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August 31, 2016

Mr. Steven King, 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. King:

Attached for electronic filing with the Commission are the following tariff sheets proposed to be effective November 1, 2016:

First Revision Sheet 175	Canceling	Original Sheet 175
First Revision Sheet 175E	Canceling	Original Sheet 175E

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 first year (calendar year 2015) to be amortized over the period November 1, 2016 – October 31, 2017.

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 surcharge of 2.927 cents per therm for the residential customer group served under Schedules 101 and 102, and a surcharge of 2.108 cents per therm for the non-residential customer group served under Schedules 111, 121, and 131. The Residential group surcharge represents a 3.0% increase to Schedule 101 customers, and the Non-

Residential group rebate also represents a 3.0% increase. The Company has requested a November 1, 2016 effective date.

Residential Group Rate Determination

The Company recorded \$5,311,558 in the surcharge direction in deferred revenue for the natural gas residential customer group in 2015. The 3% incremental surcharge limitation, discussed later in this letter, affected the requested surcharge rate for this recovery period. The proposed rate of 2.927 cents per therm is designed to recover \$3,488,984 from 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 recovery:

2015 Deferred Revenue	\$5,311,558
Prior Mechanism Outstanding Balance ¹	\$5,640
Less: Earnings Sharing	(\$0)
Add: Interest through 10/31/2017	\$268,402
Add: Revenue Related Expense Adj.	\$164,496
Total Requested Recovery	\$5,750,096
Customer Surcharge Revenue	\$3,488,984
Carryover Deferred Revenue	\$2,261,112

Attachment A, page 1 shows the derivation of the proposed surcharge rate to recover the 2015 deferred revenue plus interest and revenue-related expenses, based on projected sales volumes for Schedules 101 and 102 customers during the surcharge/amortization period (November 2016 through October 2017). 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.² If the proposed surcharge is approved by the Commission, the 2015 deferral balance, plus interest through October, will be transferred into a regulatory asset balancing account. The balance in the account will be reduced each month by the revenue collected under the tariff.

Non-Residential Group Rate Determination

The Company recorded \$1,736,736 in the surcharge direction in deferred revenue for the natural gas non-residential rate group in 2015. The 3% incremental surcharge limitation, discussed later in this letter, affected the requested surcharge rate for this recovery period. The proposed surcharge rate of 2.108 cents per kWh is designed to recover \$1,108,839 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:

¹ An outstanding roll-over balance of \$5,640 resulted from a small over-rebate of amounts approved for refund November 2012 through October 2013 through the Company's Schedule 159 decoupling mechanism in place from 2007 through 2014 (applicable to Schedule 101 customers).

² The FERC effective interest rate was 3.25% throughout 2015 and Q1 2016. The FERC effective interest rate became 3.46% in Q2 2016, and currently the Q3 FERC effective interest rate is 3.50%. The current rate of 3.5% has been used going forward as an estimate for purposes of this rate determination.

2015 Deferred Revenue	\$1,736,736
Less: Earnings Sharing	(\$0)
Add: Interest through 10/31/2017	\$90,341
Add: Revenue Related Expense Adj.	\$52,075
Total Requested Recovery	\$1,879,152
Customer Surcharge Revenue	\$1,108,839
Carryover Deferred Revenue	\$770,314

Attachment A, page 3 shows the derivation of the proposed surcharge rate to recover the 2015 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 2016 through October 2017). 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 2015 deferral balance, plus interest through October, will be transferred into a regulatory asset balancing account. The balance in the account will be reduced each month by the revenue collected under the tariff.

Support showing the monthly calculation of the 2015 deferred revenue balances for both the residential and non-residential customer groups is provided as Attachment B. These calculations were also provided to the Commission in quarterly reports (see Docket No. UG-140189).

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 2015 Washington Natural Gas Earnings Test sharing calculations are shown on page 5 of Attachment A.³ The Earnings Test showed that the Company earned a 6.15% rate of return on a normalized basis in 2015 which is less than the 7.32% allowed return established by Order 05 of Docket No. UG-140189 that established the decoupled rates in effect throughout 2015. As outlined in Tariff Schedule 175, if the Commission Basis earned return is less than the allowed rate of return, no adjustment is made to any surcharge or rebate.

3% Annual Rate Increase Test

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

³ The complete decoupling earnings test model is included as part of the electronic work papers to this filing.

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 2015 normalized loads and customers calculated at the billing rates in effect August 1, 2016 for the two rate groups are shown on page 5 of Attachment A on lines 11 and 12. 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), would recover \$5,805,041 from customers (based on projected sales volumes for Schedules 101 and 102 customers during the surcharge/amortization period). That amount is 4.99% of the normalized residential revenue (Attachment A, page 5, line 11). The 3% rate increase limitation results in the proposed residential surcharge rate of 2.927 cents per therm. The remaining deferral balance of \$2,261,112 will be carried over to the 2017 rate adjustment calculation.

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), would recover \$1,899,965 from customers (based on projected sales volumes for Schedules 111, 121, and 131 customers during the surcharge/amortization period). That amount is 5.14% of the normalized residential revenue (Attachment A, page 5, line 12). The 3% rate increase limitation results in the proposed non-residential surcharge rate of 2.108 cents per therm. The remaining deferral balance of \$770,314 will be carried over to the 2017 rate adjustment calculation.

Since there is no restriction on the amount of rebate refunded to customers in one year, it is important to clarify the language in tariff sheet 175E for application of the 3% test in the recovery period following a rebate.⁴ The final sentence under the 3% Annual Rate Increase Limitation section has been revised to read as follows:

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.

In conclusion, Avista requests the Commission approve the proposed changes in rates in Schedule 175, plus the addition of clarifying language in Sheet 175E regarding the impact of the expiration of rebates on the 3% test. The estimated annual revenue change associated with this filing is approximately an increase of \$4.6 million. The proposed rate increase will have an average monthly bill impact to residential natural gas customers using 66 therms of \$1.93, or 3.1%.

⁴ Without this clarification, the Company could be required to continue a rebate when the deferral balance is zero or in a surcharge position. For example, if the Company had a 5% rebate in one year and the following year had no deferral balance, a 3% rate increase over the 5% rebate would still require a 2% rebate even though there would not be a rebate balance in the deferral account.

The Company has provided in this filing a copy of its customer notice which will be included as a bill insert in the September – October time frame (currently estimated to be inserted from September 2 – October 1). Please direct any questions on this matter to Tara Knox, Senior Regulatory Analyst at (509) 495-4325 or myself 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
Senior Manager, Rates and Tariffs

Enclosures