1 of page 7 of Attachment A (these are the same values used to allocate the earnings sharing and DSM adjustment, if any, on lines 11 and 12 of page 6).

The proposed Residential Group rate results in a surcharge of 4.24% and therefore exceeds the 3% limitation. A reduction of $1.7 million was made to the decoupling revenue for recovery to adjust the surcharge from 4.24% to 3% as shown on Page 7 of attachment A.

The proposed Non-Residential Group rate results in a surcharge of 5.29% and therefore exceeds the 3% limitation. A reduction of $0.9 million was made to the decoupling revenue for recovery to adjust the surcharge from 5.29% to 3% as shown on Page 7 of attachment A.

Conclusion

In conclusion, Avista requests the Commission approve the proposed Schedule 175 surcharge rate of 3.899 cents per therm for the Residential Group and the proposed surcharge rate of 2.866 cents per therm for the Non-Residential Group. The estimated annual revenue change associated with this filing is an increase of approximately $5.3 million ($4.1 million Residential and $1.2 million Non-Residential). Residential customers taking service on Schedule 101 using an average of 67 therms would see their monthly bills change from $64.86 to $66.85, an increase of $1.99, or 3%.

The Company has provided in this filing a copy of its customer notice which will be included as a bill insert in the June – July time frame. Please direct any questions on this matter to Joel Anderson at (509) 495-2811 or myself at (509) 495-4546.

Sincerely,

/s/ Joe Miller

Joe Miller
Senior Manager of Rates and Tariffs, Regulatory Affairs
Enclosures