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AVISTA Corp.

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-28, Electric Service
Electric 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 75	Canceling	**Original Sheet 75**
First Revision Sheet 75E	Canceling	**Original Sheet 75E**

This filing is the "Electric Decoupling Rate Adjustment", filed in compliance with the Commission's Order No. 05 in Docket No. UE-140188. In that order the Commission approved an electric 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 electric decoupling mechanism is to decouple the Company's Commission-authorized revenues from kilowatt-hour ("kWh") sales, such that the Company's revenues will be recognized based on the number of customers served under the applicable electric 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 0.263 cents per kWh for the residential customer group served under Schedules 1 and 2, and a rebate of 0.144 cents per kWh for the non-residential customer group served under Schedules 11, 12, 21, 22, 31, and 32. The

Residential group surcharge represents a 3.0% increase to Schedule 1 customers, and the Non-Residential group rebate represents a 1.4% decrease. The Company has requested a November 1, 2016 effective date.

Residential Group Rate Determination

The Company recorded $7,167,748 in the surcharge direction in deferred revenue for the electric residential customer group in 2015. Both the earnings test and the 3% incremental surcharge limitation, both of which are discussed later in this letter, affect the requested surcharge rate for this recovery period. The proposed rate of 0.263 cents per kWh is designed to recover $6,485,021 from the Company's residential electric customers served under rate Schedules 1 and 2. The following table summarizes the components of the Company's request for recovery:

2015 Deferred Revenue	$7,167,748
Less: Earnings Sharing	($445,679)
Add: Interest through 10/31/2017	$320,298
Add: Revenue Related Expense Adj.	$295,894
Total Requested Recovery	$7,338,261
Customer Surcharge Revenue	$6,485,021
Carryover Deferred Revenue	$853,240

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 1 and 2 customers during the surcharge/amortization period (November 2016 through October 2017). As identified in Tariff Schedule 75 under Step 7 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 2015 deferral balance, less earnings sharing, 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 $2,373,472 in the rebate direction in deferred revenue for the electric non-residential rate group in 2015. The earnings test, discussed later, increased the rebate balance as well as associated interest and revenue-related expenses. The proposed rebate rate of 0.144 cents per kWh is designed to refund $3,102,796 to commercial and industrial customers served under rate Schedules 11, 12, 21, 22, 31, and 32. The following table summarizes the components of the Company's request for refund:

[1] 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	($2,373,472)
Plus: Earnings Sharing	($453,222)
Add: Interest through 10/31/2017	($133,293)
Add: Revenue Related Expense Adj.	($142,809)
Total Requested Refund	($3,102,796)
Customer Rebate Revenue	($3,102,796)
Carryover Deferred Revenue	$0

Attachment A, page 3 shows the derivation of the proposed rebate rate to refund the 2015 deferred revenue, plus interest and revenue-related expenses, based on projected sales volumes for Schedules 11, 12, 21, 22, 31, and 32 during the rebate/amortization period (November 2016 through October 2017). As identified in Tariff Schedule 75 under Step 7 of "Calculation of Monthly Deferral", interest on the deferred balance accrues at the quarterly rate published by the FERC. If the proposed rebate is approved by the Commission, the 2015 deferral balance, plus earnings sharing, plus interest through October, will be transferred into a regulatory liability balancing account. The balance in the account will be reduced each month by the revenue refunded 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. UE-140188).

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, normalized power supply costs and other 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 Electric Earnings Test sharing calculations are shown on page 5 of Attachment A.[2] The Earnings Test showed that the Company earned a 7.40% rate of return on a normalized basis in 2015 which exceeds the 7.32% allowed return established by Order 05 of Docket No. UE-140188 that established the decoupled rates in effect throughout 2015. As shown on page 5 of Attachment A, the excess earnings resulted in earnings sharing of $898,901. The earnings sharing was then assigned to the decoupling rate groups based on their respective revenue from 2015 normalized loads and customers at present billing rates (see lines 11 through 16 on page 5 of Attachment A).

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

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 75 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".

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 $7,348,047 from customers (based on projected sales volumes for Schedules 1 and 2 customers during the surcharge/amortization period). That amount is 3.4% of the normalized residential revenue (Attachment A, page 5, line 11). The 3% rate increase limitation results in the proposed residential surcharge rate of 0.263 cents per kWh. The remaining deferral balance of $853,240 will be carried over to the 2017 rate adjustment calculation. The non-residential group rebate was not subject to any limitation in this filing.

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 75E for application of the 3% test in the recovery period following a rebate.[3] 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 75, plus the addition of clarifying language in Sheet 75E 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 $3.4 million. The proposed rate increase will have an average monthly bill impact to residential electric customers using 957 kWh of $2.52, or 3.0%.

[3] 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,

Patrick Ehrbar
Senior Manager, Rates and Tariffs

Enclosures