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August 29, 2013

State of Washington  
Washington Utilities & Transportation Commission  
1300 S. Evergreen Park Drive  
Olympia, Washington 98504-8002

Attention: Mr. Steven King, Executive Director and Secretary

**RE: WN U-29 – Natural Gas Service**  
**Avista's Proposed Annual Natural Gas Decoupling Rate Adjustment**

Enclosed for filing with the Commission are changes to the following proposed tariff sheets:

**Tenth Revision Sheet 159 canceling Ninth Revision Sheet 159**  
**Sixth Revision Sheet 159 canceling Substitute Fifth Revision Sheet 159**

This tariff sheet reflects the proposed Natural Gas Decoupling Rate Adjustment, filed in compliance with the Commission's Order No. 10 in Docket No. UE-090134/UG-090135/UG-060518 (consolidated). This filing reflects the deferral balance for the period July 1, 2012 through June 30, 2013.

The decoupling mechanism allows the Company to: 1) defer up to 45% of the margin lost due to lower customer natural gas usage since the Company's last general rate case, and 2) file a tariff to recover up to the total deferred amount through a surcharge under the proposed tariff.

The proposed tariff sheet reflects a rate of \$0.00000 per therm, which is an *increase* of \$0.00004 per therm compared to the present decoupling rate adjustment of (\$0.00004) per therm, or an increase of 0.02% applicable to natural gas customers taking service under rate Schedule 101. The proposed effective date is November 1, 2013, coincident with the effective date of the Company's Purchased Gas Adjustment ("PGA"), which will be filed on or before September 13, 2013.

**Calculation of Decoupling Balance**

The decoupling balance calculated for the July 2012 through June 2013 decoupling period is \$5,189. There are two components that make up the balance. The first component is related to the lost margin for the period July 2012 – June 2013. While the Company deferred in the surcharge position \$729,116 for the July 2012 – June 2013 time period, the Company did not reach the targeted therm savings, which is referred to as the "DSM Test" (this will be discussed later in this letter). As a result of not passing the DSM Test, the Company will not recover lost margin for the July 2012 – June 2013 time period.

The second component of decoupling balance is the inclusion of the prior period rollover balance of \$5,189. The workpapers supporting the lost margin and deferred revenue are provided in Exhibit 1.

#### Company's Request

Because the deferral balance is extremely small, the Company is requesting to carry the surcharge balance of \$5,189 forward until next year. As such, the Company has filed to reduce the rate in Schedule 159 to \$0.00000.

#### Earnings Test

A condition of the rate adjustment is that the rate of return for the Company's Washington natural gas operations cannot exceed the level authorized by the Commission. This "test" is based on the Commission Basis Report filed by the Company each spring for the prior calendar year. If the Company's actual rate of return exceeds the authorized level, then the amount of the surcharge is reduced, as described on Schedule 159A of the proposed tariff. Attached as Exhibit 2 are the summary pages from the Company's Natural Gas Commission Basis Report for 2012, filed with the Commission on April 30, 2013<sup>1</sup>. As shown in the Summary, the rate of return for 2012 (including restating adjustments) was 5.44%, less than the Company's authorized rate of return of 7.64% from UE-120436/UG-120437. Therefore, there would be no adjustment as a result of the Earnings Test.

#### DSM Test

The DSM test is based on the Company's actual level of programmatic natural gas DSM savings (verified by independent audit) for the prior calendar year compared to its targeted level of savings set forth in its 2009 natural gas Integrated Resource Plan (IRP). The target level of natural gas DSM savings (Washington jurisdiction) is 1,739,379 therms for calendar year 2012 (as noted in Sheet 159B of the present tariff). For this filing, the actual level of verified savings for calendar year 2012 is compared to the target level. If the Company's actual level of DSM savings is less than the target, then the amount of the surcharge is reduced, as shown on Sheet 159A of the present tariff.

In order to verify the Company's reported level of DSM savings, the Company retained The Cadmus Group, an independent third party energy efficiency consulting firm, to verify the Company's 2012 natural gas DSM results. The verified level of DSM savings (Washington jurisdiction) for 2012 was 604,708 therms, which is 34.7% of the target level of 1,739,379 therms (Washington jurisdiction). Because the savings percentage was below the minimum savings target of 70%, none of the lost margin for the July 2012 – June 2013 period is recoverable. A copy of the Cadmus report has been included as Exhibit 4.

#### DSM Target for Annual Rate Adjustment

Also included in the Company's filing is Sixth Revision Sheet 159. As noted in the section "DSM Target for Annual Rate Adjustment", the Company has updated its targets for calendar year 2013 and 2014. These targets were developed as a part of the Company's 2012 natural gas Integrated Resource Plan<sup>2</sup>.

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<sup>1</sup> See Docket UG-130646.

<sup>2</sup> 2012 Natural Gas IRP, Table 4.4 "Summary of Cumulative Achievable, Economic, and Technical Conservation Potential by State and Sector."

Summary

The Company is proposing to set the Natural Gas Decoupling Rate at \$0.00000 under Schedule 159, and is proposing that the rate become effective November 1, 2013 simultaneous with the Company's annual Purchased Gas Cost Adjustment (PGA) rate change. The Company requests to continue deferring the surcharge balance of \$5,189 until such time that the balance could be added to, or reduce, a future decoupling deferral. With the elimination of the prior rebate of \$0.00004 per therm, the average residential or small commercial customer using 68 therms per month will see an increase of \$0.01 per month, or approximately 0.02%. The present bill for 68 therms is \$57.63 while the proposed bill is \$57.64. Notice to customers regarding the proposed decoupling rate adjustment will be included in the Company's news release and customer notice related to its September 2013 PGA filing.

If you have any questions regarding this filing, please call me at 509-495-8620.

Sincerely,

A handwritten signature in black ink, appearing to read 'Patrick Ehrbar', with a long horizontal line extending to the right.

Patrick Ehrbar  
Manager, Rates & Tariffs

Enc.

## CERTIFICATE OF SERVICE

I **HEREBY CERTIFY** that I have this day served the Avista Natural Gas Decoupling Rate Adjustment filing upon the parties listed below by mailing a copy thereof, postage prepaid.

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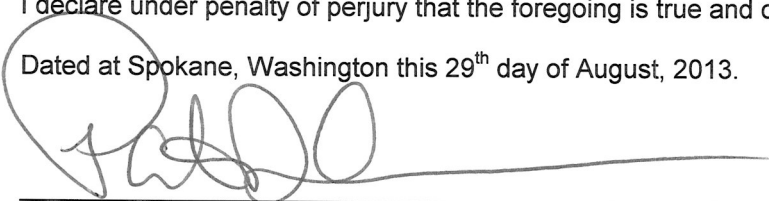
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I declare under penalty of perjury that the foregoing is true and correct.

Dated at Spokane, Washington this 29<sup>th</sup> day of August, 2013.



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Patrick Ehrbar  
State & Federal Regulation