Avista Corp.
1411 East Mission P.O. Box 3727
Spokane. Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170

AVISTA Corp.

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August 22, 2019

Mr. Mark L. Johnson
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Olympia, WA 98503

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, 2019:

Fifth Revision Sheet 175 Canceling **Fourth 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 fourth year (calendar year 2018) to be amortized over the period November 1, 2019 – October 31, 2020.

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 0.420 cents per therm for the Residential Group served under Schedules 101 and 102, which is designed to recover approximately $0.6 million from the Residential Group. The present rebate rate of 2.720 cents per therm is presently designed to rebate to customers approximately $3.6 million. Therefore, the net overall increase proposed for the Residential Group is 3.140 cents per therm, or an increase of approximately $4.1 million or 4.2% for the Residential Group customers.

In addition, the proposed tariff reflects a surcharge of 1.841 cents per therm for the Non-Residential Group served under Schedules 111, 112, 116, 121, 122, 126 and 131, which is designed to recover approximately $1.1 million from the Non-Residential Group. The present surcharge rate of 0.691 cents per therm is presently designed to recover from applicable customers approximately $0.4 million. Therefore, the net overall increase proposed for the Non-Residential Group is a rate increase of 1.150 cents per therm, or an increase of approximately $0.7 million or 2.2% for the Non-Residential Group customers.

	Expiring Present Decoupling Revenue	Proposed Decoupling Revenue	Proposed Decoupling Increase
Residential Group	-$3,602,110	$556,208	$4,158,318
Non-Residential Group	$403,506	$1,075,043	$671,537

Residential Group Rate Determination

The Company recorded $740,536 in the surcharge direction in deferred revenue for the natural gas Residential Group in 2018. The earnings test, discussed later in this letter, decreased the surcharge balance. The proposed surcharge rate of 0.420 cents per therm is designed to recover $556,208 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 requested surcharge:

2018 Deferred Revenue	$740,536
Add: Earnings Sharing Deduction	($189,869)
Add: Prior Year Residual Balance	($53,335)
Add: Interest through 10/31/2020	$34,539
Add: Revenue Related Expense Adj.	$24,338
Total Requested Recovery	$556,208
Customer Surcharge Revenue	$556,208
Carryover Deferred Revenue	$0

Attachment A, page 1 shows the derivation of the proposed surcharge rate to recover the 2018 deferred revenue (including prior period unamortized deferred revenue) plus interest and revenue-related expenses, based on projected sales volumes for Schedules 101 and 102 during the surcharge/amortization period (November 2019 through October 2020). 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 surcharge is approved by the Commission, the 2018 deferral balance, less earnings sharing, plus interest through October, will be transferred into a regulatory asset balancing account along with any

[1] The FERC effective interest rate was 4.25% Q1 2018, 4.47% Q2 2018, 4.69% Q3 2018, and 4.96% Q4 2018. The FERC effective interest rate became 5.18% Q1 2019, 5.45% Q2 2019, and currently the Q3 FERC effective interest rate is 5.50%. The current rate of 5.50% has been used going forward as an estimate for purposes of this rate determination.

residual regulatory liability balance approved for rebate in UG-180701, Avista's 2018 Natural Gas Decoupling Rate Adjustment filing. 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 $984,241 in the surcharge direction in deferred revenue for the natural gas Non-Residential Group in 2018. The earnings test, discussed later in this letter, decreased the surcharge balance. The proposed surcharge rate of 1.841 cents per therm is designed to recover $1,075,043 from commercial and industrial customers served under rate Schedules 111, 112, 116, 121, 122, 126 and 131. The following table summarizes the components of the Company's request for recovery:

2018 Deferred Revenue	$984,241
Add: Earnings Sharing Deduction	($59,185)
Add: Prior Year Residual Balance	$42,415
Add: Interest through 10/31/2020	$63,277
Add: Revenue Related Expense Adj.	$44,295
Total Requested Recovery	$1,075,043
Customer Surcharge Revenue	$1,075,043
Carryover Deferred Revenue	$0

Attachment A, page 3 shows the derivation of the proposed surcharge rate to recover the 2018 deferred revenue, plus interest and revenue-related expenses, based on projected sales volumes for Schedules 111, 112, 116, 121, 122, 126 and 131 during the surcharge/amortization period (November 2019 through October 2020). 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 2018 deferral balance, less earnings sharing, plus interest through October, will be transferred into a regulatory asset balancing account to be combined with any residual balance approved for recovery in UG-180701, Avista's 2018 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 2018 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 that were updated when Docket No. UG-150205 rates became effective January 11, 2016 remained in effect until April 30, 2018. On May 1, 2018 new rates were approved in Avista's general rate case Docket No. UG-170486 with corresponding updated allowed decoupling baseline values. Attachment B page 1 shows the monthly deferral calculations for 2018, pages 2 – 4 are the UG-150205 authorized decoupling baseline values that were used for the January through April deferral calculations, and pages 5 – 8 are the UG-170486 authorized decoupling baseline values that were used for the May through December deferral calculations.

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 2018 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 7.55% rate of return on a normalized basis in 2018 which exceeds the pro-rated allowed return of 7.43%[3]. As shown on page 6 of Attachment A, the excess earnings resulted in earnings sharing of $260,559. The earnings sharing was then assigned to the decoupling rate groups based on their respective revenue from 2018 normalized loads and customers at present billing rates, and then 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).

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 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. There is no limit to the level of the decoupling rebate, and the reversal of any rebate would not be included in the 3% incremental surcharge test".

Revenue from 2018 normalized loads and customers calculated at the billing rates in effect August 1, 2019 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 rate necessary to recover the Residential Group surcharge balance, including estimated and revenue related expenses as determined on page 1 of Attachment A (see line 20 - Preliminary Proposed Decoupling Rate), less the surcharge rate presently in effect[4], would recover $556,208 from customers (based on projected sales volumes for Schedules 101 and 102 during the

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[2] The complete decoupling earnings test model is included as part of the electronic work papers to this filing.
[3] For January through April (4/12ths of the year) the allowed return was 7.29% established by Order 05 of Docket No. UG-150205. For May through December (8/12ths of the year) the allowed return was 7.50% established by Order No. 07 of Docket No. UG-170486.
[4] The present Residential Group rate is a rebate, as there is no limitation for rebate rate adjustments the reversal of a rebate rate is not included in the 3% incremental surcharge test (per First Revision Sheet 175E), therefore the present surcharge rate is deemed to be 0 (Attachment A, page 7, line 4).

surcharge/amortization period). That amount is 0.56% of the normalized Residential revenue (Attachment A, page 7, line 7). 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 recover $671,537 from customers (based on projected sales volumes for Schedules 111, 112, 116, 121, 122, 126, and 131 during the surcharge/amortization period). That amount is 2.19% of the normalized Non-Residential revenue (Attachment A, page 7, line 7). Therefore no adjustment is necessary due to the 3% rate increase limitation for the Non-Residential Group.

Conclusion

In conclusion, Avista requests the Commission approve the proposed Schedule 175 surcharge rate of 0.420 cents per therm for the Residential Group and the proposed surcharge rate of 1.841 cents per therm for the Non-Residential Group. The estimated annual revenue change associated with this filing is an increase of approximately $4.8 million ($4.1 million Residential and $0.7 million Non-Residential). Residential customers taking service on Schedule 101 using an average of 66 therms would see their monthly bills increase from $47.79 to $49.86, an increase of $2.07, or 4.3%.

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, Manager of Regulatory Accounting Initiatives at (509) 495-4325 or myself at (509) 495-8620.

Sincerely,

Patrick Ehrbar
Director, Regulatory Affairs

Enclosures