BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 366

In the Matter of	)
	)
AVISTA CORPORATION, dba AVISTA UTILITIES,	)
	)
Request for General Rate Revision.	)
	)

OPENING TESTIMONY

OF THE

OREGON CITIZENS' UTILITY BOARD

July 16, 2019

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

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Request for General Rate Revision.	)	
	)	

Q. Please state your name, occupation, and business address.

A. My name is William Gehrke. I am an Economist employed by Oregon Citizens' Utility Board (CUB). My business address is 610 SW Broadway, Ste. 400 Portland, Oregon 97205.

Q. Please describe your educational background and work experience.

A. My witness qualification statement is attached as exhibit CUB/101.

Q. What is the purpose of your testimony?

A. I am CUB's primary witness in Avista Utilities' (Avista or the Company) 2019 General Rate Case. I will provide background, analysis, and recommendations regarding specific issues I have reviewed in the Company's filing.

Q. How is your testimony organized?

A. My testimony is organized as follows:

I. Costs Related to the Avista-Hydro One Proposed Merger

II. Fixed Residential Customer Charge

III. Restricted Stock Units

IV. State Excise Tax

V. Decoupling

I. Avista-Hydro One Proposed Merger

Q. Please summarize your adjustment.

A. CUB proposes that Avista's customers receive a one-time credit to offset any expenses they have subsidized related to the Avista-Hydro One merger (the proposed merger). It is inappropriate for Avista to finance business activity and expenses related to the proposed merger using Oregon ratepayer funds. Undoubtedly, a portion of Avista's employee and officer time over the last year or so has been dedicated to analyzing and pursuing the proposed merger. Customers have borne these labor costs but have not received any benefits from the merger. Pursuing a business opportunity like the proposed merger is outside the scope of a utility's regulated activity, and customers do not historically bear these costs.[1]

Q. Please provide a timeline for the events related to this adjustment.

A.

1) July 19, 2017: Avista entered into an agreement with Hydro One Limited to become a wholly owned subsidiary of Hydro One.

2) September 14, 2017: Avista and Hydro One filed for merger approval before the Oregon Public Utility Commission.

[1] *See, e.g.*, *In the Matter of Northwest Natural Gas Company dba NW Natural, Application for Approval of Corporate Reorganization to Create a Holding Company*, Docket No. UM 1804, Order No. 17-526, pg. 7 (Dec. 28, 2017); *see also* Docket No. UM 1209, Order No. 06-082 at 7; *see also* Docket No. UM 1283, Order No. 07-221 at 5.

3) November 1, 2017: Avista's new margin rates were established from docket UG 325. These margin rates were established using a forecasted test year for the twelve months that ended September 30, 2018.[2]

4) January 23, 2019: Avista and Hydro One terminated their merger agreement. This merger was a major business project for Avista. Avista committed a significant amount of resources to the proposed merger. Rates established in UG 325 were used to partially fund expenses related to the proposed merger. Since the proposed merger failed to achieve regulatory approval in Washington and Idaho, Avista received a termination fee from Hydro One of $103,000,000.

5) January 23, 2019: Commission Staff filed for a deferral to track Avista's termination fee to consider the future rate making.[3]

6) February 7, 2019: Staff withdrew its deferral application. CUB has attached the letter effectuating the withdrawal as CUB Exhibit 102. Importantly, Staff states in the letter that Avista assured Staff it "has gone to great lengths to account for all costs associated with [the proposed merger] and the termination fee outside of utility accounts and that shareholders will bear all costs with no impact to ratepayers."[4] Staff determined the aforementioned efforts "may appropriately be examined in any future general rate case filed by the Company."[5] As we are now in a general rate case proceeding, CUB's intent in proposing this adjustment is to hold the Company to its statement.

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[2] UG 325 – Avista/100/Morris/Page 7, Lines 17-18.
[3] *See in re Public Utility Comm'n of Oregon Application to Defer Avista Corporation's Termination Fee Revenue Resulting from Termination of Merger Between Hydro One Limited, Olympus Holding Corp., Olympus Corp., and Avista*, OPUC Docket No. UM 1996 (Jan. 23, 2019).
[4] CUB Exhibit 102.
[5] *Id*.

Q. What has the Company proposed to do with labor expenses related to the proposed merger?

A. The Company has proposed to reclassify 2018 labor expenses from non-utility to utility operations for work performed on the proposed merger and include these expenses in rates.[6] The Company also proposed similar treatment for executive labor.[7] The Company's reasoning for including these labor costs associated with the Hydro One Merger are not recurring in nature.[8]

Q. What is CUB proposal for labor associated with the proposed merger?

A. Since Avista has already received payment from Hydro One for expenses related to the merger and from customers, CUB proposes that customers receive a credit for the labor costs associated with the proposed merger. As an initial estimate, CUB proposes that the Company credit Oregon customers $102,923 for costs associated with the merger. CUB does not believe the record in this proceeding adequately demonstrates that customers have been held harmless from costs related to the proposed merger.

As an alternative, to avoid any appearance of retroactive ratemaking, CUB would propose that rates be reduced by $102,923 based on the 2018 actual labor costs.

Q. Do you any other comments about the proposed merger?

A. Yes. CUB will review the testimony of other parties related to this issue. If other parties identify expenses related to the proposed merger in the Company's revenue

[6] UG 366 – Avista/500/Smith/18/Lines 20-22.
[7] UG 366 – Avista/500/Smith/19, Lines 3-17.
[8] UG 366 – Avista/500/Smith/ Page 18/Lines 22-23.

requirement model, then CUB will examine and respond to these issues in the next round of testimony.

II. Fixed Customer Charges for Residential Customers

Q. Please summarize your testimony on the basic charge.

A. The Company has proposed to increase the monthly fixed customer charge for residential customers by $2 per month, from $10 to $12.[9] CUB proposes to maintain the customer charge at $10. Avista's Oregon customer charge is the largest amount among peer utilities in this state. CUB believes maintaining the customer charge at the current amount is appropriate because higher variable charges provide a stronger incentive to conserve natural gas. The lower the customer charge is, the larger the ratio is of variable charges to fixed customer charges. If a larger portion of a customer's bill is volumetric based on usage, that customer has an incentive to reduce consumption. CUB believes designing rates in this manner furthers sound energy policy. Second, Avista's decoupling program, from a financial prospective, makes the Company indifferent to the level of the monthly customer charges. Finally, maintaining low customer charges reduces the incentive for heat-only customers to disconnect in the summer.

Q. What is Schedule 410?

A. Schedule 410 is the rate schedule for residential customers in Avista's Oregon service territory.

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[9] UG 366 – Avista/700/Miller/Page 9/ Lines 21-22.

Q. What is a fixed customer charge?

A. The fixed customer charge is a component of rates that is responsible for the fixed costs associated with utility service. It does not change in proportion to the amount on energy used. Historically, Commission policy allows the Company to set customer charges at a level that collects the direct customer costs (meter, meter reading, billing) from ratepayers. However, the Commission has not required regulated utilities to follow such pricing, and the customer charge often does not cover all fixed costs related to utility service.

Q. What changes has the Company proposed to the basic charge of Schedule 410?

A. The Company has proposed to increase the monthly customer charge for residential customers by $2 per month, from $10 to $12.[10] The Company believes that is appropriate to recover a greater portion of fixed customer costs through an increased customer charge.[11]

Q. What is the impact of this increased basic charge on residential customers?

A. All things equal, an increased basic charge would decrease the volumetric rate charged to residential customers. According to the economic principal of the law of demand, the reduction of the volumetric charges reduces the incentive for customers to conserve natural gas consumption.

Q. How does the Company's basic charge compare to other peer utilities on a nominal basis?

[10] UG 366 – Avista/700/Miller/Page 9, Lines 21-22.
[11] UG 366 – Avista/700/Miller/Page 10, Lines 19-21.

A. The Company's proposed basic charge is highest nominal customer charge among the three regulated natural gas utilities operating in Oregon. Keeping the customer charge at $10 would avoid Avista's customer charge from being an outlier with its peers.

Utility	State	Basic Charge
NW Natural	Washington	$7
NW Natural	Oregon	$8
Cascade	Washington	$5
Cascade	Oregon	$5
Avista	Idaho	$6
Avista	Washington	$9.5
Avista	Oregon	Proposed Charge - $12

Q. What is the largest rate class on Avista's system in Oregon?

A. Residential customers are the largest customer group based in Oregon, based on customer count.

Q. What impact does full decoupling have on the Company's recovery of its fixed costs?

A. In Oregon, Avista is fully decoupled. Residential customers are decoupled in a separate mechanism from other rate schedules. The Company's decoupling mechanism allows the Company to recover variations in volumetric rate revenue due to weather or demand variation. Essentially, the Company's decoupling

mechanism guarantees that the Company will be able to recover its fixed costs. CUB believes this obviates the need for a higher basic customer charge.

III. Restricted Stock Units

Q. Please summarize your testimony on this issue.

A. The Company proposes embedding the cost of Restricted Stock Units (RSUs) in retail rates. CUB proposes to remove this expense from rates. This results in a ($148,000) adjustment to O&M expense.

Q. What are restricted stock units?

A. RSUs are a form of equity-based compensation. The Company's RSUs are time-based. One third of each year's RSU vests each year over a three-year period.

Q. How has the Company characterized RSUs in testimony?

A. The Company has stated that the purpose of the incentive to provide an incentive for the employee to remain with the Company.[12] The Company believes that employees with a long tenure of employment are useful when managing large-scale utility projects spanning multiple years.

Q. What is your response to the Company's testimony?

A. Avista competes on the labor market for qualified employees. CUB believes that the total compensation, rather than keeping unvested RSUs, should serve as an incentive to retain employees. CUB views RSUs as a form of compensation that serves to benefit shareholders. It is inappropriate for ratepayers to pay for RSUs, as they are not necessary for providing utility service. Additionally, the Company's

[12] UG 366 – Avista/500/Smith/Page 21, Lines 2-3.

explanation that the role of RSU's in testimony is different than the justification the Company gave to its investors.

Q. How has the Company characterized RSUs to its investors?

A. "[Avista's] Compensation Committee believes that equity-based compensation is the most effective way to create a long-term link between shareholder returns and the compensation provide to NEOs and other key management …. Through the use of long-term performance awards and RSUs, the Company can compensate executives for sustained increases in the Company's stock performance."[13] The Company's communication with investors indicates that RSUs are in place to help motivate shareholder returns, not to retain their workforce. Therefore, it is inappropriate to include these costs in customer rates.

Q. Do you have an additional comment on including RSU in retail rates?

A. Yes. While CUB objects to the inclusion of RSU in rates, the Company has failed to account for the retirement of its incumbent CEO Scott Morris. Avista's CEO is expected to retire on March 1, 2020. Avista's CEO will only receive its RSU if the individual is employed by the Company on the last day of each year. If the Commission were to approve RSUs in rates, RSU expense associated with the Company's current CEO should be removed from rates, at the very least.

IV. Oregon Excise Tax Apportion Factor Between Natural Gas and Electric

Q. Please summarize your testimony on this issue.

A. The Company's initial rate case filing relies on a tax apportionment factor from the Company's 2009 SB 408 filing. The Company's proposed tax apportionment

[13] Avista Corporation 2019 Proxy Statement.

factor uses the arithmetic average of three taxable amounts: Property, Payroll and Sales. CUB proposes to calculate the tax apportionment factor using the weighted average of the three factors. In order to normalize the taxpayer apportionment, CUB's proposed apportionment factor uses the average of three years (2016-2018) to provide a stable number.

Q. Why is there an apportionment factor between Avista's electric and natural gas operations?

A. In Oregon, Avista is an only a natural gas distribution utility. Separate from its natural gas operations in Oregon, Avista operates a 280 megawatt natural gas combined-cycle combustion turbine in Boardman, Oregon (Coyote Springs 2). This generating plant is used to serve electric customers in Washington and Idaho. There are Oregon sales, payroll, and property taxes associated with the operation of Coyote Springs 2. This apportionment factor allocates Oregon taxes between Avista's electric customers and Avista's natural gas Oregon customers.

Q. Why should a weighted average be used to calculate this appointment factor?

A. The Company's approach to calculating the appointment factor equally weighs sales, payroll, and property. If one were to use a simple average, the payroll component of this calculation would be overweighed for Oregon natural gas customers. The weighted average calculation properly allocates cost to Oregon's natural gas customers.[14]

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[14] CUB Exhibit 103.

Q. What is the revenue requirement associated with this issue?

A. This adjustment will also change the conversion factor used to change the Company's net operating income to revenue requirement.[15] Therefore, the size of the estimate is tied to the net operating income approved in this case. Assuming the Company's case is accepted as filed, CUB estimates a revenue requirement associated with this adjustment of ($67,000).

IV. Decoupling

Q. What is decoupling?

A. Decoupling is an adjustable price mechanism that breaks the link between the amount of energy a utility sells and the actual, allowed revenue collected by the utility. Decoupling mechanisms are used primarily to eliminate incentives that utilities have to increase profits by increasing the volume of retail sales, and the corresponding disincentives that they have to avoid reductions in sales. Decoupling mechanisms are most often considered in the context of introducing or expanding energy efficiency efforts or other demand-side management programs.[16]

Q. Do utilities in Oregon have decoupling mechanisms?

A. Yes, currently Portland General Electric Company (PGE), Cascade Natural Gas Company, Avista, and NW Natural Gas Company (NWN) have decoupling mechanisms.

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[15] CUB Exhibit 104.

[16] *See* Revenue Regulation and Decoupling: A Guide to Theory and Application, Regulatory Assistance Project (Nov. 2016) *available at* http://www.raponline.org/wp-content/uploads/2016/11/rap-revenue-regulation-decoupling-guide-second-printing-2016-november.pdf.

Q. Please explain the history and nature of Avista's decoupling mechanism.

A. Avista's decoupling mechanism was adopted in a stipulation that was approved by the Commission in its 2016 rate case, UG 288. In that stipulation, it was contemplated that Avista, Staff, or other parties could recommend future changes to the decoupling mechanism.[17] Under the terms of its decoupling mechanism, Avista files a proposed rate adjustment (either surcharge or rebate) on or before August 1 of each year based on the amount of deferred revenue recorded for the prior January through December time period.[18] The surcharge or rebate is effective November 1 of each year. Avista has two deferral accounts to explicitly account for weather and conservation (non-weather) decoupling. Customers are divided into two rate groups: Residential and Commercial, and the mechanism compares actual decoupled revenues, by rate group, to the allowed decoupled revenues determined on a per-customer basis, with any differences deferred for later rebate or credit.[19] The amount subject to deferral is based on the difference between actual therm sales, compared with the rate case forecast. The amount approved for recovery or rebate to customers is then transferred into a Regulatory Asset or Regulatory Liability account for amortization.[20] There is a three percent annual incremental rate increase cap resulting from the decoupling adjustment.[21] Interest accrues on the decoupling deferrals at Avista's authorized rate of return. Once a

[17] *In re Avista Corporation dba Avista Utilities Request for a General Rate Revision and Application for Authorization to Defer Expenses or Revenues Related to the Natural Gas Decoupling Mechanism,* OPUC Dockets Nos. UG 288 and UM 1753, Order No. 16-076 at Appx. A, page 6 ("The Parties agree that, by September 2019, there will be an opportunity to review the Decoupling Mechanism, which would allow the Company, Staff, and other parties to recommend changes, if any.").
[18] OPUC Order No. 16-076 at Appx. A, Page 7.
[19] OPUC Order No. 16-109 at 3.
[20] OPUC Order No. 16-076 at Appx. A, Page 8.
[21] OPUC Order No. 16-076 at Appx. A, Page 9.

deferral balance is approved for amortization, interest accrues at the Modified Blended Treasury rate.[22] Avista files for re-authorization of its decoupling mechanism deferral annually in Docket No. UM 1753.

Q. Does CUB have any issues with Avista's decoupling mechanism? If so, please explain.

A. Yes. It is inappropriate for Avista's shareholders to be compensated for interest at the Company's authorized rate of return (AROR) while the decoupling deferral is accruing each year. Further, as CUB will expand upon, we do not believe a deferral is the proper mechanism to use in this instance. When a utility is given interest at its AROR—or otherwise receives its AROR—it is a signal from the regulator and stakeholders that it is being compensated for some type of risk. For example, utility shareholders are compensated for the risk borne when they finance capital projects without knowing whether they will receive regulatory approval for these projects under a prudence review. Once a project is found to be prudent, shareholders are able to enjoy the return on that investment at the Company's rate of return, though they continue to have an operational risk that enjoying the return requires the investment to be used and useful.

Q. What risk does the utility have in regard to recouping the money that accrues in its decoupling deferral accounts?

A. CUB believes the risk to the utility is substantially less than it would bear under a more traditional deferred accounting application. Deferred accounting applications are an exceptional form of ratemaking that the Commission has found "should be

[22] OPUC Order No. 16-076 at Appx. A, Page 8.

used sparingly."[23] Often, an application for deferred accounting arises from costs that are unexpected and unforeseen, and the utility has to finance this unexpected cost for later potential and uncertain amortization. Avista's decoupling mechanism is updated annually and has been approved every year since its inception. It is a recurring event in which the Company bears no real risk outside of the application of a prudence review and earnings test. While CUB does not dispute that AROR is the interest rate for deferred accounts that the Commission approved in UM 1147,[24] we also do not believe a deferral is necessary or appropriate in this instance. To quote the Commission's Order in its investigation into deferred accounting:

> If deferral is being sought for recovery of costs caused by a recurring triggering event, **a deferred account is most likely not the proper mechanism to be used**. In exercising our discretion under [the deferral statute], we will consider whether there are other, more appropriate regulatory tools to address recovery of the identified costs or revenues.[25]

CUB believes that a deferred account in which the Company earns its AROR is inappropriate for the recurring decoupling costs Avista incurs.

Q. Are there more appropriate regulatory tools to address the recovery of the annual, recurring decoupling costs Avista currently accrues in in deferred accounts?

A. Yes. Given the Commission's position that deferred accounting is likely improper for recurring costs, there are different regulatory tools that can enable Avista's decoupling mechanism to continue to function as it has while alleviating CUB's concern that the deferred accounts are collecting interest at the Company's AROR.

[23] OPUC Order No. 05-1070 at 10.
[24] OPUC Order No. 05-1070 at 13-14.
[25] OPUC Order No. 05-1070 at 10 (emphasis added).

CUB believes Avista should adopt the methodology PGE uses for its decoupling mechanism.

Q. What is the history of PGE's decoupling mechanism and how does it operate?

A. PGE's decoupling mechanism was initially proposed and eventually adopted in its 2008 General Rate Case, UE 197.[26] PGE's decoupling adjustment is currently delineated in its Tariff Schedule 123. The mechanism is a Sales Normalization Adjustment (SNA), which is a simple balancing account and rate adjustment "true up" mechanism with the following attributes:

1) it establishes the monthly fixed costs to be recovered on a per customer basis for each applicable customer class (i.e., residential and non-residential below 1 aMW during prior year) based on the last approved general rate case;

2) each month the mechanism determines the dollar differences (positive or negative) between actual dollar amounts received from customers through their energy charges for fixed costs and the dollar amount that would have been received if the fixed cost rate (dollars per customer per month) had been in effect; and

3) annually determine and apply as an on-going forward basis a Schedule 123 adjust rate to applicable customers to either refund or collect the difference described above. [27]

The SNA uses a balancing account that reconciles, on a monthly basis, differences between revenues resulting from applying distribution, transmission, and fixed generation charges to weather-normalized kWh Energy sales less actual revenues.[28] The balancing account in PGE's mechanism can carry forward both positive and negative balances. In approving PGE's decoupling mechanism, the Commission chose to apply interest at the Blended Treasury Rate to the monthly balancing

[26] OPUC Order No. 09-020 at 27-30.
[27] UE 197 – PGE/100/Piro/17-21.
[28] Portland General Electric Company Schedule 123 Decoupling Adjustment, OPUC Docket No. Advice No. 18-26 (Dec. 18, 2018).

account. In doing so, it explicitly denied PGE's proposal to accrue interest at its AROR, noting that risk is decreased with a balancing account because recovery is more certain than for unamortized deferred accounts.[29] PGE's Schedule 123 decoupling mechanism is reviewed annually as an advice filing and taken up at a Commission public meeting.[30]

Q. What is CUB's recommendation?

A. CUB proposes to alter Avista's decoupling mechanism to allow it to continue to function as it has, but to avoid interest unnecessarily accruing at the Company's AROR. CUB proposes to make this change for residential customers and for non-residential customers. Additionally, CUB proposes to make this change effective for the 2020 calendar year. The interest currently accruing in the deferred accounts of Avista's mechanism over-compensate the Company's shareholders with no attendant risk while simultaneously over-charging customers. CUB believes Avista's decoupling mechanism should more closely match PGE's—a balancing account that is updated monthly and accrues interest at the Modified Blended Treasury Rate. This would maintain Avista's full decoupling mechanism through a more appropriate automatic adjustment clause.

Q. Does this conclude your testimony?

A. Yes.

[29] OPUC Order No. 09-020 at 28-29.
[30] *See, e.g.,*OPUC ADV 862 and ADV 648.

WITNESS QUALIFICATION STATEMENT

NAME: William Gehrke

EMPLOYER: Oregon Citizens' Utility Board

TITLE: Economist

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EDUCATION: MS, Applied Economics
Florida State University, Tallahassee, FL

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EXPERIENCE: Provided testimony or comments in several Oregon Commission dockets. Worked as an Economist for the Florida Department of Revenue. Worked as Utility Analyst at the Florida Public Service Commission, providing advice on rate cases and load forecasting. Attended the Institute of Public Utilities Annual Regulatory Studies program in 2018.

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DEPARTMENT OF JUSTICE
GENERAL COUNSEL DIVISION

February 7, 2019

via Electronic Mail

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Re: UM 1996 – Withdrawal of Staff's Application to Defer Avista Corporation's Termination Fee Revenue Resulting From Termination Of Merger Agreement Between Hydro One Limited, Olympus Holding Corp., Olympus Corp., and Avista Corporation

On January 23, 2019, the Public Utility Commission of Oregon Staff (Staff) filed an application for the deferral of Avista Corporation's termination fee revenue resulting from termination of the merger agreement between Hydro One Limited, Olympus Holding Corp., Olympus Corp., and Avista Corporation. Staff hereby withdraws its deferral application, and requests that the docket be closed.

Staff initially filed the deferral application pursuant to ORS 757.259(2)(e) on the same day as the notice of termination of the Merger Agreement was filed in Docket UM 1897, noting that the termination fee, when due, must be paid no later than two business days after the date of the applicable termination. Due to the lack of clarity in relation to this termination fee and the costs that may be borne by and benefits received by ratepayers, Staff determined that filing a deferral application was necessary to allow consideration of those issues.

Subsequently, Staff has received assurances from the Company that it has gone to great lengths to account for all costs associated with this transaction and the termination fee outside of utility accounts and that shareholders will bear all costs with no impact to ratepayers. Staff finds these efforts may appropriately be examined in any future general rate case filed by the Company.

Accordingly, Staff expects Avista Corporation will prepare and retain detailed records associated with any attempted mergers, sufficient to provide a full accounting of those costs in any future general rate proceeding, that demonstrate there is no impact on ratepayers from such activity. Such records shall demonstrate that no ratepayer resources are applied to merger activities, including but not limited to excluding any general loadings of costs to employee time, incentives associated with merger activity, consultant fees, and any additional regulatory

personnel. And finally, Staff expects Avista Corporation to make all such records available to Staff for review.

On consideration of the foregoing, Staff withdraws its deferral application, and requests that the docket be closed.

Sincerely,

Johanna Riemenschneider
Sr. Assistant Attorney General
Of Attorneys for Staff of the
Public Utility Commission of Oregon

JLM:pjr/#9434819

2016		
	Total Oregon	Oregon Gas %
Property	$ 526,224,847	65%
Payroll	$ 14,150,474	84%
Sales	$ 308,239,949	54%
Simple Average		68%
Weighted Average		61%

2017		
	Total Oregon	Oregon Gas %
Property	$ 605,820,000	68%
Payroll	$ 14,898,239	84%
Sales	$ 285,135,944	56%
Simple Average		70%
Weighted Average		64%

2018		
	Total Oregon	Oregon Gas %
Property	$ 641,038,620	69%
Payroll	$ 15,295,110	85%
Sales	$ 253,345,201	57%
Simple Average		70%
Weighted Average		66%

Average of 2016, 2017, 2018 Weigthed Average	64%
Average of 2016, 2017, 2018 Simple Average	69%

Calculation of Avista's Apportionment Tax Rate

Oregon Apportionment Rate	*	Oregon's Tax Rate	*	Natural Gas Portion Of Oregon Operations	=	Oregon's Apportionment Tax Rate
9.56%	*	7.60%	*	75%	=	0.545%

Calculation of CUB's Apportionment Tax Rate

Oregon Apportionment Rate	*	Oregon's Tax Rate	*	Natural Gas Portion Of Oregon Operations	=	Oregon's Apportionment Tax Rate
9.56%	*	7.60%	*	64%	=	0.465%

Gross up of System Apportionment Tax Rate

Inputs	
Oregon Share of System Revenues	8.26%
Avista's Calculation of Apportionment Tax Rate	0.545%
CUB's Calculation of Apportionment Tax Rate	0.465%

Apportionment Tax Rate	/	Oregon % of Revenues	"Grossed Up" Apportionment Tax Rate
0.545%		8.26%	**6.598%**
0.465%		8.26%	**5.630%**

Avista Corporation Decoupling Mechanism
Oregon Jurisdiction
Quarterly Report for 4th Quarter 2018

Avista Utilities
Natural Gas Decoupling Mechanism (Oregon)
Development of OR Natural Gas Deferrals (Calendar Year 2018)
Docket No. UG-325 Rates Eff. October 1, 2017 and November 1, 2017

Line No.		Source	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	YTD Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(s)
	Residential Group														
1	Rate Year Allowed Customers	Page 3	90,463	90,463	90,455	90,379	90,208	89,906	89,583	89,345	89,344	88,757	89,449	90,099	1,078,451
2	Total Actual Billed Customers	Revenue Reports	90,112	90,142	90,337	90,197	90,101	89,830	89,683	89,582	89,455	90,312	90,598	91,079	1,081,428
3	Total Actual Usage (Therms)	Revenue Reports	7,075,606	7,049,650	6,274,853	3,880,081	1,913,786	1,304,504	1,063,320	1,138,988	1,170,186	3,005,114	5,324,906	8,893,698	48,094,692
4	Total Actual Base Rate Revenue	Revenue Reports	$ 5,054,766	$ 5,076,233	$ 4,621,000	$ 3,199,683	$ 2,100,230	$ 1,640,635	$ 1,515,892	$ 1,505,322	$ 1,612,531	$ 2,830,206	$ 4,388,720	$ 6,211,830	$ 39,757,048
5	Total Actual Fixed Charge Revenue	Revenue Reports	$ 906,476	$ 905,311	$ 908,238	$ 907,143	$ 907,100	$ 905,038	$ 903,309	$ 902,255	$ 899,116	$ 907,168	$ 909,654	$ 914,451	$ 10,875,259
6	New Hook-up Customers Billed	Revenue Reports	1,657	1,731	1,854	1,990	2,031	2,130	2,181	2,227	2,387	2,487	2,655	2,792	26,122
7	New Hook-up Usage (Therms)	Revenue Reports	114,336	95,666	113,214	80,664	47,628	24,610	20,270	18,325	23,034	36,613	92,495	169,281	836,135
8	New Hook-up Base Rate Revenue	Revenue Reports	$ 83,660	$ 73,390	$ 84,837	$ 66,839	$ 47,942	$ 35,194	$ 33,156	$ 32,409	$ 36,956	$ 45,775	$ 80,530	$ 127,437	$ 748,126
9	New Hook-up Fixed Charge Revenue	Revenue Reports	$ 15,886	$ 16,684	$ 17,729	$ 19,025	$ 19,710	$ 20,605	$ 21,139	$ 21,546	$ 23,301	$ 24,072	$ 25,702	$ 27,095	$ 252,494
10	**Actual Customers**	**Rate Year Adjusted**	**90,112**	**90,142**	**90,337**	**90,197**	**90,101**	**89,830**	**89,583**	**89,345**	**89,344**	**88,757**	**89,449**	**90,099**	**1,077,296**
11	Monthly Decoupled Revenue per Customer	Appendix 5, Page 3	$57.01	$42.35	$38.50	$26.88	$17.44	$11.19	$9.27	$8.70	$8.74	$18.70	$38.79	$56.44	$27.88
12	**Decoupled Revenue**	**(10) x (11)**	**$ 5,137,056**	**$ 3,817,312**	**$ 3,478,160**	**$ 2,424,882**	**$ 1,570,985**	**$ 1,005,433**	**$ 830,673**	**$ 777,357**	**$ 781,006**	**$ 1,659,383**	**$ 3,470,124**	**$ 5,085,631**	**$ 30,038,001**
13	Actual Base Rate Revenue (Excludes Gas Costs)	Rate Year Adjusted	$ 5,054,766	$ 5,076,233	$ 4,621,000	$ 3,199,683	$ 2,100,230	$ 1,640,635	$ 1,514,371	$ 1,501,873	$ 1,610,813	$ 2,801,585	$ 4,353,870	$ 6,167,099	$ 39,642,157
14	Actual Fixed Charge Revenue	Rate Year Adjusted	$ 906,476	$ 905,311	$ 908,238	$ 907,143	$ 907,100	$ 905,038	$ 902,340	$ 899,962	$ 898,032	$ 892,116	$ 898,531	$ 904,941	$ 10,835,229
15	**Customer Decoupled Payments**	**(13) - (14)**	**$ 4,148,289**	**$ 4,170,922**	**$ 3,712,762**	**$ 2,292,540**	**$ 1,193,130**	**$ 735,597**	**$ 612,031**	**$ 601,911**	**$ 712,781**	**$ 1,909,469**	**$ 3,455,339**	**$ 5,262,158**	**$ 28,806,928**
16	Residential Revenue Per Customer Received		$46.03	$46.27	$41.10	$25.42	$13.24	$8.19	$6.83	$6.74	$7.98	$21.51	$38.63	$58.40	$26.74
17	Deferral - Surcharge (Rebate)	(12) - (15)	$ 988,766	$ (353,610)	$ (234,601)	$ 132,342	$ 377,855	$ 269,836	$ 218,641	$ 175,446	$ 68,226	$ (250,086)	$ 14,785	$ (176,527)	$ 1,231,073
18	Deferral - Revenue Related Expenses	Rev Conv Factor	$ (31,380)	$ 11,223	$ 7,446	$ (4,200)	$ (11,992)	$ (8,564)	$ (6,939)	$ (5,568)	$ (2,165)	$ 7,937	$ (469)	$ 5,602	$ (39,071)
19		Authorized ROR	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	
20	Interest on Deferral	Avg Balance Calc	$ 2,932	$ 4,833	$ 3,119	$ 2,835	$ 4,365	$ 6,312	$ 7,799	$ 9,016	$ 9,794	$ 9,314	$ 8,674	$ 8,247	$ 77,239
21	**Monthly Residential Deferral Totals**		**$ 960,318**	**$ (337,554)**	**$ (224,037)**	**$ 130,977**	**$ 370,228**	**$ 267,584**	**$ 219,502**	**$ 178,894**	**$ 75,854**	**$ (232,834)**	**$ 22,989**	**$ (162,678)**	**$ 1,269,242**
22	Cumulative Deferral Balance	Σ((17) + (20))	$ 960,318	$ 622,764	$ 398,727	$ 529,704	$ 899,931	$ 1,167,515	$ 1,387,017	$ 1,565,911	$ 1,641,765	$ 1,408,930	$ 1,431,920	$ 1,269,242	$ 1,269,242
23	Weather Related Deferred Revenue		$ 575,857	$ (355,903)	$ (198,352)	$ 114,421	$ 347,942	$ 35,677	$ 987	$ (578)	$ (15,328)	$ (15,328)	$ 43,722	$ 125,169	$ 658,286
24	Revenue Related Expenses		$ (17,797)	$ 11,000	$ 6,130	$ (3,536)	$ (10,754)	$ (1,103)	$ (31)	$ 18	$ 474	$ 486	$ (1,388)	$ (3,972)	$ (20,473)
25	Interest		$ 1,709	$ 2,372	$ 742	$ 3,768	$ 1,893	$ 3,043	$ 3,170	$ 3,191	$ 3,163	$ 3,092	$ 3,195	$ 3,715	$ 33,053
26	**Total Residential Weather Related Deferral Surcharge (Rebate)**		**$ 559,769**	**$ (342,531)**	**$ (191,480)**	**$ 114,652**	**$ 339,082**	**$ 37,617**	**$ 4,127**	**$ 2,631**	**$ (11,692)**	**$ (11,750)**	**$ 45,529**	**$ 124,912**	**$ 670,866**
27	Cumulative Weather Related Deferral Balance		$ 559,769	$ 217,238	$ 25,758	$ 140,411	$ 479,492	$ 517,109	$ 521,236	$ 523,867	$ 512,176	$ 500,425	$ 545,954	$ 670,866	$ 670,866
28	Conservation (Non-Weather) Related Deferred Revenue		$ 412,909	$ 2,293	$ (36,250)	$ 17,922	$ 29,912	$ 234,159	$ 217,654	$ 176,024	$ 83,554	$ (234,757)	$ (28,937)	$ (301,696)	$ 572,787
29	Revenue Related Expenses		$ (13,583)	$ 223	$ 1,315	$ (664)	$ (1,238)	$ (7,461)	$ (6,909)	$ (5,586)	$ (2,639)	$ 7,450	$ 918	$ 9,575	$ (18,598)
30	Interest		$ 1,223	$ 2,461	$ 2,377	$ (934)	$ 2,472	$ 3,269	$ 4,629	$ 5,825	$ 6,630	$ 6,223	$ 5,479	$ 4,532	$ 44,187
31	**Total Residential Conservation (Non-Weather) Related Deferral Surcharge (Rebate)**		**$ 400,549**	**$ 4,977**	**$ (32,557)**	**$ 16,325**	**$ 31,146**	**$ 229,967**	**$ 215,375**	**$ 176,263**	**$ 87,545**	**$ (221,084)**	**$ (22,540)**	**$ (287,590)**	**$ 598,376**

Avista Corporation Decoupling Mechanism
Oregon Jurisdiction
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Avista Utilities
Natural Gas Decoupling Mechanism (Oregon)
Development of OR Natural Gas Deferrals (Calendar Year 2018)
Docket No. UG-325 Rates Eff. October 1, 2017 and November 1, 2017

Line No.	Source	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	YTD Total
	(a) (b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(s)
32	Cumulative Conservation (Non-Weather) Related Deferral Balance	$ 400,549	$ 405,526	$ 372,968	$ 389,293	$ 420,439	$ 650,406	$ 865,781	$ 1,042,044	$ 1,129,589	$ 908,505	$ 885,965	$ 598,376	$ 598,376
33	**Residential Cumulative Deferral Surcharge (Rebate) Balance**	**$ 960,318**	**$ 622,764**	**$ 398,727**	**$ 529,704**	**$ 899,931**	**$ 1,167,515**	**$ 1,387,017**	**$ 1,565,911**	**$ 1,641,765**	**$ 1,408,930**	**$ 1,431,920**	**$ 1,269,242**	**$ 1,269,242**

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	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(s)
	Non-Residential Group														
1	Rate Year Allowed Customers	Page 3	11,860	11,900	11,904	11,870	11,854	11,828	11,790	11,769	11,761	11,663	11,736	11,804	141,739
2	Total Actual Billed Customers	Revenue Reports	11,945	11,877	11,905	11,903	11,858	11,846	11,796	11,789	11,654	11,914	11,876	11,945	142,308
3	Total Actual Usage (Therms)	Revenue Reports	4,834,145	4,607,237	4,039,470	2,922,915	1,763,942	1,608,748	1,380,426	1,666,049	1,685,555	2,436,525	3,257,314	5,634,308	35,836,635
4	Total Actual Base Rate Revenue	Revenue Reports	$ 2,470,125	$ 2,358,231	$ 2,103,405	$ 1,510,377	$ 914,481	$ 807,325	$ 720,859	$ 785,291	$ 785,483	$ 1,269,467	$ 1,908,084	$ 2,902,123	$ 18,535,250
5	Total Actual Fixed Charge Revenue	Revenue Reports	$ 224,100	$ 205,456	$ 205,342	$ 205,354	$ 204,544	$ 204,163	$ 203,402	$ 203,312	$ 200,794	$ 205,159	$ 204,759	$ 205,318	$ 2,471,702
6	New Hook-up Customers Billed	Revenue Reports	197	209	224	226	232	255	253	257	262	281	292	330	3,018
7	New Hook-up Usage (Therms)	Revenue Reports	82,990	65,885	72,823	53,002	33,571	21,802	68,476	45,224	43,618	45,526	109,645	196,690	839,253
8	New Hook-up Base Rate Revenue	Revenue Reports	$ 45,478	$ 36,364	$ 40,635	$ 30,359	$ 21,709	$ 16,102	$ 33,875	$ 16,254	$ 17,418	$ 24,095	$ 49,334	$ 79,873	$ 411,495
9	New Hook-up Fixed Charge Revenue	Revenue Reports	$ 3,219	$ 3,453	$ 3,879	$ 3,829	$ 3,999	$ 4,315	$ 4,342	$ 4,318	$ 4,425	$ 4,658	$ 5,195	$ 5,545	$ 51,176
10	**Actual Customers**	**Rate Year Adjusted**	**11,860**	**11,877**	**11,904**	**11,870**	**11,854**	**11,828**	**11,790**	**11,769**	**11,654**	**11,663**	**11,736**	**11,804**	**141,609**
11	Monthly Decoupled Revenue per Customer	Appendix 5, Page 3	$198.44	$150.89	$140.42	$97.30	$68.88	$51.28	$53.63	$56.35	$68.03	$103.00	$155.01	$200.86	$112.10
12	**Decoupled Revenue**	**(10) x (11)**	**$ 2,353,539**	**$ 1,792,177**	**$ 1,671,497**	**$ 1,154,992**	**$ 816,499**	**$ 606,546**	**$ 632,335**	**$ 663,195**	**$ 792,793**	**$ 1,201,271**	**$ 1,819,244**	**$ 2,370,927**	**$ 15,875,017**
13	Actual Base Rate Revenue (Excludes Gas Costs)	Rate Year Adjusted	$ 2,450,555	$ 2,358,231	$ 2,103,187	$ 1,505,922	$ 914,078	$ 806,198	$ 720,110	$ 784,016	$ 785,483	$ 1,247,955	$ 1,884,450	$ 2,867,938	$ 18,428,123
14	Actual Fixed Charge Revenue	Rate Year Adjusted	$ 222,714	$ 205,456	$ 205,321	$ 204,792	$ 204,470	$ 203,861	$ 203,306	$ 202,974	$ 200,794	$ 201,001	$ 202,270	$ 202,944	$ 2,459,903
15	**Customer Decoupled Payments**	**(13) - (14)**	**$ 2,227,840**	**$ 2,152,775**	**$ 1,897,866**	**$ 1,301,130**	**$ 709,608**	**$ 602,337**	**$ 516,803**	**$ 581,042**	**$ 584,689**	**$ 1,046,955**	**$ 1,682,180**	**$ 2,664,994**	**$ 15,968,220**
16	Non-Residential Revenue Per Customer Received		$187.84	$181.26	$159.43	$109.62	$59.86	$50.92	$43.83	$49.37	$50.17	$89.77	$143.33	$225.77	$112.76
17	Deferral - Surcharge (Rebate)	(12) - (15)	$ 125,699	$ (360,598)	$ (226,369)	$ (146,138)	$ 106,891	$ 4,209	$ 115,532	$ 82,153	$ 208,104	$ 154,316	$ 137,064	$ (294,067)	$ (93,203)
18	Deferral - Revenue Related Expenses	Rev Conv Factor	$ (3,989)	$ 11,444	$ 7,184	$ 4,638	$ (3,392)	$ (134)	$ (3,667)	$ (2,607)	$ (6,605)	$ (4,898)	$ (4,350)	$ 9,333	$ 2,958
19		Authorized ROR	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	7.35%	
20	Interest on Deferral	Avg Balance Calc	$ 373	$ (322)	$ (2,064)	$ (3,181)	$ (3,317)	$ (3,008)	$ (2,671)	$ (2,102)	$ (1,254)	$ (187)	$ 676	$ 215	$ (16,842)
21	**Monthly Non-Residential Deferral Totals**		**$ 122,082**	**$ (349,475)**	**$ (221,248)**	**$ (144,681)**	**$ 100,181**	**$ 1,067**	**$ 109,194**	**$ 77,444**	**$ 200,245**	**$ 149,232**	**$ 133,390**	**$ (284,519)**	**$ (107,087)**
22	Cumulative Deferral (Rebate) Balance	Σ((17) + (20))	$ 122,082	$ (227,393)	$ (448,641)	$ (593,322)	$ (493,141)	$ (492,074)	$ (382,880)	$ (305,436)	$ (105,190)	$ 44,042	$ 177,432	$ (107,087)	$ (107,087)
23	Weather Related Deferred Revenue		$ 277,190	$ (161,039)	$ (90,215)	$ 52,853	$ 158,748	$ 21,640	$ 1,619	$ (432)	$ (13,852)	$ 28,429	$ 55,806	$ (1,001)	$ 329,748
24	Revenue Related Expenses		$ (8,567)	$ 4,977	$ 2,788	$ (1,633)	$ (4,906)	$ (669)	$ (50)	$ 13	$ 428	$ (902)	$ (1,771)	$ 32	$ (10,260)
25	Interest		$ 823	$ 1,172	$ 434	$ 326	$ 956	$ 1,497	$ 1,575	$ 1,588	$ 1,556	$ 1,608	$ 1,868	$ 2,042	$ 15,444
26	**Total Non-Residential Weather Related Deferral Surcharge (Rebate)**		**$ 269,446**	**$ (154,890)**	**$ (86,993)**	**$ 51,546**	**$ 154,798**	**$ 22,469**	**$ 3,144**	**$ 1,170**	**$ (11,869)**	**$ 29,136**	**$ 55,903**	**$ 1,073**	**$ 334,932**
27	Cumulative Weather Related Deferral Balance		$ 269,446	$ 114,556	$ 27,563	$ 79,109	$ 233,906	$ 256,375	$ 259,519	$ 260,689	$ 248,820	$ 277,956	$ 333,859	$ 334,932	$ 334,932
28	Conservation (Non-Weather) Related Deferred Revenue		$ (151,491)	$ (199,558)	$ (136,154)	$ (198,991)	$ (51,857)	$ (17,432)	$ 113,913	$ 82,585	$ 221,956	$ 125,887	$ 81,258	$ (293,066)	$ (422,951)
29	Revenue Related Expenses		$ 4,578	$ 6,467	$ 4,396	$ 6,271	$ 1,514	$ 535	$ (3,617)	$ (2,621)	$ (7,033)	$ (3,995)	$ (2,579)	$ 9,301	$ 13,218
30	Interest		$ (450)	$ (1,494)	$ (2,498)	$ (3,507)	$ (4,273)	$ (4,505)	$ (4,246)	$ (3,690)	$ (2,809)	$ (1,795)	$ (1,192)	$ (1,827)	$ (32,286)
31	**Total Non-Residential Conservation (Non-Weather) Related Deferral Surcharge (Rebate)**		**$ (147,363)**	**$ (194,585)**	**$ (134,256)**	**$ (196,227)**	**$ (54,616)**	**$ (21,401)**	**$ 106,050**	**$ 76,274**	**$ 212,114**	**$ 120,096**	**$ 77,487**	**$ (285,592)**	**$ (442,019)**
32	Cumulative Conservation (Non-Weather) Related Deferral Balance		$ (147,363)	$ (341,949)	$ (476,204)	$ (672,431)	$ (727,047)	$ (748,449)	$ (642,399)	$ (566,125)	$ (354,011)	$ (233,914)	$ (156,427)	$ (442,019)	$ (442,019)

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	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(s)
33	Non-Residential Cumulative Deferral Surcharge (Rebate) Balance		$ 122,082	$ (227,393)	$ (448,641)	$ (593,322)	$ (493,141)	$ (492,074)	$ (382,880)	$ (305,436)	$ (105,190)	$ 44,042	$ 177,432	$ (107,087)	$ (107,087)
34	Total Oregon Cumulative Deferral Balance Surcharge (Rebate)	Residential (33) + Non-Residential (33)	$ 1,082,400	$ 395,371	$ (49,915)	$ (63,619)	$ 406,791	$ 675,442	$ 1,004,137	$ 1,260,475	$ 1,536,575	$ 1,452,972	$ 1,609,352	$ 1,162,155	$ 1,162,155