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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, 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 August 1, 2020:

Fifth Revision Sheet 75	Canceling	**Fourth Revision Sheet 75**
Second Revision Sheet 75C	Canceling	**Substitute First Revision Sheet 75C**

This filing is the "Electric Decoupling Rate Adjustment", filed in compliance with the Commission's Order No. 05 in Docket No. UE-140188 and Order No. 9 in Docket No. UE-190334. In Docket No UE-140188, the Commission approved an electric 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. UE-190334, 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 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 rate of 0.244 cents per kWh for the Residential Group served under Schedules 1 and 2, which is designed to recover approximately $5.9 million from the Residential Group. The present surcharge rate of 0.279 cents per kWh is presently designed to recover from customers approximately $6.7 million. Therefore, the net overall change proposed for the Residential Group **is a rate decrease** of 0.035 cents per kWh, or a decrease of $0.8 million (0.4%) for the Residential Group customers.

In addition, the proposed tariff reflects a surcharge rate 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. As the present surcharge rate is 0.365 cents per kWh, there is no change for the Non-Residential Group customers.

	Expiring Present Decoupling Revenue	Proposed Decoupling Revenue	Proposed Decoupling Change
Residential Group	$6,750,913	$5,904,024	($846,889)
Non-Residential Group	$7,877,828	$7,877,828	$0

Residential Group Rate Determination

The Company recorded $1,182,033 in the surcharge direction in deferred revenue for the electric Residential Group in 2019. The earnings test and the 3% incremental surcharge limitation, discussed later in this letter, had no impact on the 2019 electric balances. However, expected carryover from last year's surcharge limitation combined with the change to the effective date for this year's surcharge resulted in an expected outstanding prior approved balance of $4,290,638 at July 31, 2020. The proposed surcharge rate of 0.244 cents per kWh is designed to recover $5,904,024 from 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:

2019 Deferred Revenue	$1,182,033
Add: Earnings Sharing Deduction	$0
Add: Prior Year Carryover Balance	$4,290,638
Add: Interest through 07/31/2021	$162,519
Add: Revenue Related Expense Adj.	$268,834
Total Requested Recovery	$5,904,024
Customer Surcharge Revenue	$5,904,024
Carryover Deferred Revenue	$0

Attachment A, page 1 shows the derivation of the proposed surcharge 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 1 and 2 during the surcharge/amortization period (August 2020 through July 2021). 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 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 the carryover balance approved for recovery in Docket No. UE-190708, Avista's 2019 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 $6,859,634 in the surcharge direction in deferred revenue for the electric Non-Residential Group in 2019. The earnings test, discussed later in this letter, had no impact on the electric balances. However, the modified 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 $7,877,828 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:

2019 Deferred Revenue	$6,859,634
Add: Earnings Sharing Deduction	$0
Add: Prior Year Carryover Balance	$2,163,536
Add: Interest through 07/31/2021	$461,569
Add: Revenue Related Expense Adj.	$345,329
Total Requested Recovery	$9,830,069
Customer Surcharge Revenue	$7,877,828
Carryover Deferred Revenue	$1,952,241

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 11, 12, 21, 22, 31, and 32 during the surcharge/amortization period (August 2020 through July 2021). 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 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 the residual balance approved for recovery in Docket No. UE-190708, Avista's 2019 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 2019 deferred revenue balances for both the Residential and Non-Residential Groups is provided as Attachment B. These calculations were

[1] 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. UE-140188). The allowed decoupling baseline values that were updated when Docket No. UE-170485 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 UE-170485 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, 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 2019 Washington Electric Earnings Test sharing calculations are shown on page 6 of Attachment A.[2] The Earnings Test showed that the Company earned a 6.61% rate of return on a normalized basis in 2019 which does not exceed the allowed return of 7.50%[3]. 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. 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 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 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 $846,889 less from customers (based on projected sales volumes for Schedules 1 and 2

[2] The complete decoupling earnings test model is included as part of the electronic work papers to this filing.
[3] The allowed return was 7.50% for the rates in effect throughout 2019 as established by Order No. 07 of Docket No. UE-170485.

during the surcharge/amortization period). Therefore, as shown on Attachment A, page 7, the 3% limitation does not affect the proposed residential rate.

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 $1,985,644 more from customers (based on projected sales volumes for Schedules 11, 12, 21, 22, 31, and 32 during the surcharge/amortization period). That amount is 0.86% of the normalized Non-Residential revenue (Attachment A, page 7, line 7). Therefore, under normal circumstances, there would be no adjustment related to the 3% incremental surcharge limitation.

In light of COVID-19, the company is proposing that the Commission leave the Non-Residential Group rates unchanged. Many of these customers are our small business, food service, and hospitality customers who have been among the hardest hit by the pandemic. As such, Avista believes increasing rates at this time for those schedules would not be appropriate. To accomplish this goal, calculation of the 3% test shown on Attachment A, page 7, line 8 was modified to a 0% incremental surcharge limitation. This modification is solely for the purpose of this filing as a response the current economic conditions, and as such does <u>not</u> represent a proposed modification to the decoupling mechanism nor set a precedent for any future filings. Applying a 0% limitation reduces the proposed Non-Residential Group surcharge rate from 0.457 cents per kWh to 0.365 cents per kWh resulting in an estimated remaining deferral balance of $1,952,241 to be carried over to the 2021 rate adjustment calculation.

<u>Docket No. UE-190334 Approved Mechanism Revisions</u>

In Docket No. UE-190334 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. UE-190334, Tariff Sheet 75C 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 1st 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 91 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 75C 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. UE-140188 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 75 surcharge rate of 0.279 cents per kWh for the Residential Group and to keep the present surcharge rate of 0.365 cents per kWh for the Non-Residential Group unchanged, plus the housekeeping correction in

Sheet 75C regarding the annual rate adjustment filing date. The estimated annual revenue change associated with this filing is a decrease of approximately $0.8 million. Residential customers taking service on Schedule 1 using an average of 918 kilowatt hours per month would see their monthly bills change from $82.97 to $82.65, a decrease of $0.32, or 0.4%.

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