BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

DOCKET NO. UM 1753

IN THE MATTER OF THE APPLICATION OF AVISTA UTILITIES FOR AN ORDER REAUTHORIZING DEFERRAL OF EXPENSES OR REVENUES RELATED TO THE NATURAL GAS DECOUPLING MECHANISM	) NOTICE OF APPLICATION FOR REAUTHORIZATION OF CERTAIN DEFERRAL ACCOUNTS

Avista Corporation, dba Avista Utilities ("Avista" or "Company"), pursuant to ORS 757.259 and OAR 860-027-0300(4), applies to the Public Utility Commission of Oregon ("Commission") for an order reauthorizing it to utilize deferred accounting for its Natural Gas Decoupling Mechanism. The Company respectfully requests that the reauthorization become effective January 1, 2017.

In support of this Application, the Company states:

Avista provides natural gas service in southwestern and northeastern Oregon and is a public utility subject to the Commission's jurisdiction under ORS 757.005(1)(a)(A).

Avista requests that all notices, pleadings and correspondence regarding this Application be sent to the following:

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This Application is filed pursuant to ORS 757.259, which empowers the Commission to authorize the deferral of expenses or revenues of a public utility for later incorporation into rates.

BACKGROUND

Deferral of the revenue related to the Natural Gas Decoupling Mechanism was previously authorized by Order No. 16-109 (Docket No. UM-1753) dated March 15, 2016. The authorization for deferred accounting treatment as described above can be authorized pursuant to ORS 757.259(2)(e). Under the Natural Gas Decoupling Mechanism, decoupled revenue above or below the base level established in Docket No. UG-288 will be tracked over a 12-month period, and later rebated or surcharged to customers. This meets the requirement under ORS 757.259(2)(e), specifically "identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers."

Section 6 of the Partial Settlement Stipulation in Docket No. UG-288 approved by the Commission in Order No. 16-109 sets forth the agreed-upon Natural Gas Decoupling Mechanism. The Commission approved a Revenue-Per-Customer decoupling mechanism for Avista's natural gas operations. The mechanism compares actual decoupled revenues, by rate group, to allowed decoupled revenues determined on a per-customer basis, with any differences deferred for later rebate or surcharge. Below are the key components of the mechanism:

a. Decoupling Mechanism Term. The mechanism became effective on March 1, 2016.

b. Rate Groups. Customers are combined into two rate groups:

1. Residential – Schedule 410
2. Commercial – Schedules 420, 424, 440, and 444

c. Existing Customers and New Customers. New customers, defined as new meters hooked up to Avista's distribution system, are not included in the mechanism unless those new meters were included in the test year forecast of revenues.[1] In addition, Avista tracks new customer usage for informational purposes, for the three-year term of the decoupling mechanism, to determine whether new customers use more or less than existing customers.

d. Quarterly Reporting. Avista files, within 45 days of the end of each quarter, a report detailing the decoupling activity by month. The reporting includes information related to the deferrals by rate group, use-per-customer for existing and new customers, and other summary financial information. Avista also provides such other information as may be reasonably requested, from time to time, in the quarterly reports.

e. Annual Filings. On or before August 1, of each year (starting August 1, 2017 for the 2016 decoupling deferrals), the Company will file a proposed rate adjustment (surcharge or rebate) based on the amount of deferred revenue recorded for the prior January through December time period.[2] The rate adjustment is calculated separately for each Rate Group, with the applicable surcharge or rebate recovered from each group on a uniform-cents-per-therm basis. The proposed tariff Schedule 475 included with those filings will include a rate adjustment that recovers/rebates the appropriate deferred revenue amount over a twelve-month period, effective on November 1st, to match with the annual Purchased Gas Cost Adjustment rate adjustment time period. The deferred revenue amount approved for recovery or rebate will be transferred to a balancing account and the revenue surcharged or rebated during the period will reduce the deferred revenue in the balancing account. After determining the amount of deferred revenue that can be recovered through a surcharge, or refunded through a rebate, by Rate Group, the proposed

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[1] The number of customers decoupled each month cannot exceed the monthly forecasted number of customers, by rate group, included in the agreed-upon 2016 forecasted customers. To the extent the number of actual customers in a given month exceed the forecasted level of customers, the Company will use the new customer revenue hookup report to determine the average decoupled revenue per new customer. The average decoupled revenue per customer would then be multiplied by the number of actual customers that exceed the monthly forecasted level of customers. That amount would then be deducted from the monthly actual decoupled revenue prior to calculating the decoupling deferral entry.

[2] For 2016, only 10 months (March 1, 2016 through December 31, 2016) are tracked.

rates under Schedule 475 will be determined by dividing the deferred revenue to be recovered by Rate Group by the estimated therm sales for each Rate Group during the twelve-month recovery period. Any deferred revenue remaining in the balancing account at the end of the amortization period will be added to the new revenue deferrals to determine the amount of the proposed surcharge/rebate for the following year.

f. Interest on Deferrals – Interest will accrue on deferrals at the Company's authorized rate of return established in Docket No. UG-288, similar to other Company deferrals.

g. Interest on Amortization of Deferrals – Once a deferral balance is approved for amortization, interest will accrue at the Modified Blended Treasury Rate, similar to other Company amortizations.

DESCRIPTION OF DEFERRAL

Presently the Company uses two deferral accounts, one for the Residential group and the other for the Commercial group, to explicitly account for decoupling deferrals as required in Order No. 16-109. The Company records the deferrals in account 186 – Miscellaneous Deferred Debits. The amount approved for recovery or rebate would then be transferred into a Regulatory Asset account (FERC Account 182 – Other Regulatory Asset) or Regulatory Liability account (FERC Account 254 – Other Regulatory Liability) for amortization. On the income statement, the Company will record both the deferred revenue and the amortization of the deferred revenue through Account 495 (Other Gas Revenue), in separate sub-accounts.

The amount subject to deferral for the Natural Gas Decoupling Mechanism will be dependent upon the difference between the actual, after-the-fact, therm sales, compared with the therm sales used in the rate case to establish base rates. This difference in therm sales can be caused by conservation, weather, and changes in the economy.

The amount of the rate increase resulting from the decoupling adjustment will be subject to an annual incremental limit of 3%, i.e., the annual increase in the surcharge cannot exceed 3% of billed revenues for each rate group, each year, with unrecovered balances carried forward to future years for recovery. The incremental surcharge (percentage) increase is determined by subtracting the annual revenue amount recovered by the present surcharge rate from deferred revenue to be recovered through the proposed surcharge rate, and dividing that net amount by the total "normalized" revenue by Rate Group for the most recent January through December period. The normalized revenue is determined by multiplying the weather-corrected usage for the period by the present billing rates in effect. If the incremental surcharge exceeds a 3% rate increase, only a 3% increase is implemented and any additional deferred revenue will remain in the deferred revenue account, and could be recovered the following year, subject to the 3% limitation. The 3% limitation is not applicable if the Company is in a rebate position.

PROPOSED ACCOUNTING

In this Reauthorization application, the Company proposes to continue to use two deferral accounts to explicitly account for the Residential group and Commercial group decoupling deferrals. Avista would continue to record the deferrals in account 186 – Miscellaneous Deferred Debits. The amount approved for recovery or rebate would then be transferred into a Regulatory Asset account (FERC Account 182 – Other Regulatory Asset) or Regulatory Liability account (FERC Account 254 – Other Regulatory Liability) for amortization. On the income statement, the Company will record both the deferred revenue and the amortization of the deferred revenue through Account 495 (Other Gas Revenue), in separate sub-accounts.

Interest will be accrued based on the Company's authorized rate of return. Once the deferral is approved for recovery and associated amortization, interest will accrue at the Modified

Blended Treasury Rate similar to the Company's other amortization accounts.

CURRENT DEFERRAL AND AMORTIZATION BALANCES

As of June 30, 2016, the outstanding balances for the Natural Gas Decoupling deferral accounts are:

Account 186328, Regulatory Asset Decoupling Deferral (Residential Group)	$ 1,530,548.43
Account 186338, Regulatory Asset Decoupling Deferral (Commercial Group)	350,885.64
Total	$ 1,881,434.07

WHEREFORE, Avista Utilities respectfully requests that the Commission reauthorize the Company to defer the revenue related to the Natural Gas Decoupling Mechanism for the 12 month period, January 1, 2017 through December 31, 2017. The Company is not proposing an adjustment to customer's retail rates through this Application.

DATED this 27th day of October 2016.

Respectfully submitted,

Avista Utilities

By: ______________________

David J. Meyer, Vice President and Chief
Counsel for Regulatory and Governmental Affairs