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August 31, 2017

Mr. Steven King, Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive, S.W.
P.O. Box 47250
Olympia, Washington 98504-7250

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

Dear Mr. King:

Attached for electronic filing with the Commission is the following tariff sheet proposed to be effective November 1, 2017:

Second Revision Sheet 175

Canceling

First Revision Sheet 175

This filing is the “Natural Gas Decoupling Rate Adjustment”, filed in compliance with the Commission’s Order No. 05 in Docket No. UG-140189. In that Order, the Commission approved a natural gas decoupling mechanism for Avista for a five-year period, with this filing reflecting the deferral balance for the second year (calendar year 2016) to be amortized over the period November 1, 2017 – October 31, 2018.

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 5.580 cents per therm for the Residential Group served under Schedules 101 and 102, which is designed to recover approximately \$6.9 million from the Residential Group. The present surcharge rate of 2.927 cents per therm is presently designed to recover approximately \$3.6 million. Therefore, the net overall increase proposed for the Residential Group is a rate increase of 2.653 cents per therm, or an increase of \$3.3 million or 3.0% for the Residential Group customers.

In addition, the proposed tariff reflects a surcharge of 3.904 cents per therm for the Non-Residential Group served under Schedules 111, 121, and 131, which is designed to recover approximately \$2.2 million from the Non-Residential Group. The present surcharge rate of 2.108 cents per therm is presently designed to recover approximately \$1.2 million. Therefore, the net overall increase proposed for the Non-Residential Group is a rate increase of 1.796 cents per therm, or an increase of approximately \$1.0 million or 2.9% for the Non-Residential Group customers.

Residential Group Rate Determination

The Company recorded \$7,152,977 in the surcharge direction in deferred revenue for the natural gas Residential Group in 2016. Both the earnings test and the 3% incremental surcharge limitation, discussed later in this letter, affected the requested surcharge rate for this recovery period. The proposed rate of 5.580 cents per therm is designed to recover \$6,951,431 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 request for recovery:

2016 Deferred Revenue	\$7,152,977
Less: Earnings Sharing	(\$2,125,710)
Add: Prior Year Carryover Balance	\$2,032,880
Add: Interest through 10/31/2018	\$269,566
Add: Revenue Related Expense Adj.	\$322,656
Total Requested Recovery	\$7,652,369
Customer Surcharge Revenue	\$6,951,431
Carryover Deferred Revenue	\$700,938

Attachment A, page 1 shows the derivation of the proposed surcharge rate to recover the 2016 deferred revenue (including prior period carryover deferred revenue) plus interest and revenue-related expenses, based on projected sales volumes for Schedules 101 and 102 during the surcharge/amortization period (November 2017 through October 2018). 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 2016 deferral balance, less earnings sharing, plus interest through October, will be transferred into a regulatory asset balancing account to be combined with the remaining balance approved for recovery in UG-161094, Avista's 2016 Natural Gas Decoupling Rate Adjustment filing. The balance in the account will be reduced each month by the revenue collected under the tariff.

¹ The FERC effective interest rate was 3.25% Q1 2016, 3.46% Q2 2016, and 3.50% for the remainder of 2016. The FERC effective interest rate became 3.71% in Q2 2017, and currently the Q3 FERC effective interest rate is 3.96%. The current rate of 3.96% has been used going forward as an estimate for purposes of this rate determination.

Non-Residential Group Rate Determination

The Company recorded \$2,002,654 in the surcharge direction in deferred revenue for the natural gas Non-Residential Group in 2016. The earnings test, discussed later in this letter, decreased the surcharge balance. The proposed surcharge rate of 3.904 cents per therm is designed to recover \$2,212,881 from commercial and industrial customers served under rate Schedules 111, 121, and 131. The following table summarizes the components of the Company's request for recovery:

2016 Deferred Revenue	\$2,002,654
Less: Earnings Sharing	(\$665,616)
Add: Prior Year Carryover Balance	\$699,731
Add: Interest through 10/31/2018	\$72,813
Add: Revenue Related Expense Adj.	\$103,299
Total Requested Recovery	\$2,212,881
Customer Surcharge Revenue	\$2,212,881
Carryover Deferred Revenue	\$0

Attachment A, page 3 shows the derivation of the proposed surcharge rate to recover the 2016 deferred revenue (including prior period carryover deferred revenue), plus interest and revenue-related expenses, based on projected sales volumes for Schedules 111, 121, and 131 during the surcharge/amortization period (November 2017 through October 2018). 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 2016 deferral balance, less earnings sharing, plus interest through October, will be transferred into a regulatory asset balancing account to be combined with the remaining balance approved for recovery in UG-161094, Avista's 2016 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 2016 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. UG-140189). The allowed decoupling baseline values were updated when Docket No. UG-150205 rates became effective January 11, 2016. As shown on page 1 of Attachment B, the January 2016 deferred revenue calculation was based on a pro-ration of UG-140189 (10 days divided by 31 days, approximately 32 percent) and UG-150205 (21 days divided by 31 days, approximately 68 percent) authorized January values.

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 2016 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 8.56% rate of return on a normalized basis in 2016 which exceeds the 7.29% allowed return established by Order 05 of Docket No. UG-150205 that established the decoupled rates in effect throughout 2016.³ As shown on page 6 of Attachment A, the excess earnings resulted in earnings sharing of \$2,927,343. The earnings sharing was then assigned to the decoupling rate groups based on their respective revenue from 2016 normalized loads and customers at present billing rates and adjusted for revenue related expenses in order to reflect the same basis as the deferred revenues (see lines 11 through 16 on page 6 of Attachment A).

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”.

Revenue from 2016 normalized loads and customers calculated at the billing rates in effect June 1, 2017 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 on lines 11 and 12 of page 6).

The rate necessary to recover the Residential Group surcharge balance, including estimated interest 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, would recover \$4,023,857 from customers (based on projected sales volumes for Schedules 101 and 102 during the surcharge/amortization period). That amount is 3.65% of the normalized residential revenue (Attachment A, page 7, line 7). The 3% rate increase limitation results in the proposed Residential Group surcharge rate of 5.580 cents per therm. The remaining deferral balance of \$700,938 will be carried over to the 2018 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 \$1,018,016 from customers (based on projected sales volumes for Schedules 111, 121,

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

³ The 7.29% value in the earnings test calculation includes a pro-ration of 10 days divided by 365 days at 7.32% approved Rate of Return from Docket NO. UG-140189 plus 355 days divided by 365 days at 7.29% approved Rate of Return from Docket No. UG-150205.

and 131 during the surcharge/amortization period). That amount is 2.95% of the normalized non-residential revenue (Attachment A, page 7, line 7). Therefore no adjustment is necessary due to the 3% rate increase limitation for the Non-Residential Group.

Conclusion

In conclusion, Avista requests the Commission approve the proposed Schedule 175 surcharge rates of 5.580 cents per therm for the Residential Group and 3.904 cents per therm for the Non-Residential Group. The estimated annual revenue change associated with this filing is approximately an increase of \$4.3 million (\$3.3 million Residential and \$1.0 million Non-Residential). Residential customers taking service on Schedule 101 using an average of 65 therms would see their monthly bills increase from \$57.33 to \$59.05, an increase of \$1.72, or 3.0%.

The Company has provided in this filing a copy of its customer notice which will be included as a bill insert in the September – October time frame. Please direct any questions on this matter to Tara Knox, Senior Regulatory Analyst at (509) 495-4325 or myself at (509) 495-8620.

Sincerely,



Patrick Ehrbar
Senior Manager, Rates and Tariffs

Enclosures