

AVISTA CORPORATION
dba Avista Utilities

SCHEDULE 75

DECOUPLING MECHANISM – ELECTRIC

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 kilowatt-hour sales to customers served under the applicable electric service schedules.

APPLICABLE:

To Customers in the State of Washington where the Company has electric service available. This schedule shall be applicable to all retail customers taking service under Schedules 1, 2, 11, 12, 13, 21, 22, 23, 31, and 32. This Schedule does not apply to Extra Large General Service Schedule 25 or to Street and Area Light Schedules 41 through 48. Applicable Customers will be segregated into two (2) distinct Rate Groups:

Group 1 – Schedules 1, 2

Group 2 – Schedules 11, 12, 13, 21, 22, 23, 31, 32

MONTHLY RATE:

Group 1 – (\$0.00725) per kWh

Group 2 – (\$0.00088) per kWh

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AVISTA CORPORATION
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SCHEDULE 75A

DECOUPLING MECHANISM – ELECTRIC (continued)

DESCRIPTION OF THE ELECTRIC DECOUPLING MECHANISM:

Calculation of Monthly Allowed Delivery Revenue Per Customer:

Step 1 – Determine the Total Normalized 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.

Step 2 – Determine Variable Power Supply Revenue - The Normalized kWhs by rate schedule from the last approved general rate case are multiplied by the approved Retail Revenue Credit to determine the total Variable Power Supply Revenue.

Step 3 – Determine Delivery and Power Plant Revenue – To determine the Delivery and Power Plant Revenue, the mechanism subtracts the Variable Power Supply Revenue from the Total Normalized Revenue.

Step 4 – Remove Basic Charge Revenue – included in the Delivery and Power Plant Revenue is revenue recovered from customers in Basic and Fixed Demand charges ("Fixed Charges"). Because the decoupling mechanism only tracks revenue that varies with customer energy usage, the revenue from Fixed Charges is removed. The number of Customer Bills in the test period, multiplied by the applicable Fixed Charges determines the total Fixed Charge revenue by rate schedule.

Step 5 – Determine Decoupled Revenue – Decoupled Revenue is equal to the Delivery and Power Plant Revenue (Step 3) minus the Basic Charge Revenue (Step 4).

Step 6 – Determine the Decoupled Revenue per Customer – To determine the annual per customer Decoupled Revenue, divide the Decoupled Revenue (by Rate Group) by the approved Rate Year number of Customers (by Rate Group) to determine the annual Allowed Decoupled Revenue per Customer (by Rate Group).

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SCHEDULE 75B
DECOUPLING MECHANISM – ELECTRIC (continued)

Step 7 – Determine the Monthly Decoupled Revenue per Customer - to determine the Monthly Decoupled Revenue per customer, the annual Decoupled Revenue per customer is shaped based on the monthly kWh usage from the rate year. The mechanism uses the resulting monthly percentage of usage by month and multiplied that by the annual Decoupled Revenue per Customer to determine the 12 monthly values.

Calculation of Monthly Decoupling Deferral:

Step 1 – Deduct new hookup customers from total actual number of customers to determine the actual number of test year existing customers each month.

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Step 2 – Multiply the actual number of test year existing 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 – Deduct actual new hookup customer revenue from total actual revenue to determine the actual test year existing customer revenue collected in the applicable month.

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Step 4 – Deduct actual new hookup customer fixed charge revenue from total actual fixed charge revenue to identify the amount of fixed charge revenue included in actual test year existing customer monthly revenue.

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Step 5 – Deduct actual new hookup customer kWh sales from total actual kWh sales to determine the actual test year existing customer kWh sales. Multiply actual test year existing customer kWh sales by the approved Retail Revenue Credit. The result of this calculation is the revenue collected related to variable power supply.

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Step 6 – For test year existing customers, subtract the basic charge revenue and the variable power supply revenue from the total actual monthly revenue. The result is the Actual Decoupled Revenue.

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Step 7 – The difference between the Actual Decoupled Revenue (Step 6) and the Allowed Decoupled Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest on the deferred balance will accrue at the quarterly rate published by the FERC.

Step 8 – At the end of every 12 month deferral period, the annual decoupled revenue per customer, by Rate Group, will be multiplied by the average annual number of actual test year existing customers. The result of that calculation will be compared to the actual deferred revenue for the same 12 month period. The difference between the actual deferred revenue, and the calculated value, will be added to, or subtracted from, the total deferred balance, by Rate Group.

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AVISTA CORPORATION
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SCHEDULE 75C
DECOUPLING MECHANISM – ELECTRIC (continued)

ANNUAL ELECTRIC DECOUPLING RATE ADJUSTMENT:

On or before June 1st each year, the Company will file a request with the Commission to surcharge or rebate, by Rate Group, the amount accumulated in the deferred revenue accounts for the prior January through December time period. The amount of deferred revenue that the Company can request to surcharge is subject to limitation based on the Earnings Test.

The proposed tariff revisions included with that filing would include a rate adjustment that recovers/rebates the appropriate deferred revenue amount over a twelve-month period effective on August 1st. The deferred 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 deferred revenue remaining in the balancing account at the end of the calendar year would be added to the new revenue deferrals to determine the amount of the proposed surcharge/rebate for the following year.

After determining the amount of deferred 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 deferred revenue to be recovered by Rate Group by the estimated kWh sales for each Rate Group during the twelve month recovery period. The deferred 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. Interest will be accrued on the unamortized balance in the Decoupling Balancing Account at the quarterly rate published by the FERC.

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SCHEDULE 75D

DECOUPLING MECHANISM – ELECTRIC (continued)

EARNINGS TEST:

The Mechanism is subject to an Earnings Test. The Company will perform an annual earnings test as follows:

If the annual commission basis report for a gas or electrical company demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than 0.5 percent higher than the rate of return (7.32 percent) authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of 0.5 percent higher than the rate of return authorized by the commission (or revenues above 7.82 percent rate of return) for refunds to customers or another determination by the commission in a subsequent adjudicative proceeding.

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SCHEDULE 75E

DECOUPLING MECHANISM – ELECTRIC (continued)

3% ANNUAL RATE INCREASE LIMITATION:

Following the application of the Earnings Test described above, 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 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.

OTHER CONDITIONS:

The Decoupling Mechanism will last until December 31, 2026, unless otherwise extended by the Commission.

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