**Agenda Date:** October 27, 2016
Item Numbers: A3 & A2

**Dockets:** UE-161096 and UG-161094
**Company Name:** Avista Corporation

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## Recommendation

Take no action, thereby allowing the tariff sheets filed by Avista Corporation in Dockets UE-161096 and UG-161094 to become effective November 1, 2016, by operation of law.

## Background

On August 31, 2016, Avista Corporation (Avista or company) filed proposed revisions to Schedules 75 and 175, Revenue Decoupling Adjustment Mechanism of its electric and natural gas tariffs, respectively. The filing is the first implementation of the decoupling mechanism established in Avista's 2014 general rate case (GRC). The tariff revision will allow Avista to collect $3.4 million in electric revenue, 0.8 percent of its total normalized electric revenue, and $4.6 million in natural gas revenue, 3 percent of its total normalized natural gas revenue. On October 11, 2016, the company filed revisions to modify interest calculation and revenue sensitive expenses on the earnings sharing.

In August 2014, the Washington Utilities and Transportation Commission (commission) established full decoupling mechanisms for Avista based on revenue per customer targets.[1] Decoupling is a ratemaking and regulatory tool to break the link between a utility's recovery of fixed delivery costs and its energy sales.

Avista's decoupling tariff reflects the true up between the company's "Allowed Delivery Revenue" and its actual Collected Revenue. To determine the deferral, the company first establishes an annual delivery revenue requirement, also known as "Allowed Delivery Revenue," which is based on the fixed costs of delivering energy to end users divided by forecasted customer counts. Allowed Revenue creates an accounts receivable from the customers. Throughout the course of the ensuing year, customers are billed on a price per unit to pay off the receivable.[2] Bill payments are the Collected Revenue. The varience between the Allowed Revenue and the Collected Revenues received from customers is deferred on a monthly basis and then summed over the twelve month period. If, during the course of a year, energy sales are relatively low because of a warmer than normal winter, conservation, or other factors, the Collected Revenue will be less than the Allowed Revenue and the deferred balance represents a shortfall in payments. Alternatively, if energy sales are relatively high due to a relatively cold

[1] Consolidated Dockets UE-140188 and UG-140189, Order 05. August 18, 2014.
[2] A unit can be a kilowatt-hour, kilowatt, or therm.

winter or expanded economic activity, the Collected Revenue will exceed the Allowed Revenue and the deferral balance will reflect an overpayment. The deferred balances are trued up annually by a surcharge (in the case of a deferral shortfall) or rebate (in the case of a deferral surplus) captured in the next 12-month period.

Avista's decoupling revenue recovery is subject to several conditions:

- If Avista achieves a normalized rate of return higher than the authorized in the latest GRC, it will rebate to customers half the revenue causing the excess rate of return.
- A decoupling surcharge cannot exceed a 3 percent annual rate adjustment; any unrecovered balances will be carried forward to future years for recovery.
- Avista will increase its electric conservation achievement by 5 percent over its biennial target.
- Avista will pay for a third-party evaluation on the decoupling mechanism after three years.

## Discussion

### *Electric Rates*

For residential customers, bill payments in the 2015 calendar year collected $7.2 million less than the allowed decoupled revenue. This amount, with interest, will be assessed as a customer surcharge in the upcoming rate year. The under-collection is primarily driven by the fact that the actual sales volume was approximately 5 percent below the forecast from the 2014 GRC. Both the total number of residential customers and the use per customer have declined relative to the 2014 GRC forecast.

On the other hand, non-residential customers' bill payments collected $2.4 million more than the allowed revenue, which will be reflected as a customer rebate in the next rate year. Even though the total number of non-residential customers decreased from 2014 GRC forecast, the usage per customer has increased. Overall, the total non-residential sales has increased from the forecast by 29 million kWhs (1 percent).

The total deferral balance of all schedules as of the end of 2015 is $4.8 million.

Based on Avista's Commission Basis Report for 2015, the company earned 7.40 percent rate of return, higher than the authorized 7.32 percent. The company will share half of the $1.8 million net excess revenue with rate payers as an offset to decoupling revenue requirement.

Table 1 shows the detailed components of deferral balances.

**Table 1. Decoupling Deferral Balances As of Year End 2015 (Electric)**

| | Residential | Non-Residential | Total |
|---|---|---|---|
| 2015 Deferral (net) | $7,167,748 | ($2,373,472) | $4,794,276 |
| Less Earnings Sharing | (424,638) | (431,824) | (856,462) |
| Add Interest through Oct 31, 2017 | 321,674 | (132,270) | 189,404 |
| Add Revenue Related Expense | 295,894 | (143,683) | 152,211 |
| **Total** | **$7,360,678** | **($3,081,249)** | **$4,279,429** |
| Allowed Recovery Under 3% Cap | $6,485,021 | ($3,081,249) | $3,403,772 |
| Carryover | $875,657 | $0 | $875,657 |

Impact on Customer Bill and Company Revenue

Based on the calculation above, Avista will implement a decoupling surcharge of $0.00263 per kWh for residential customers (Schedules 1 and 2) and a rebate of $0.00143 per kWh for non-residential customers (Schedules 11, 12, 21, 22, 31 and 32).

An average residential customer using 957 kWhs will see an increase of $2.52 on the monthly bill from $83.91 to $86.43, or 3 percent increase.

***Natural Gas***

Deferral

For residential customers, the bill payments in 2015 calendar year collected $5.3 million less than the allowed decoupled revenue, which will be assessed as a customer surcharge in the upcoming rate year. Despite a slight increase in the total number of natural gas customers compared to the forecast in 2014 GRC, the usage per customer has declined from 65 therms to 57 therms per month. The overall residential sales were 11 percent lower than the forecast, leading to a shortfall in decoupled revenue collection.

Non-residential customers' bill payments collected $1.7 million less than the allowed revenue, which will be also be assessed as a customer surcharge. Similar to the trend for residential gas customers, there is a slight increase in the total number of non-residential customers compared to the forecast in 2014 GRC, however, the usage per customer has decreased. The overall non-residential sales were 11 percent lower than forecasted, resulting in a shortfall in decoupled revenue collection.

The total deferral balance of all natural gas schedules as of the end of 2015 is $7 million.

Based on Avista's Commission Basis Report for 2015, the company earned 6.15 percent rate of return, lower than the authorized 7.32 percent. There is no excess earnings to be shared with ratepayers in this decoupling filing.

Table 2 shows the detailed components of deferral balances.

**Table 2. Decoupling Deferral Balances As of Year End 2015 (Natural Gas)**

| | **Residential** | **Non-Residential** | **Total** |
|---|---|---|---|
| 2015 Deferral (net) | $5,317,198 | 1,736,736 | $7,053,934 |
| Less Earnings Sharing | 0 | 0 | 0 |
| Add Interest through Oct 31, 2017 | 268,402 | 90,341 | 358,743 |
| Add Revenue Related Expense | 164,496 | 52,075 | 216,571 |
| **Total** | **$5,750,096** | **$1,879,152** | **$7,629,248** |
| Allowed Recovery Under 3% Cap | $3,488,984 | $1,108,839 | $4,597,823 |
| Carryover | $2,261,112 | $770,314 | $3,031,426 |

Impact on Customer Bill and Company Revenue

Based on the calculation above, Avista will implement a decoupling surcharge of $0.02927 per therm for residential customers (Schedules 101 and 102) and a surcharge of $0.02108 per therm for non-residential customers (Schedules 111, 121 and 131).

An average residential customer using 66 therms will see an increase of $1.93 on the monthly bill from $61.85 to $63.78, or 3 percent increase.

## Meeting the Conservation Requirement

As part of the decoupling settlement, Avista must achieve an additional five percent above its biennial conservation target. On June 1, 2016, Avista filed its 2014-2015 Biennial Conservation Report, demonstrating that it has achieved savings during the 2014-2015 biennium beyond its base target and its decoupling commitment. The commission found that the company has complied with relevant regulation and requirements.[3]

### *Clarification of Tariff Language*

The company proposed a language change to Tariff Sheet 75E and 175E. It clarifies that the reversal of any decoupling rebate rate would not be included in the 3 percent incremental

[3] Docket UE-132045.

surcharge test. Staff agrees with this clarification. The decoupling rebate amount, if included, would skew the true revenue when benchmarking with the 3 percent soft cap.

## Customer Comments

Avista included a notice of the proposed tariff revision through bill inserts in its September billing cycle. Staff received three consumer comments regarding the proposed rate increase. All three comments are opposed to any rate increase. Customers were notified that they may access relevant documents about this tariff revision on the commission's website, and that they may contact commission staff, Andrew Roberts, with questions or concerns.

## Conclusion

Staff recommends the commission take no action, thereby allowing the tariff sheets filed by Avista Corporation in Dockets UE-161096 and UG-161094 to become effective November 1, 2016, by operation of law.