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VIA OVERNIGHT MAIL

June 28, 2019

Diane Hanian
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington St.
Boise, ID 83702-5983

**RE: CASE NOS. AVU-E-19-0_ AND AVU-G-19-0_
IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE EXTENSION OF AVISTA'S ELECTRIC AND NATURAL GAS FIXED COST ADJUSTMENT MECHANISMS IN THE STATE OF IDAHO**

Dear Ms. Hanian:

Enclosed for filing with the Commission is Avista's Application for the Extension of its Electric and Natural Gas Fixed Cost Adjustment Mechanisms. The filing consists of an original and seven copies of Avista's Application and nine copies of prefiled testimony and exhibits. A computer readable copy of the testimonies and exhibits, required under Rule 231.05, are included on an enclosed compact disc.

Please direct any questions regarding this filing to me at (509) 495-8620 or patrick.ehrbar@avistacorp.com.

Sincerely,

Patrick D. Ehrbar
Director of Regulatory Affairs

Enclosures

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
REGULATORY & GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE EXTENSION OF AVISTA'S ELECTRIC AND NATURAL GAS FIXED COST ADJUSTMENT MECHANISMS IN THE STATE OF IDAHO	CASE NO. AVU-E-19-0_ CASE NO. AVU-G-19-0_ APPLICATION OF AVISTA CORPORATION FOR EXTENSION AND MODIFICATION OF FCA MECHANISMS

I. INTRODUCTION

In accordance with Idaho Code §61-502 and RP 052, Avista Corporation, doing business as Avista Utilities (hereinafter "Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, respectfully requests approval of its proposed modifications to its electric and natural gas Fixed Cost Adjustment Mechanisms ("FCA" or "FCA Mechanisms"). The FCA Mechanisms were made effective on January 1, 2016 and will expire at the end of 2019, absent our request to extend the life of the mechanisms in this proceeding.[1] The Company requests that the Commission authorize the approval of changes to the Company's electric and natural gas FCA Mechanism

[1] In Order 34085 in Case No. AVU-E-15-05 and AVU-G-15-01, the Commission approved an all-party settlement stipulation which extended the life of the FCA Mechanisms until the end of 2019.

tariff Schedule's 75 and 175, effective January 1, 2020. These changes seek to:

1) Extend the current FCA Mechanisms through March 31, 2025;

2) Modify the upcoming deferral period to be from January 1, 2020 through June 30, 2021, so as to better align the deferral periods and the rate adjustments;

3) Implement an annual true-up to the FCA Mechanisms; and

4) Extend the FCA Mechanism quarterly reporting requirement from 45 to 60 days.

Avista has provided testimony, sponsored by Company witness Mr. Ehrbar, regarding the FCA Mechanisms history, performance, and proposed changes. He sponsors two exhibits: Exhibit No. 1 is the "Avista Decoupling Evaluation – Final Report" prepared by H. Gil Peach & Associates LLC. Exhibit No. 2 is a copy of the PowerPoint presentation from the FCA Workshop held at the Idaho Public Utilities Commission on March 27, 2019.

The Company requests that this filing be processed under the Commission's Modified Procedure Rules, through the use of written comments. Communications in reference to this Application should be addressed to:

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II. BACKGROUND

On December 18, 2015, the Commission issued Order 33437 in Case Nos. AVU-E-15-05 and AVU-G-15-01, approving a Settlement Stipulation ("Stipulation"). Included in the approved Stipulation were electric and natural gas FCA Mechanisms, which went into effect on January 1, 2016, for a three year term through December 31, 2018. Later, in Order 34085, the Commission extended the mechanisms through December 31, 2019, so as to allow "Staff and interested parties additional information and recommendations from the third-party evaluation of Avista's FCA mechanism in Washington along with an additional year of data".[2] That third-party evaluation has been completed and appears as Exhibit No. 1.

The purpose of the FCA Mechanisms is to decouple the Company's Commission-authorized revenues from energy sales, such that the Company's revenues will be recognized based on the number of customers served under the applicable service schedules. The FCA Mechanisms allow the Company to: 1) defer the difference between actual FCA-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.

III. PROPOSED MODIFICATIONS TO FCA MECHANISMS

As discussed in the direct testimony of Mr. Ehrbar, based on proven benefits to

[2] Order 34085, p. 1.

both the customer and the Company that the FCA Mechanisms have shown to date, as validated in the Independent Final Report (Exhibit No. 1), and the lack of adverse impacts associated with these mechanisms, the Company's first proposed modification is for the Commission to approve the continuation of the FCA Mechanisms through March 31, 2025. By extending the mechanisms and providing some certainty to the Company that it can recover a significant portion of its fixed costs of providing service, the Company is able to maintain its central focus of being a trusted energy advisor to its customers without adverse or uncertain financial impacts from evolving customer choice in the future. The Company believes that the FCA Mechanisms continue to be in the public interest, promote the policy goals of increased conservation, and result in fair, just, reasonable, and sufficient rates.

Also important to note, is that the Company is not seeking to make the FCA Mechanisms permanent. The Company agrees with Commission Staff who, at the FCA Workshop held in March 2019, stated that, for mechanisms like the FCA, having a more regular check-in is desirable, so that modifications, if any, can be made. That would be more difficult if the mechanisms were made permanent. As such, the Company would commit to having a similar workshop by June 30, 2024 as was held in March 2019, and would include any proposed modifications stemming from that workshop in a future FCA Mechanism extension request.

The second proposed modification to the FCA Mechanisms is related to the timing of the first deferral period, should the Commission approve the Company's request. Presently, the FCA allows the Company to defer the difference between actual FCA-related revenue received from customers through volumetric rates, and the FCA-related revenue approved for recovery in the Company's last general rate case, on a per-customer basis, on a calendar-year basis. The Company can then 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 filing date for tariff adjustments currently occurs at the end of June, for rate effective dates of October 1 (electric) and November 1 (natural gas). There is quite a bit of lag between the deferral period, and the rate-effective dates for any adjustment. Therefore, the Company would like to shrink that rate lag by making a one-time adjustment. For the first deferral period post-approval of this Application, that period would be 18-months, or January 2020 through June 30, 2021. The Company would then file a tariff adjustment with the Commission by July 31, 2021 (and each July 31 thereafter, along with the annual Power Cost Adjustment filing), and would keep the same rate-effective dates of October 1 (electric) and November 1 (natural gas). This change simply reduces the lag between the deferral period and the rate effective period.

For the third proposed modification, presently under the mechanics of the FCA Mechanisms, the annual revenue-per-customer is shaped based on the monthly kWh or therm usage from the test year. The mechanisms use the resulting monthly percentage of usage by month and multiply that amount by the annual FCA revenue-per-customer to determine the 12 monthly values. The Company is proposing to add an additional step that would, at the end of a 12-month deferral calculation, take the annual FCA revenue-per-customer (multiplied by the average annual number of actual customers), recompute the deferral, and compare that to the actual deferred revenue for the period.

The benefit of this calculation is that the method of monthly shaping (i.e., using test period loads to shape FCA monthly revenues) is not necessarily a perfect methodology. The proposed change in our view puts the actual results more on par with the derivation of the authorized amounts – i.e., authorized annual revenue-per-customer as compared to the sum of monthly revenue-per-customer. Mr. Ehrbar provides an analysis showing the modest effect such a modification would have had over the past three years of the mechanism.[3]

Finally, the <u>fourth proposed modification</u> would change when the Company files its FCA Quarterly Reports. The Company currently files quarterly reports related to its electric and natural gas FCA Mechanisms within 45 days of the end of each quarter, pursuant to Section 13D of the Settlement in Case No AVU-E-15-05 and AVU-G-15-01. Throughout the first two years of the FCA Mechanisms, there have been instances where the Company has not released its financial earnings prior to the due date of the quarterly reports. This circumstance necessitates the need to file the quarterly reports confidentially prior to the release of the Company's earnings, and then re-filing the quarterly report again without confidentiality after the earnings release. To alleviate the need to file the quarterly reports twice in these instances, the Company proposes to file the quarterly reports within 60 days after the end of each quarter.

[3] Should the Commission approve the modified deferral period for the first "year" of the mechanisms (i.e., January 1, 2020 through June 30, 2021), the Company proposes to perform the true-up for the July 1, 2020 through June 30, 2021 annual period, and then for the subsequent July 1 through June 30 time periods thereafter. Because this is an annual true-up, it would not make sense to compare an 18-month actual time period to an annual base, hence the reason for essentially excluding the first six months from the annual true-up calculation.

IV. TESTIMONY IN SUPPORT OF REQUESTED MODIFICATIONS

As stated earlier, Mr. Ehrbar provides testimony and exhibits in support of the Company's request. In his testimony, Mr. Ehrbar not only describes the proposed modifications, but also provides further background, and discusses the purpose and benefits to both customers and the Company related to the FCA Mechanisms. He provides an overview of the performance of the mechanisms through the first three years of their existence, discusses issues related to risk mitigation, as well as a summary of the independent, third-party analysis conducted by H. Gil Peach and Associates. He also provides information from the Company's return on equity consultant, Mr. Adrien McKenzie, who provides information as to why adjustments to the Company's allowed return on equity should not otherwise be made due to the presence of the FCA Mechanisms.

V. TARIFF MODIFICATIONS

In support of the Company's request, Avista has filed the following tariff sheets for the Commission's approval:

Second Revision Sheet 75B canceling First Revision Sheet 75B
Second Revision Sheet 75C canceling First Revision Sheet 75C
Second Revision Sheet 175B canceling First Revision Sheet 175B
Second Revision Sheet 175C canceling First Revision Sheet 175C

Please note that the Company <u>could not file</u> Sheets 75 and 175 to modify the "TERM" of the mechanisms, as those sheets also contain the "MONTHLY RATE". In separate filings also made coincident with this Case, the Company filed its annual FCA Mechanism rate adjustments, and on Sheets 75 and 175 are the proposed rates. In short, the Company could not file the same sheets, with different modifications, in different proceedings. As such, if the Commission approves the Company's Application, it commits to making a Compliance Filing, prior to January 1, 2020, modifying the "TERM" of the mechanisms to match the term approved by the Commission.

VI. REQUEST FOR RELIEF

The Company requests that the Commission issue an order approving the extension of the Company's electric and natural gas Fixed Cost Adjustment Mechanisms, effective January 1, 2020, along with the following provisions:

1) Extend the current FCA Mechanisms through March 31, 2025;

2) Modify the upcoming deferral period to be from January 1, 2020 through June 30, 2021, so as to better align the deferral periods and the rate adjustments;

3) Implement an annual true-up to the FCA Mechanisms; and

4) Extend the FCA Mechanism quarterly reporting requirement from 45 to 60 days.

The Company respectfully requests that this Case be processed under the Commission's Modified Procedure rules through the use of written comments.

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DATED at Spokane, Washington, this 28 day of June 2019.

AVISTA CORPORATION

By: ______________________________
David J. Meyer
Vice President and Chief Counsel for
Regulatory & Governmental Affairs
Avista Corporation

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

David J. Meyer, being first duly sworn on oath, deposes and says: That he is the Vice President and Chief Counsel for Regulatory and Governmental Affairs for Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing filing, knows the contents thereof, and believes the same to be true.

____

SIGNED AND SWORN to before me this 28 day of June 2019, by David J. Meyer.

PATTY L HANSON
COMMISSION EXPIRES
NOTARY
PUBLIC
11-23-21
STATE OF WASHINGTON

Patty L. Hanson
NOTARY PUBLIC in and for the State of Washington, residing at Spokane.

Commission Expires: 11/23/21

DAVID J. MEYER
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-19-0_
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-19-0_
EXTENSION OF AVISTA'S ELECTRIC	)	
AND NATURAL GAS FIXED COST	)	TARIFF SHEETS
ADJUSTMENT MECHANISMS IN THE	)	
STATE OF IDAHO	)	
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

SCHEDULE 75B

FIXED COST ADJUSTMENT MECHANISM – ELECTRIC (continued)

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

Calculation of Monthly FCA Deferral:

Step 1 – Determine the actual number of customers each month.

Step 2 – Multiply the actual number of customers by the applicable monthly Allowed FCA Revenue per Customer. The result of this calculation is the total Allowed FCA Revenue for the applicable month.

Step 3 – Determine the actual revenue collected in the applicable month.

Step 4 – Calculate the amount of fixed charge revenue included in total actual monthly revenue.

Step 5 – For existing customers, multiply actual kWh sales by the approved Load Change Adjustment Rate. The result of this calculation is the total revenue collected related to variable power supply. For new customers, multiply actual kWh sales by both the approved Load Change Adjustment Rate and the approved Fixed Production and Transmission Revenue rate. The result of this calculation is the total revenue collected related to fixed and variable production and transmission costs.

Step 6 – For existing customers, subtract the basic charge revenue and the variable power supply revenue from the total actual monthly revenue. The result is the Actual FCA Revenue. For new customers, subtract the basic charge revenue and the fixed and variable production and transmission revenue from the actual monthly revenue. The result is the Actual FCA Revenue.

Step 7 – The difference between the Actual FCA Revenue (Step 6) and the Allowed FCA Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest on the deferred balance will accrue at the Customer Deposit Rate.

Step 8 – At the end of every 12 month deferral period, the annual FCA revenue per customer, by Rate Group, will be multiplied by the average annual number of actual 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.

SCHEDULE 75C

FIXED COST ADJUSTMENT MECHANISM – ELECTRIC (continued)

ANNUAL ELECTRIC FCA RATE ADJUSTMENT:

On or before July 31 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 July through June time period (the transition deferral period will be from January 2020 through June 2021).

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 October 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 FCA 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 FCA Balancing Account at the Customer Deposit Rate.

3% ANNUAL 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 July through June time period (the transition deferral period will be from January 2020 through June 2021). 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 FCA rebate, and the reversal of any rebate rate would not be included in the 3% incremental surcharge test.

SCHEDULE 75B

FIXED COST ADJUSTMENT MECHANISM – ELECTRIC (continued)

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

Calculation of Monthly FCA Deferral:

Step 1 – Determine the actual number of customers each month.

Step 2 – Multiply the actual number of customers by the applicable monthly Allowed FCA Revenue per Customer. The result of this calculation is the total Allowed FCA Revenue for the applicable month.

Step 3 – Determine the actual revenue collected in the applicable month.

Step 4 – Calculate the amount of fixed charge revenue included in total actual monthly revenue.

Step 5 – For existing customers, multiply actual kWh sales by the approved Load Change Adjustment Rate. The result of this calculation is the total revenue collected related to variable power supply. For new customers, multiply actual kWh sales by both the approved Load Change Adjustment Rate and the approved Fixed Production and Transmission Revenue rate. The result of this calculation is the total revenue collected related to fixed and variable production and transmission costs.

Step 6 – For existing customers, subtract the basic charge revenue and the variable power supply revenue from the total actual monthly revenue. The result is the Actual FCA Revenue. For new customers, subtract the basic charge revenue and the fixed and variable production and transmission revenue from the actual monthly revenue. The result is the Actual FCA Revenue.

Step 7 – The difference between the Actual FCA Revenue (Step 6) and the Allowed FCA Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest on the deferred balance will accrue at the Customer Deposit Rate.

AVISTA CORPORATION
dba Avista Utilities

SCHEDULE 75C

FIXED COST ADJUSTMENT MECHANISM – ELECTRIC (continued)

ANNUAL ELECTRIC FCA RATE ADJUSTMENT:

On or before July ~~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 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 October 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 FCA 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 FCA Balancing Account at the Customer Deposit Rate.

3% ANNUAL 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 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 FCA rebate, and the reversal of any rebate rate would not be included in the 3% incremental surcharge test.

SCHEDULE 75B

FIXED COST ADJUSTMENT MECHANISM – ELECTRIC (continued)

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

Calculation of Monthly FCA Deferral:

Step 1 – Determine the actual number of customers each month.

Step 2 – Multiply the actual number of customers by the applicable monthly Allowed FCA Revenue per Customer. The result of this calculation is the total Allowed FCA Revenue for the applicable month.

Step 3 – Determine the actual revenue collected in the applicable month.

Step 4 – Calculate the amount of fixed charge revenue included in total actual monthly revenue.

Step 5 – For existing customers, multiply actual kWh sales by the approved Load Change Adjustment Rate. The result of this calculation is the total revenue collected related to variable power supply. For new customers, multiply actual kWh sales by both the approved Load Change Adjustment Rate and the approved Fixed Production and Transmission Revenue rate. The result of this calculation is the total revenue collected related to fixed and variable production and transmission costs.

Step 6 – For existing customers, subtract the basic charge revenue and the variable power supply revenue from the total actual monthly revenue. The result is the Actual FCA Revenue. For new customers, subtract the basic charge revenue and the fixed and variable production and transmission revenue from the actual monthly revenue. The result is the Actual FCA Revenue.

Step 7 – The difference between the Actual FCA Revenue (Step 6) and the Allowed FCA Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest on the deferred balance will accrue at the Customer Deposit Rate.

Step 8 – At the end of every 12 month deferral period, the annual FCA revenue per customer, by Rate Group, will be multiplied by the average annual number of actual 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.

SCHEDULE 75C

FIXED COST ADJUSTMENT MECHANISM – ELECTRIC (continued)

ANNUAL ELECTRIC FCA RATE ADJUSTMENT:

On or before July 31 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 July through June time period (the transition deferral period will be from January 2020 through June 2021).

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 October 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 FCA 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 FCA Balancing Account at the Customer Deposit Rate.

3% ANNUAL 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 July through June time period (the transition deferral period will be from January 2020 through June 2021). 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 FCA rebate, and the reversal of any rebate rate would not be included in the 3% incremental surcharge test.

SCHEDULE 175B
FIXED COST ADJUSTMENT MECHANISM – NATURAL GAS (continued)

Calculation of Monthly FCA Deferral:

Step 1 – Determine the actual number of customers each month (see Note 1 below).

Step 2 – Multiply the actual number of customers by the applicable monthly Allowed FCA Revenue per Customer. The result of this calculation is the total Allowed FCA Revenue for the applicable month.

Step 3 – Determine the actual revenue collected in the applicable month. For new customers only, also multiply actual therm sales by the approved Fixed Production and Underground Storage Cost per Therm to determine actual revenue collected related to fixed production and underground storage costs.

Step 4 – Calculate the amount of fixed charge revenues included in total actual monthly revenues.

Step 5 – Subtract the basic charge revenue (Step 4) from the total actual monthly revenue (Step 3). For new customers, subtract the basic charge revenue (Step 4) and the fixed production and underground storage revenue (Step 3) from the total actual monthly revenue (Step 3). The result is the Actual FCA Revenue.

Step 6 – The difference between the Actual FCA Revenue (Step 5) and the Allowed FCA Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest on the deferred balance will accrue at the Customer Deposit Rate.

Step 7 – At the end of every 12 month deferral period, the annual FCA revenue per customer, by Rate Group, will be multiplied by the average annual number of actual 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.

SCHEDULE 175C
FIXED COST ADJUSTMENT MECHANISM – NATURAL GAS (continued)

ANNUAL NATURAL GAS FCA RATE ADJUSTMENT:

On or before July 31 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 July through June time period (the transition deferral period will be from January 2020 through June 2021).

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 November 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 therm sales for each Rate Group during the twelve month recovery period. The deferred revenue amount to be recovered will be transferred to a FCA 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 FCA Balancing Account at the Customer Deposit Rate.

3% ANNUAL 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 July through June time period (the transition deferral period will be from January 2020 through June 2021). 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 FCA rebate, and the reversal of any rebate rate would not be included in the 3% incremental surcharge test.

SCHEDULE 175B
FIXED COST ADJUSTMENT MECHANISM – NATURAL GAS (continued)

Calculation of Monthly FCA Deferral:

Step 1 – Determine the actual number of customers each month (see Note 1 below).

Step 2 – Multiply the actual number of customers by the applicable monthly Allowed FCA Revenue per Customer. The result of this calculation is the total Allowed FCA Revenue for the applicable month.

Step 3 – Determine the actual revenue collected in the applicable month. For new customers only, also multiply actual therm sales by the approved Fixed Production and Underground Storage Cost per Therm to determine actual revenue collected related to fixed production and underground storage costs.

Step 4 – Calculate the amount of fixed charge revenues included in total actual monthly revenues.

Step 5 – Subtract the basic charge revenue (Step 4) from the total actual monthly revenue (Step 3). For new customers, subtract the basic charge revenue (Step 4) and the fixed production and underground storage revenue (Step 3) from the total actual monthly revenue (Step 3). The result is the Actual FCA Revenue.

Step 6 – The difference between the Actual FCA Revenue (Step 5) and the Allowed FCA Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest on the deferred balance will accrue at the Customer Deposit Rate.

SCHEDULE 175C
FIXED COST ADJUSTMENT MECHANISM – NATURAL GAS (continued)

ANNUAL NATURAL GAS FCA RATE ADJUSTMENT:

On or before July ~~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 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 November 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 therm sales for each Rate Group during the twelve month recovery period. The deferred revenue amount to be recovered will be transferred to a FCA 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 FCA Balancing Account at the Customer Deposit Rate.

3% ANNUAL 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 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 FCA rebate, and the reversal of any rebate rate would not be included in the 3% incremental surcharge test.

SCHEDULE 175B
FIXED COST ADJUSTMENT MECHANISM – NATURAL GAS (continued)

Calculation of Monthly FCA Deferral:

Step 1 – Determine the actual number of customers each month (see Note 1 below).

Step 2 – Multiply the actual number of customers by the applicable monthly Allowed FCA Revenue per Customer. The result of this calculation is the total Allowed FCA Revenue for the applicable month.

Step 3 – Determine the actual revenue collected in the applicable month. For new customers only, also multiply actual therm sales by the approved Fixed Production and Underground Storage Cost per Therm to determine actual revenue collected related to fixed production and underground storage costs.

Step 4 – Calculate the amount of fixed charge revenues included in total actual monthly revenues.

Step 5 – Subtract the basic charge revenue (Step 4) from the total actual monthly revenue (Step 3). For new customers, subtract the basic charge revenue (Step 4) and the fixed production and underground storage revenue (Step 3) from the total actual monthly revenue (Step 3). The result is the Actual FCA Revenue.

Step 6 – The difference between the Actual FCA Revenue (Step 5) and the Allowed FCA Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest on the deferred balance will accrue at the Customer Deposit Rate.

Step 7 – At the end of every 12 month deferral period, the annual FCA revenue per customer, by Rate Group, will be multiplied by the average annual number of actual 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.

SCHEDULE 175C
FIXED COST ADJUSTMENT MECHANISM – NATURAL GAS (continued)

ANNUAL NATURAL GAS FCA RATE ADJUSTMENT:

On or before July 31 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 July through June time period (the transition deferral period will be from January 2020 through June 2021).

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 November 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 therm sales for each Rate Group during the twelve month recovery period. The deferred revenue amount to be recovered will be transferred to a FCA 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 FCA Balancing Account at the Customer Deposit Rate.

3% ANNUAL 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 July through June time period (the transition deferral period will be from January 2020 through June 2021). 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 FCA rebate, and the reversal of any rebate rate would not be included in the 3% incremental surcharge test.