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October 10, 2018

Mr. Mark L. Johnson, 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. Johnson:

Attached for electronic filing with the Commission is the following tariff sheet proposed to be effective November 1, 2018:

Fourth Revision Sheet 175 Canceling **Third 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 third year (calendar year 2017) to be amortized over the period November 1, 2018 – October 31, 2019.

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 <u>rebate</u> of 2.720 cents per therm for the Residential Group served under Schedules 101 and 102, which is designed to <u>rebate</u> approximately $3.4 million to the Residential Group. The present surcharge rate of 5.580 cents per therm is presently designed to recover from customers approximately $7.1 million. Therefore, the net overall decrease proposed for the Residential Group is a rate decrease of 8.300 cents per therm, or a decrease of $10.5 million (10.0%) for the Residential Group customers.

In addition, the proposed tariff reflects a surcharge of 0.691 cents per therm for the Non-Residential Group served under Schedules 111, 121, and 131, which is designed to recover approximately $0.4 million from the Non-Residential Group. The present surcharge rate of 3.904 cents per therm is presently designed to recover from applicable customers approximately $2.3 million. Therefore, the net overall decrease proposed for the Non-Residential Group is a rate decrease of 3.213 cents per therm, or a decrease of approximately $1.9 million (6.1%) for the Non-Residential Group customers.

Residential Group Rate Determination

The Company recorded $1,927,082 in the rebate direction in deferred revenue for the natural gas Residential Group in 2017. Both the earnings test, discussed later in this letter, and last year's 3% surcharge limitation carryover, affected the requested rebate rate for this recovery period. The proposed rebate rate of 2.720 cents per therm is designed to return $3,441,586 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 request for rebate:

2017 Deferred Revenue	($1,972,082)
Add: Earnings Sharing Deduction	($1,913,898)
Add: Prior Year Carryover Balance	$799,628
Add: Interest through 10/31/2019	($197,523)
Add: Revenue Related Expense Adj.	($157,711)
Total Requested Recovery	($3,441,586)
Customer Rebate Revenue	($3,441,586)
Carryover Deferred Revenue	$0

Attachment A, page 1 shows the derivation of the proposed rebate rate to return the 2017 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 rebate/amortization period (November 2018 through October 2019). 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 rebate is approved by the Commission, the 2017 deferral balance, less earnings sharing, plus interest through October, will be transferred into a regulatory liability balancing account along with the remaining regulatory asset balance approved for recovery in UG-170942, Avista's 2017 Natural Gas Decoupling Rate Adjustment filing. The credit balance in the liability account will be reduced each month by the revenue received by customers under the tariff.

[1] The FERC effective interest rate was 3.50% Q1 2017, 3.71% Q2 2017, 3.96% Q3 2017, and 4.21% Q4 2017. The FERC effective interest rate became 4.25% Q1 2018, 4.47% Q2 2018, and currently the Q3 FERC effective interest rate is 4.69%. The current rate of 4.69% has been used going forward as an estimate for purposes of this rate determination.

Non-Residential Group Rate Determination

The Company recorded $840,286 in the surcharge direction in deferred revenue for the natural gas Non-Residential Group in 2017. The earnings test, discussed later in this letter, decreased the surcharge balance. The proposed surcharge rate of 0.691 cents per therm is designed to recover $407,719 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:

2017 Deferred Revenue	$840,286
Add: Earnings Sharing Deduction	($568,113)
Add: Prior Year Residual Balance	$99,555
Add: Interest through 10/31/2019	$16,941
Add: Revenue Related Expense Adj.	$19,050
Total Requested Recovery	$407,719
Customer Surcharge Revenue	$407,719
Carryover Deferred Revenue	$0

Attachment A, page 3 shows the derivation of the proposed surcharge rate to recover the 2017 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 2018 through October 2019). 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 2017 deferral balance, less earnings sharing, plus interest through October, will be transferred into a regulatory asset balancing account to be combined with the residual balance approved for recovery in UG-170942, Avista's 2017 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 2017 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 and remained in effect throughout 2017.

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 2017 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 8.32% rate of return on a normalized basis in 2017 which exceeds the 7.29% allowed return established by Order 05 of Docket No. UG-150205 that established the decoupled rates in effect throughout 2017. As shown on page 6 of Attachment A, the excess earnings resulted in earnings sharing of $2,599,887. The earnings sharing was then assigned to the decoupling rate groups based on their respective revenue from 2017 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).

<u>3% Annual Rate Increase Test</u>

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 2017 normalized loads and customers calculated at the billing rates in effect June 1, 2018 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 Residential Group deferral has a rebate balance, there is no limitation for 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 – Preliminary Proposed Decoupling Rate), less the surcharge rate presently in effect, would <u>reduce</u> recovery from customers $1,895,804 (based on projected sales volumes for Schedules 111, 121, and 131 during the surcharge/amortization period). A reduction in the surcharge rate is a de facto rebate and there is no limitation for rate reductions. Therefore no adjustment is necessary due to the 3% rate increase limitation for the Non-Residential Group.

<u>Conclusion</u>

In conclusion, Avista requests the Commission approve the proposed Schedule 175 rebate rate of 2.720 cents per therm for the Residential Group and the proposed surcharge rate of 0.691 cents per therm for the Non-Residential Group. The estimated annual revenue change associated with this filing is approximately a <u>decrease</u> of $12.4 million ($10.5 million Residential and $1.9

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

million Non-Residential). Residential customers taking service on Schedule 101 using an average of 65 therms would see their monthly bills decrease from $50.66 to $45.26, a decrease of $5.40, or 10.7%.

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, Senior Regulatory Analyst at (509) 495-4325 or myself at (509) 495-8620.

Sincerely,

Patrick Ehrbar
Director, Regulatory Affairs

Enclosures