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May 26, 2021

Mr. Mark L. Johnson
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, 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 August 1, 2021:

Seventh Revision Sheet 175 Canceling **Sixth Revision Sheet 175**

This filing is the “Natural Gas Decoupling Rate Adjustment”, filed in compliance with the Commission’s Order No. 05 in Docket UG-140189 and Order No. 9 in Docket UG-190335. In Docket UG-140189, the Commission approved a natural gas decoupling mechanism for Avista for a five-year period. In Docket UG-190335, the Commission extended the mechanism for an additional five-year period and approved moving the effective date of the annual decoupling tariff revisions from November 1 to August 1. This filing amortizes the 2020 deferral balances over the period August 1, 2021 – July 31, 2022.

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 0.925 cents per therm for the Residential Group served under Schedules 101 and 102, which is designed to recover approximately \$1.3 million from the Residential Group. The present rebate rate of 0.685 cents per therm is presently designed to rebate approximately \$0.9 million to customers. Therefore, the net overall change proposed for the Residential Group is 1.610 cents per therm, or an increase of approximately \$2.2 million or 1.8% for the Residential Group customers.

In addition, the proposed tariff reflects a surcharge of 0.813 cents per therm for the Non-Residential Group served under Schedules 111, 112, 116, and 131, which is designed to recover approximately \$0.5 million from the Non-Residential Group. The present surcharge rate of 0.419 cents per therm is presently designed to recover from applicable customers approximately \$0.3 million. Therefore, the net overall change proposed for the Non-Residential Group is a rate increase of 0.394 cents per therm, or an increase of approximately \$0.2 million or 0.7% for the Non-Residential Group customers.

	Expiring Present Decoupling Revenue	Proposed Decoupling Revenue	Proposed Decoupling Change
Residential Group	\$(930,405)	\$1,256,386	\$2,186,791
Non-Residential Group	\$255,046	\$494,874	\$239,828

Residential Group Rate Determination

The Company recorded \$1,174,438 in the surcharge direction in deferred revenue for the natural gas Residential Group in 2020. The earnings test and the 3% incremental surcharge limitation, discussed later in this letter, had no impact on the 2020 natural gas balances. The proposed surcharge rate of 0.925 cents per therm is designed to recover \$1,256,386 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:

2020 Deferred Revenue	\$1,174,438
Less Earnings Sharing	\$0
Add Prior Year Carryover Balance	(\$13,216)
Add Interest through 07/31/2022	\$40,677
Add Revenue Related Expense Adj.	\$54,487
Total Requested Recovery	\$1,256,386
Customer Surcharge Revenue	\$1,256,386
Carryover Deferred Revenue	\$0

Attachment A, page 1 shows the derivation of the proposed surcharge rate to collect the 2020 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 (August 2021 through July 2022). 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 2020 deferral balance, less earnings sharing (if any), plus interest through July, will be transferred into a regulatory asset balancing account along with any residual/carryover regulatory liability balance approved for recovery in Docket UG-200499, Avista’s 2020 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 \$445,001 in the surcharge direction in deferred revenue for the natural gas Non-Residential Group in 2020. The earnings test and the 3% incremental surcharge limitation, discussed later in this letter, had no impact on the 2020 natural gas balances. The proposed surcharge rate of 0.813 cents per therm is designed to recover \$494,874 from commercial and industrial customers served under rate Schedules 111, 112, 116, and 131. The following table summarizes the components of the Company’s request for recovery:

2020 Deferred Revenue	\$445,001
Less Earnings Sharing	\$0
Add Prior Year Carryover Balance	\$12,745
Add Interest through 07/31/2022	\$15,564
Add Revenue Related Expense Adj.	\$21,563
Total Requested Recovery	\$494,874
Customer Surcharge Revenue	\$494,874
Carryover Deferred Revenue	\$0

Attachment A, page 3 shows the derivation of the proposed surcharge rate to recover the 2020 deferred revenue (including prior period unamortized deferred revenue) plus interest and revenue-related expenses, based on projected sales volumes for Schedules 111, 112, 116, and 131 during the surcharge/amortization period (August 2021 through July 2022). 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 2020 deferral balance, less earnings sharing (if any), plus interest through July, will be transferred into a regulatory asset balancing account to be combined with any residual balance approved for recovery in Docket UG-200499, Avista’s 2020 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 2020 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 UG-140189). The allowed decoupling baseline values that were updated when Docket UG-170486 rates became effective May 1, 2018 and remained in effect through March 31, 2020. The allowed decoupling baseline values were updated when Docket UE-190334 became effective April 1, 2020 and remained in effect the remainder of

¹ The FERC effective interest rate was 4.96% Q1 2020, 4.75% Q2 2020, 3.43% Q3 2020, and 3.25% Q4 2020. The FERC effective interest rate was 3.25% Q1 2021, and currently the Q2 2021 FERC effective interest rate is 3.25%. The current rate of 3.25% has been used going forward as an estimate for purposes of this rate determination.

2020. Attachment B pages 1, 2, and 11 show the monthly deferral calculations for 2020, pages 3 – 6 are the UE-170485 authorized decoupling baseline values associated with 2020 customer rates through March 31, 2020 and pages 7 – 10 are the UE-190334 authorized decoupling base line values associated with the remainder of 2020.

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 2020 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 6.08% rate of return on a normalized basis in 2020 which does not exceed the prorated allowed return of 7.28%³. Therefore, no earnings sharing adjustment is applied to the 2020 decoupling deferred balances.

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 2020 normalized loads and customers calculated at the billing rates in effect since April 1, 2021 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, if any, on lines 11 and 12 of page 6).

The rate necessary to recover the 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 effect⁴, would recover \$1,256,386 more from customers (based on projected sales volumes for Schedules 101 and 102 during the surcharge/amortization period). That amount is 1.02% of the normalized Residential revenue

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

³ The allowed return was 7.50% for the rates in effect through March 2020 as established by Order No. 07 of Docket No. UE-170485. The allowed return was 7.21% for the rates in effect April 1, 2020 through December 31, 2020 as established by Order No. 09 of Docket No. UE-190222. The prorated allowed rate of return for the year was 7.28%.

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 tariff Sheet 175E), therefore the present surcharge rate is deemed to be 0 (Attachment A, page 7, line 4).

(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 \$239,828 more from customers (based on projected sales volumes for Schedules 111, 112, 116, and 131 during the surcharge/amortization period). That amount is 0.69% 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 Non-Residential Group.

Docket UG-190335 Approved Mechanism Revisions

In Docket UG-190335, the Commission approved the Company's proposal to continue the Decoupling Mechanism for an additional five years with the following modifications:

- a. The effective date of annual rate adjustment filing is moved from November 1 to August 1.
- b. Customers connected to Avista's system after the ratemaking test year will be excluded from the decoupled deferred revenue calculations. Furthermore, the Company will include a status update in its yearly decoupling report identifying the number of new customers excluded from the mechanism and associated costs and revenues.
- c. The Company will add an annual revenue-per-customer true-up to the December deferred revenue calculation.
- d. The Company will maintain and present data and a brief explanatory narrative for 30-, 20-, 15-, and 10-year moving averages for purposes of decoupling in its annual decoupling report.
- e. The Company is subject to separate 5 percent conservation targets for the electric and natural gas mechanisms with prescribed penalties as proposed by the Company.
- f. A third party evaluation of the revised mechanism will be performed after three years.
- g. Decoupling mechanism natural gas quarterly reports are granted an exemption from WAC 480-90-275 to align with filing of electric quarterly reports within 60 days of the end of each quarter.

Modification a.

The effective date of the annual rate adjustment filing was moved from November 1 to August 1 with the 2019 deferred revenue filing in 2020.

Modification b.

Customers excluded from the deferred revenue calculations are shown on pages 1 and 2 of Attachment B. The Company's new customer status update was provided in the Q4 2020 decoupling report. An excerpt from that report is included as Attachment C which shows the new customer status update on page 1.

Modification c.

The annual revenue-per-customer true-up to the December deferred revenue calculation is shown in Attachment B, page 11.

Modification d.

The Company's Q4 2020 decoupling report presented an analysis, including a brief narrative, of the proportion of annual decoupled revenue that was attributable to weather under each of the moving average assumptions. An excerpt from that report is included as Attachment C which shows this analysis on pages 2 and 3.

Modifications e., f., and g.

These modifications to the mechanism are not associated with the annual rate adjustment filing.

Conclusion

In conclusion, Avista requests the Commission approve the proposed Schedule 175 surcharge rate of 0.925 cents per therm for the Residential Group and the proposed surcharge rate of 0.813 cents per therm for the Non-Residential Group. The estimated annual revenue change associated with this filing is an increase of approximately \$2.4 million (\$2.2 million Residential and \$0.2 million Non-Residential). Residential customers taking service on Schedule 101 using an average of 67 therms would see their monthly bills change from \$57.88 to \$58.96, an increase of \$1.08, or 1.9%.

The Company has provided in this filing a copy of its customer notice which will be included as a bill insert in the June – July time frame. Please direct any questions on this matter to Tara Knox at (509) 495-4325 or Marcus Garbarino at (509) 495-2567.

Sincerely,

/s/ Joe Miller

Joe Miller
Senior Manager of Rates and Tariffs, Regulatory Affairs
Enclosures