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August 22, 2019

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

Re: Tariff WN U-28, Electric Service
Electric Decoupling Rate Adjustment

Dear Mr. Johnson:

Attached for electronic filing with the Commission are the following tariff sheets proposed to be effective November 1, 2019:

Fourth Revision Sheet 75 Canceling **Third Revision Sheet 75**

This filing is the "Electric Decoupling Rate Adjustment", filed in compliance with the Commission's Order No. 05 in Docket No. UE-140188. In that Order, the Commission approved an electric decoupling mechanism for Avista for a five-year period, with this filing reflecting the deferral balance for the fourth year (calendar year 2018) to be amortized over the period November 1, 2019 – October 31, 2020.

The purpose of the electric decoupling mechanism is to decouple the Company's Commission-authorized revenues from kilowatt-hour ("kWh") sales, such that the Company's revenues will be recognized based on the number of customers served under the applicable electric 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 0.279 cents per kWh for the Residential Group served under Schedules 1 and 2, which is designed to recover approximately $6.6 million from the Residential Group. The present rebate rate of -0.116 cents per kWh is presently designed to return to customers approximately $2.8 million. Therefore, the combined effect expiring rebate and the proposed surcharge for the Residential Group is a rate increase of 0.395 cents per kWh, or an increase of $9.4 million (4.3%) for the Residential Group customers.

In addition, the proposed tariff reflects a surcharge of 0.365 cents per kWh for the Non-Residential Group served under Schedules 11, 12, 21, 22, 31, and 32, which is designed to recover approximately $7.9 million from the Non-Residential Group. The present surcharge rate of 0.054 cents per kWh is presently designed to recover from applicable customers approximately $1.2 million. Therefore, the net overall increase proposed for the Non-Residential Group is a rate increase of 0.311 cents per kWh, or an increase of approximately $6.7 million or 3.0% for the Non-Residential Group customers.

	Expiring Present Decoupling Revenue	Proposed Decoupling Revenue	Proposed Decoupling Increase
Residential Group	-$2,755,483	$6,627,411	$9,382,893
Non-Residential Group	$1,167,336	$7,890,325	$6,722,989

Residential Group Rate Determination

The Company recorded $8,620,259 in the surcharge direction in deferred revenue for the electric Residential Group in 2018. The earnings test, discussed later in this letter, had no impact on the electric balances. However, the 3% incremental surcharge limitation, also discussed later in this letter, did affect the requested surcharge rate for this recovery period. The proposed surcharge rate of 0.279 cents per kWh is designed to recover $6,627,411 to the Company's residential electric customers served under rate Schedules 1 and 2. The following table summarizes the components of the Company's request for recovery:

2018 Deferred Revenue	$8,620,259
Add: Earnings Sharing Deduction	$0
Add: Prior Year Residual Balance	($42,448)
Add: Interest through 10/31/2020	$707,733
Add: Revenue Related Expense Adj.	$285,050
Total Requested Recovery	$9,570,594
Customer Surcharge Revenue	$6,627,411
Carryover Deferred Revenue	$2,943,184

Attachment A, page 1 shows the derivation of the proposed surcharge rate to return the 2018 deferred revenue (including prior period unamortized deferred revenue) plus interest and revenue-related expenses, based on projected sales volumes for Schedules 1 and 2 during the surcharge/amortization period (November 2019 through October 2020). As identified in Tariff Schedule 75 under Step 7 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

[1] The FERC effective interest rate was 4.25% Q1 2018, 4.47% Q2 2018, 4.69% Q3 2018, and 4.96% Q4 2018. The FERC effective interest rate became 5.18% Q1 2019, 5.45% Q2 2019, and currently the Q3 FERC effective interest rate is 5.50%. The current rate of 5.50% has been used going forward as an estimate for purposes of this rate determination.

the Commission, the 2018 deferral balance, less earnings sharing(if any), plus interest through October, will be transferred into a regulatory asset balancing account along with any residual regulatory liability balance approved for rebate in Docket No. UE-180702, Avista's 2018 Electric Rate Adjustment filing. The balance in the asset account will be reduced each month by the revenue collected under the tariff.

Non-Residential Group Rate Determination

The Company recorded $7,051,825 in the surcharge direction in deferred revenue for the electric Non-Residential Group in 2018. The earnings test, discussed later in this letter, had no impact on the electric balances. However, the 3% incremental surcharge limitation, also discussed later in this letter, did affect the requested surcharge rate for this recovery period. The proposed surcharge rate of 0.365 cents per kWh is designed to recover $7,890,325 from commercial and industrial customers served under rate Schedules 11, 12, 21, 22, 31, and 32. The following table summarizes the components of the Company's request for recovery:

2018 Deferred Revenue	$7,051,825
Add: Earnings Sharing Deduction	$0
Add: Prior Year Residual Balance	$26,402
Add: Interest through 10/31/2020	$531,602
Add: Revenue Related Expense Adj.	$345,877
Total Requested Recovery	$7,955,706
Customer Surcharge Revenue	$7,890,325
Carryover Deferred Revenue	$65,382

Attachment A, page 3 shows the derivation of the proposed surcharge rate to recover the 2018 deferred revenue, plus interest and revenue-related expenses, based on projected sales volumes for Schedules 11, 12, 21, 22, 31, and 32 during the surcharge/amortization period (November 2019 through October 2020). As identified in Tariff Schedule 75 under Step 7 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 2018 deferral balance, less earnings sharing (if any), plus interest through October, will be transferred into a regulatory asset balancing account to be combined with the residual balance approved for recovery in Docket No. UE-180702, Avista's 2018 Electric 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 2018 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 No. UE-140188). The allowed decoupling baseline values that were updated when Docket No. UE-150204 rates became effective January 11, 2016 remained in effect until April 30, 2018. On May 1, 2018 new rates were approved in Avista's general rate case Docket No. UE-170485 with corresponding updated allowed decoupling baseline values. Attachment B page 1 shows the monthly deferral calculations for 2018, pages 2 – 4 are the UE-150204 authorized decoupling baseline values that were used for the January through April deferral calculations, and pages 5 – 8 are the UE-170485 authorized decoupling baseline values that were used for the May through December deferral calculations.

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, normalized power supply costs and other 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 2018 Washington Electric Earnings Test sharing calculations are shown on page 6 of Attachment A.[2] The Earnings Test showed that the Company earned a 7.17% rate of return on a normalized basis in 2018 which does not exceed the pro-rated allowed return of 7.43%[3]. Therefore no earnings sharing adjustment is applied to the 2018 decoupling deferred balances.

3% Annual Rate Increase Test

Decoupling annual rate adjustment surcharges are subject to a 3% annual rate increase limitation. As described in Tariff Schedule 75 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 rate would not be included in the 3% incremental surcharge test".

Revenue from 2018 normalized loads and customers calculated at the billing rates in effect August 1, 2019 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 rate necessary to recover the Residential Group surcharge balance, including estimated and revenue related expenses as determined on page 1 of Attachment A (see line 20 - Preliminary Proposed Decoupling Rate), less the surcharge rate presently in effect[4], would recover

[2] The complete decoupling earnings test model is included as part of the electronic work papers to this filing.
[3] For January through April (4/12ths of the year) the allowed return was 7.29% established by Order 05 of Docket No. UE-150204. For May through December (8/12ths of the year) the allowed return was 7.50% established by Order No. 07 of Docket No. UE-170485.
[4] The present Residential Group rate is a rebate, as there is no limitation for rebate rate adjustments the reversal of a rebate rate is not included in the 3% incremental surcharge test (per First Revision Sheet 75E), therefore the present surcharge rate is deemed to be 0 (Attachment A, page 7, line 4).

$9,644,189 from customers (based on projected sales volumes for Schedules 1 and 2 during the surcharge/amortization period). That amount is 4.36% of the normalized Residential revenue (Attachment A, page 7, line 7). The 3% limitation reduces the proposed Residential Group surcharge rate from 0.406 cents per kWh to 0.279 cents per kWh. The remaining deferral balance of $2,943,184 will be carried over to the 2020 rate adjustment calculation.

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 - Preliminary Proposed Decoupling Rate) less the surcharge rate presently in effect, would recover $6,787,841 from customers (based on projected sales volumes for Schedules 11, 12, 21, 22, 31, and 32 during the surcharge/amortization period). That amount is 3.03% of the normalized Non-Residential revenue (Attachment A, page 7, line 7). The 3% limitation reduces the proposed Non-Residential Group surcharge rate from 0.368 cents per kWh to 0.365 cents per kWh. The remaining deferral balance of $65,382 will be carried over to the 2020 rate adjustment calculation.

Conclusion

In conclusion, Avista requests the Commission approve the proposed Schedule 75 surcharge rate of 0.279 cents per kWh for the Residential Group and the proposed surcharge rate of 0.365 cents per kWh for the Non-Residential Group. The estimated annual revenue change associated with this filing is an increase of approximately $16.1 million. Residential customers taking service on Schedule 1 using an average of 918 kilowatt hours per month would see their monthly bills increase from $81.59 to $85.22, an increase of $3.63, or 4.4%.

The Company has provided in this filing a copy of its customer notice which will be included as a bill insert in the August – September 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) 495-8620.

Sincerely,

Patrick Ehrbar
Director, Regulatory Affairs
Enclosures