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May 29, 2020

Mr. Mark L. Johnson  
Executive Director and Secretary  
Washington Utilities and Transportation Commission  
621 Woodland Square Loop SE  
Lacey, WA 98503

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State Of WASH.  
UTIL. AND TRANSP.  
COMMISSION

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

Dear Mr. Johnson:

Attached for electronic filing with the Commission is the following tariff sheet proposed to be effective August 1, 2020:

<b>Sixth Revision Sheet 175</b>	Canceling	<b>Fifth Revision Sheet 175</b>
<b>Second Revision Sheet 175</b>	Canceling	<b>Substitute First Revision Sheet 175C</b>

This filing is the “Natural Gas Decoupling Rate Adjustment”, filed in compliance with the Commission’s Order No. 05 in Docket No. UG-140189 and Order No. 9 in Docket No. UE-190335. In Docket No. UE-140188, the Commission approved a natural gas decoupling mechanism for Avista for a five-year period, with this filing reflecting the deferral balance for the fifth year (calendar year 2019) to be amortized beginning the following November. In Docket No. UG-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. Therefore this filing amortizes the 2019 deferral balances over the period August 1, 2020 – July 31, 2021.

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 rebate of 0.685 cents per therm for the Residential Group served under Schedules 101 and 102, which is designed to rebate approximately \$0.9 million to the Residential Group. The present surcharge rate of 0.420 cents per therm is presently designed to recover from customers approximately \$0.5 million. Therefore, the net overall change proposed for the Residential Group is 1.105 cents per therm, or **a decrease of approximately \$1.4 million** or 1.2% for the Residential Group customers.

In addition, the proposed tariff reflects a surcharge of 0.419 cents per therm for the Non-Residential Group served under Schedules 111, 112, 116, and 131, which is designed to recover approximately \$0.3 million from the Non-Residential Group. The present surcharge rate of 1.841 cents per therm is presently designed to recover from applicable customers approximately \$1.1 million. Therefore, the net overall change proposed for the Non-Residential Group is a rate decrease of 1.422 cents per therm, or **a decrease of approximately \$0.9 million or 2.2%** for the Non-Residential Group customers.

	Expiring Present Decoupling Revenue	Proposed Decoupling Revenue	Proposed Decoupling Decrease
Residential Group	\$549,665	-\$896,478	-\$1,446,143
Non-Residential Group	\$1,113,735	\$253,479	-\$860,256

### **Residential Group Rate Determination**

The Company recorded \$1,053,674 in the rebate direction in deferred revenue for the natural gas Residential Group in 2019. The earnings test and the 3% incremental surcharge limitation, discussed later in this letter, had no impact on the 2019 natural gas balances. However, the change to the effective date for this year’s rate adjustment filing resulted in an expected outstanding carryover surcharge balance of \$246,739 at July 31, 2020. The proposed rebate rate of 0.685 cents per therm is designed to return \$896,478 to 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 rebate:

2019 Deferred Revenue	(\$1,053,674)
Add: Earnings Sharing Deduction	\$0
Add: Prior Year Carryover Balance	\$246,739
Add: Interest through 07/31/2021	(\$49,152)
Add: Revenue Related Expense Adj.	(\$40,390)
Total Requested Rebate	(\$896,478)
Customer Rebate Revenue	(\$896,478)
Carryover Deferred Revenue	\$0

Attachment A, page 1 shows the derivation of the proposed rebate rate to return the 2019 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 2020 through July 2021). 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.<sup>1</sup> If the proposed rebate is approved by the Commission, the 2019 deferral balance, less earnings sharing (if any), plus interest through July, will be transferred into a regulatory liability balancing account along with any residual regulatory asset balance approved for recovery in Docket No. UG-190710, Avista’s 2019 Natural Gas Decoupling Rate Adjustment filing. The balance in the account will be reduced each month by the revenue collected under the tariff.

### **Non-Residential Group Rate Determination**

The Company recorded \$63,249 in the surcharge direction in deferred revenue for the natural gas Non-Residential Group in 2019. The earnings test and the 3% incremental surcharge limitation, discussed later in this letter, had no impact on the 2019 natural gas balances. However, the change to the effective date for this year’s rate adjustment filing resulted in an expected outstanding carryover surcharge balance of \$171,897 at July 31, 2020. The proposed surcharge rate of 0.419 cents per therm is designed to recover \$253,479 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:

2019 Deferred Revenue	\$63,249
Add: Earnings Sharing Deduction	\$0
Add: Prior Year Carryover Balance	\$171,897
Add: Interest through 07/31/2021	\$7,107
Add: Revenue Related Expense Adj.	\$11,226
Total Requested Recovery	\$253,479
Customer Surcharge Revenue	\$253,479
Carryover Deferred Revenue	\$0

Attachment A, page 3 shows the derivation of the proposed surcharge rate to recover the 2019 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 2020 through July 2021). 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 2019 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 No. UG-190710, Avista’s 2019 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 2019 deferred revenue balances for both the Residential and Non-Residential Groups is provided as Attachment B. These calculations were

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<sup>1</sup> The FERC effective interest rate was 5.18% Q1 2019, 5.45% Q2 2019, 5.50% Q3 2019, and 5.42% Q4 2019. The FERC effective interest rate became 4.96% Q1 2020, and currently the Q2 FERC effective interest rate is 4.75%. The current rate of 4.75% has been used going forward as an estimate for purposes of this rate determination.

also provided to the Commission in quarterly reports (see Docket No. UG-140189). The allowed decoupling baseline values that were updated when Docket No. UG-170486 rates became effective May 1, 2018 remained in effect throughout 2019. Attachment B page 1 shows the monthly deferral calculations for 2019, pages 2 – 5 are the Docket No. UG-170486 authorized decoupling baseline values associated with 2019 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 2019 Washington Natural Gas Earnings Test sharing calculations are shown on page 6 of Attachment A.<sup>2</sup> The Earnings Test showed that the Company earned a 6.24% rate of return on a normalized basis in 2019 which does not exceed the allowed return of 7.50%.<sup>3</sup> Therefore no earnings sharing adjustment is applied to the 2019 decoupling deferred balances.

### **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".

Revenue from 2019 normalized loads and customers calculated at the billing rates in effect since April 1, 2020 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, if any, on lines 11 and 12 of page 6).

The proposed Residential Group rate is a rebate, there is no limitation to rebate rate adjustments. Therefore no adjustment is necessary due to the 3% rate increase limitation for the Residential Group.

The rate necessary to recover the Non-Residential Group surcharge balance, including estimated interest and revenue related expenses as determined on page 3 of Attachment A (see line 20 -

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<sup>2</sup> The complete decoupling earnings test model is included as part of the electronic work papers to this filing.

<sup>3</sup> The allowed return was 7.50% for the rates in effect throughout 2019 as established by Order No. 07 of Docket No. UG-170486.

Preliminary Proposed Decoupling Rate) less the surcharge rate presently in effect, would recover \$860,256 less from customers (based on projected sales volumes for Schedules 111, 112, 116, and 131 during the surcharge/amortization period). A rate reduction is effectively a rebate and there is no limitation to rebate rate adjustments. Therefore, as shown on Attachment A, page 7, the 3% limitation does not affect the proposed rate for the Non-Residential Group.

### **Docket No. UG-190335 Approved Mechanism Revisions**

In compliance with Order No. 09 in Docket No. UG-190335 the Company cancelled rate schedule's 121, 122, and 126. The Company has reflected the cancellation of these rate schedule's by deleting all references in the natural gas Decoupling tariff sheet 175.

In Docket No. UG-190335 the Commission approved the Company's proposal to continue the Decoupling Mechanism for an additional five years with the following modifications:

- a. The effective date of annual rate adjustment filing is moved from November 1 to August 1.
- b. Customers hooked up to Avista's system after the ratemaking test year will be excluded from the decoupled deferred revenue calculations. Furthermore, the Company will include a status update in its yearly decoupling report identifying the number of new customers excluded from the mechanism and associated costs and revenues.
- c. The Company will add an annual revenue-per-customer true-up to the December deferred revenue calculation.
- d. The Company will maintain and present data and a brief explanatory narrative for 30-, 20-, 15-, and 10-year moving averages for purposes of decoupling in its annual decoupling report.
- e. The Company is subject to separate 5 percent conservation targets for the electric and natural gas mechanisms with prescribed penalties as proposed by the Company.
- f. A third party evaluation of the revised mechanism will be performed after three years.
- g. Decoupling mechanism natural gas quarterly reports are granted an exemption from WAC 480-90-275 to align with filing of electric quarterly reports within 60 days of the end of each quarter.

#### **Modification a.**

As part of the Compliance filing in Docket No. UG-190335 tariff Sheet 175C was modified to reflect the change from a November 1 to an August 1 effective date. The statement that annual rate adjustment filings would be made "On or before September 1st" was erroneously changed to "On or before May 1st". The Company did not intend to change the two-month interval between the rate adjustment filing and the effective date of the tariff. The tariff should read "On or before June 1<sup>st</sup> each year, the Company will file a request with the Commission to surcharge or rebate..." June 1st aligns with filing requirements for the DSM tariff Schedule 191 discussed in Order 9 as one of the purposes for moving to the August 1 effective date. Additionally, May 1 presents a timing issue for this filing because the Earnings Test includes the April 30 Commission Basis Report as an input to the development of the rate. The proposed Second Revision Sheet 175C corrects the language in the tariff to reflect the intended filing requirement.

**Modification b.**

This filing reflects 2019 deferred revenues, the new customer exclusion was implemented with new rates effective April 1, 2020. The Company's Q4 decoupling report will include a status update identifying new customers excluded from the decoupling mechanism and associated costs and revenues from those customers beginning at the end of the 2020 deferral period.

**Modification c.**

The 2019 deferral calculations were performed under the Docket No. UG-140189 mechanism provisions which did not include an annual revenue-per-customer true-up adjustment.

**Modification d.**

The varying moving average weather normalization assumptions provide an indication of the implications of changing the definition of "normal" weather for the purpose of setting future base rates. The Company's Q4 decoupling report will present an analysis, including a brief narrative, of the proportion of annual decoupled revenue that was attributable to weather under each of the moving average assumptions beginning at the end of the 2020 deferral period.

**Modifications e., f., and g.**

The other modifications to the mechanism are not associated with the annual rate adjustment filing.

**Conclusion**

In conclusion, Avista requests the Commission approve the proposed Schedule 175 rebate rate of 0.685 cents per therm for the Residential Group and the proposed surcharge rate of 0.419 cents per therm for the Non-Residential Group, the deletion of references to cancelled rate schedule's 121, 122, and 126, plus the housekeeping correction in Sheet 175C regarding the annual rate adjustment filing date.. The estimated annual revenue change associated with this filing is a decrease of approximately \$2.3 million (\$1.4 million Residential and \$0.9 million Non-Residential). Residential customers taking service on Schedule 101 using an average of 66 therms would see their monthly bills change from \$56.43 to \$55.70, a decrease of \$0.73, or 1.3%.

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 Tara Knox, Manager of Regulatory Accounting Initiatives at (509) 495-4325 or myself at (509) 495-4546.

Sincerely,

/s/ Joe Miller

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