

AVISTA CORPORATION
dba Avista Utilities

**SCHEDULE 475
DECOUPLING MECHANISM – NATURAL GAS**

PURPOSE:

This Schedule establishes balancing accounts and implements an annual rate adjustment mechanism that decouples or separates the recovery of the Company's Commission authorized revenues from the therm sales to customers served under the applicable natural gas service schedules.

APPLICABLE:

To Customers in the State of Oregon where the Company has natural gas service available. This schedule shall be applicable to all retail customers taking service under Schedules 410, 420, 424, 440, and 444. This Schedule does not apply to Schedule 447 (Special Contract Natural Gas Service) or Schedule 456 (Interruption Transportation Service For Customer-Owned Gas). Applicable Customers will be segregated into two (2) distinct Rate Groups:

Group 1 – Schedule 410

Group 2 – Schedules 420, 424, 440 and 444

MONTHLY RATE:

Group 1 – (\$0.00573) per therm

Group 2 – (\$0.03468) per therm

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DESCRIPTION OF THE NATURAL GAS DECOUPLING MECHANISM:

Calculation of Monthly Allowed Delivery Revenue Per Customer:

Step 1 – Determine the Total Delivery Revenue - The Total Normalized Revenue is equal to the final approved base rate revenue approved in the Company's last general rate case, individually for each Rate Schedule.

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By

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**SCHEDULE 475A
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Step 2 – Remove Basic Charge Revenue – included in Total Delivery Revenue is revenue recovered from customers in Basic and Minimum charges (“Basic Charges”). Because the decoupling mechanism only tracks revenue that varies with customer energy usage, the revenue from Basic Charges is removed. The number of Customer Bills in the test period, multiplied by the applicable Fixed Charges determines the total Basic Charge revenue by rate schedule.

Step 3 – Determine Allowed Decoupled Revenue – Allowed Decoupled Revenue is equal to the Delivery Revenue (Step 1) minus the Basic Charge Revenue (Step 2).

Step 4 – Determine the Allowed Decoupled Revenue per Customer – To determine the annual per customer Allowed Decoupled Revenue, divide the Allowed Decoupled Revenue (by Rate Group) by the Rate Year number of Customers (by Rate Group) to determine the annual Allowed Decoupled Revenue per Customer (by Rate Group).

Step 5 – Determine the Monthly Allowed Decoupled Revenue per Customer - to determine the monthly Allowed Decoupled Revenue per Customer, the annual Allowed Decoupled Revenue per Customer is shaped based on the monthly therm usage from the rate year. The mechanism uses the resulting monthly percentage of usage by month and multiplied that by the annual Allowed Decoupled Revenue per Customer to determine the 12 monthly values.

Calculation of Monthly Decoupling Deferral:

Step 1 – Determine the actual number of customers each month. If the actual number of customers in the month exceed the forecasted number of customers from the approved Rate Year, the deferral will be based on Rate Year Adjusted customers and Rate Year Adjusted decoupled revenues for the applicable month.

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Step 2 – Multiply the lesser of actual number of customers or Rate Year Adjusted customers by the applicable monthly Allowed Decoupled Revenue per Customer. The result of this calculation is the total Allowed Decoupled Revenue for the applicable month.

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Step 3 – Determine the actual revenue collected in the applicable month. If the actual number of customers in the month exceed the forecasted number of customers from the approved Rate Year, deduct average revenue per new customer multiplied by the number of actual customers that exceed the monthly forecasted level of customers, to determine Rate Year Adjusted actual revenue.

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SCHEDULE 475B

DECOUPLING MECHANISM – NATURAL GAS

Step 4 – Calculate the amount of basic charge revenues included in total actual monthly revenues. If the actual number of customers in the month exceed the forecasted number of customers from the approved Rate Year, deduct average basic charge revenue per new customer multiplied by the number of actual customers that exceed the monthly forecasted level of customers, to determine Rate Year Adjusted basic charge revenue.

Step 5 – Subtract the lesser of actual basic charge revenue or Rate Year Adjusted basic charge revenue (Step 4) from the total actual monthly revenue or Rate Year Adjusted total monthly revenue (Step 3). The result is the Actual Decoupled Revenue.

Step 6 – The difference between the Actual Decoupled Revenue (Step 5) and the Allowed Decoupled Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest would accrue on the balancing accounts at the current Modified Blended Treasury Rate as updated annually for Dockets UM 1147 and UG 221.

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ANNUAL NATURAL GAS DECOUPLING RATE ADJUSTMENT:

On or before August 1st each year, the Company will file a request with the Commission to surcharge or rebate, by Rate Group, the amount accumulated in the balancing accounts for the prior January through December time period. The proposed tariff revisions included with that filing would include a rate adjustment that recovers/rebates the appropriate accrued revenue amount over a twelve-month period effective on November 1st on a uniform cents per therm basis.

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The accrued revenue amount approved for recovery or rebate would be transferred to a balancing account and the revenue surcharged or rebated during the period would reduce the deferred revenue in the balancing account. Any revenue remaining in the balancing account at the end of the calendar year would be added to the new revenue accruals to determine the amount of the proposed surcharge/rebate for the following year.

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After determining the amount of revenue that can be recovered through a surcharge (or refunded through a rebate) by Rate Group, the proposed rates under this Schedule will be determined by dividing the accrued revenue to be recovered by Rate Group by the estimated therm sales for each Rate Group during the twelve month recovery period. The revenue amount to be recovered will be transferred to a Decoupling Balancing Account and the actual revenue received under this Schedule will be applied to the Account to reduce (amortize) the balance. Once an accrued balance is approved for amortization, interest will continue to accrue at the Modified Blended Treasury Rate, similar to other Company amortizations.

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dba Avista Utilities

SCHEDULE 475C

DECOUPLING MECHANISM – NATURAL GAS

3% ANNUAL DECOUPLING RATE INCREASE LIMITATION:

The amount of the incremental proposed rate adjustment under this Schedule cannot reflect more than a 3% rate increase. This 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 billing 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 rate would not be included in the 3% incremental surcharge test.

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