

Agenda Date: October 29, 2009  
Item Number: A4

Docket: UG-091399  
Company Name: Avista Corporation

Staff: Deborah Reynolds, Regulatory Analyst  
Ann LaRue, Regulatory Analyst

### **Recommendation**

Take no action, thereby allowing Avista Corporation's proposed decoupling surcharge tariff revisions filed in docket UG-091399 on October 22, 2009, to become effective November 1, 2009, by operation of law.

### **Background**

In February of 2007, the commission approved a multi-party settlement agreement establishing a three-year pilot program allowing Avista Corporation (Avista or company) to test a natural gas decoupling mechanism.<sup>1</sup> The parties to the settlement included Avista, commission staff, the Northwest Energy Coalition (NWECC), and the Northwest Industrial Gas Users (NWIUGU). Not party to the settlement were Public Counsel and The Energy Project.

Decoupling is a ratemaking and regulatory tool intended to break the link between a utility's recovery of fixed costs and a consumer's energy consumption. Energy conservation advocates view decoupling as a tool to promote greater conservation efforts by utilities by removing financial disincentives.

Avista's pilot decoupling program is applicable to residential and small commercial customers receiving natural gas service under schedule 101.

Under the terms of the pilot decoupling program, Avista may defer for later recovery up to 90 percent of fixed costs (margin) related to revenue reductions associated with conservation and price elasticity as calculated in the company's last general rate case.<sup>2</sup> However, recovery is subject to several tests and limitations, including:

- An earnings test to ensure that Avista does not earn more than its authorized rate of return through the decoupling mechanism (8.22 percent).<sup>3</sup>
- A demand side management (DSM) test that conditions the level of recovery of any deferral on Avista achieving specific conservation targets as verified by an independent third party.

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<sup>1</sup> Docket UG-060518, Order 04.

<sup>2</sup> Docket UG-080417.

<sup>3</sup> Docket UG-080417, Order 08.

- Annual rate changes are limited to a maximum of two percent.

Once the tests and limitations are applied, recovery of the deferred margin occurs through a surcharge applied to residential and small commercial customers under Schedule 159.

### **Discussion**

On August 31, 2009, Avista filed tariff sheets that would adjust the surcharge recovery rate for its natural gas decoupling mechanism effective November 1, 2009. The filing proposed a decrease in the surcharge rate from \$0.00593 to \$0.00563 per therm. This would have resulted in a decrease of \$0.02 (0.02 percent) in the average bill of a residential customer taking natural gas service under Schedule 101. The company revised its filing on October 22, 2009, to reduce the portion of deferral recovered from 90 percent down to 80 percent. The revised filing proposes a decrease in the surcharge rate from \$0.00593 to \$0.00499 per therm. This results in a decrease of \$0.07 (0.08 percent) in the average bill of a residential customer taking natural gas service under Schedule 101.

The revised surcharge recovers \$605,105 of deferred margin plus interest and revenue sensitive expenses, or approximately \$640,000 in additional annual revenue (0.33 percent). Staff reviewed the work papers supporting the above-mentioned tests and limitations. Staff believes the company met two<sup>4</sup> of the requirements for recovery of the deferral amount, but the third requirement, the DSM test, required revision of the company's filing.

Staff review of the revised work papers supporting the DSM test found a number of inconsistencies between the report prepared by the company's independent evaluation contractor, Research into Action, Inc., and the table prepared by Avista showing that the company acquired 1,568,856 therms of conservation through DSM programs in 2008 versus a target level of 1,425,070 therms (110 percent of target). Staff calculations indicated Avista's acquisition of DSM conservation was below the target. The company did not agree with staff. However, the company agreed to reduce its recovery to 80 percent in light of staff and Public Counsel concerns, and revised its filing.

Staff believes the company's revised rates filed on October 22, 2009, recover the portion of the deferral allowed by the commission's order 04, docket UG-060518 and should be allowed to go into effect.

### **Conclusion**

Staff recommends the commission take no action, thereby allowing Avista Corporation's proposed decoupling surcharge tariff revisions filed in docket UG-091399 on October 22, 2009, to become effective November 1, 2009, by operation of law.

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<sup>4</sup> The two percent limitation test was also met, resulting in a decrease in the surcharge amount. The rate-of-return test was met because the company's Commission Basis Report filed April 29, 2009, indicates that its rate of return for 2008 (including restating adjustments) was 7.03 percent as compared to the present authorized level of 8.22 percent.