

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF AVISTA CORPORATION DBA AVISTA)	CASE NOS. AVU-E-15-05
UTILITIES FOR AUTHORITY TO)	AVU-G-15-01
INCREASE ITS RATES AND CHARGES FOR)	
ELECTRIC AND NATURAL GAS SERVICE)	ORDER NO. 33437
IN IDAHO)	

On June 1, 2015, Avista Corporation dba Avista Utilities applied to increase its general rates for electric and natural gas service. The Company proposed to increase both its electric and gas rates in each year over a two-year period. If approved, electric billed revenues would increase by \$13.2 million (5.2%) on January 1, 2016, and by \$13.7 million (5.1%) on January 1, 2017. The Company's proposal would also increase natural gas billed revenues by \$3.2 million (4.5%) on January 1, 2016, and by \$1.7 million (2.2%) on January 1, 2017. As part of its Application, the Company also proposed to implement an electric and natural gas fixed cost adjustment (FCA), a normal rate adjustment mechanism designed to break the link between Avista's revenues from energy sales and its customers' energy usage.

On June 15, 2015, the Commission issued its Notice of Application, suspended the proposed effective date,¹ and set a deadline for intervention. The following parties petitioned to intervene and were granted intervention: Clearwater Paper Corporation; Idaho Forest Group; Community Action Partnership Association of Idaho (CAPAI); Idaho Conservation League (ICL); and Snake River Alliance (SRA). On August 6, 2015, the Commission issued a scheduling Order, which set public workshops in Moscow and Coeur d'Alene; set a settlement conference; and scheduled a technical hearing for November 23-24, 2015. *See* Order Nos. 33324, 33353.

On October 19, 2015, the Company and Staff notified the Commission that all parties agreed to settle the rate case and requested that the Commission approve the parties' Stipulation and Settlement. As part of the proposed settlement, Avista agreed to a reduced increase in its electric revenues from \$13.2 million (5.2%) to \$1.7 million (0.69%) and a reduced increase in its natural gas revenues from \$3.2 million (4.5%) to \$2.5 million (3.49%). The settlement does not

¹ Avista requested that the rate increase become effective on July 3, 2015. However, the Company previously agreed to, and the Commission approved, a voluntary "rate freeze" that prohibited any increase in Avista's base rates until January 1, 2016, at the earliest. *See* Order No. 33130.

address a second year increase in 2017. In other words, the settlement reflects a significant reduction in the Company's revenue requirement. On October 20, 2015, the Commission issued a Notice of Proposed Settlement and requested comments on the proposed settlement. The Commission convened a telephonic customer hearing and a technical hearing in Boise on November 23, 2015.

Having thoroughly reviewed the Application, the proposed settlement, public comments and the testimony of the parties, we approve the settlement as set out in greater detail below.

THE INITIAL APPLICATION

Avista is a public utility engaged in the generation, transmission and distribution of electricity and natural gas. Avista's service area includes eastern Washington, northern Idaho, and parts of southern and eastern Oregon. Avista's existing base rates and charges for electric and natural gas services were approved by the Commission on March 27, 2013, and took effect in October 2013. Order No. 32769.

In its Application, Avista claimed its existing rates are not fair, just, and reasonable, and that it must increase them so it can earn a fair return on its investment. Avista notified its customers about the proposed rate increases by distributing bill stuffers during the June 2015 billing cycle, and through news releases.

Avista maintained that it needs to increase its rates primarily to cover an increase in net plant investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest), and the December 31, 2016, expiration of an existing capacity sales agreement that will increase net power expenses. Application at 3.

Avista requested an overall rate of return of 7.62%, which includes a 50% common equity ratio, a 9.9% return on equity, and a 5.34% cost of debt. Avista asserted that the proposed rate of return and capital structure reasonably balance safety and economy. *Id.* at 7. Avista's requested rate increases are based on a 12-month test year ending December 31, 2014. *Id.* at 4. The initially-proposed rate increases are described below.

A. Electric Service

If Avista's Application were approved, a residential electric customer using an average of 929 kilowatt hours (kWh) per month could expect to see a bill increase of \$5.92 per month in 2016, which includes an increase in the basic monthly charge from \$5.25 to \$8.50. For

2017, the same customer could expect an average increase in his monthly electric bill of \$6.10.

The proposed electric rate increase for particular customer classes/schedules is as follows:

Proposed Electric Increase

Service Schedule	Proposed 2016 Billing Increase	Proposed 2017 Billing Increase
Residential Service Schedule 1	6.9%	6.7%
General Service Schedules 11 & 12	3.5%	3.5%
Large General Service Schedules 21 & 22	4.5%	4.5%
Extra Large General Service Schedule 25	4.5%	4.5%
Extra Large General Service Schedule 25P	2.6%	2.7%
Overall Annual Increase	5.2%	5.1%

B. Gas Service

If Avista’s initial Application were approved, a residential natural gas customer using an average of 61 therms per month could expect to see a monthly bill increase of \$3.90 in 2016, which includes an increase in the monthly service charge from \$4.25 to \$8.00. For 2017, the same customer could expect an average increase of \$1.79 per month. The proposed increase in natural gas rates for particular customer classes/schedules is as follows:

Proposed Natural Gas Increase

Service Schedule	Proposed 2016 Billing Increase	Proposed 2017 Billing Increase
General Service Schedule 101	6.5%	2.9%
Large General Service Schedule 111 & 112	3.5%	1.3%
Interruptible Sales Service Schedules 131 & 132	5.5%	2.0%
Transportation Service Schedule 146 (excluding natural gas costs)	4.5%	5.4%
Overall Annual Increase	5.8%	2.5%

C. Fixed Cost Adjustment

Besides the requested base rate increases, Avista also proposes to implement electric and natural gas fixed cost adjustment (FCA) mechanisms. The FCA is a rate adjustment mechanism that is designed to break the link between the amount of energy a utility sells and the revenue it collects to recover the fixed costs² of providing service to customers designed to break the link between a utility’s revenues and a consumer’s energy usage. The FCA redefines

² For example, infrastructure and customer service are largely fixed, whereas commodity costs are variable.

allowed revenue to remove the incentive to utilities to increase sales as a means of increasing revenue and profits.

Under the proposed FCA mechanism, the Company's revenues would adjust each month to reflect revenues based on number of customers, rather than the sale of kilowatt hours and therms. According to Avista, the difference between revenues based on sales and revenues based on the number of customers will result in either surcharges or rebates to customers the following year.

THE PROPOSED SETTLEMENT

After the Company filed its Application, all the parties engaged in settlement negotiations that resulted in a proposed settlement. The terms of the proposed settlement are supported by all parties to the case, and would fully resolve all the issues in this case. The parties agreed that Avista's requested increase in its electric revenues should be reduced to \$1.7 million (0.69%) for 2016, and the increase in its natural gas revenues be reduced to \$2.5 million (3.49%) for 2016. They agreed further that the new settled rates will not go into effect until January 1, 2016. The settlement does not address any increases in 2017. This compares to Avista's original request to increase rates by \$13.2 million (5.2%) and \$3.2 million (4.5%) for electric and gas service, respectively, in 2016; and by an additional \$13.7 million (5.1%) and \$1.7 million (2.2%) for electric and gas service, respectively, in 2017. See Stipulation and Settlement for a complete list of adjustments.

A. Cost of Capital

The parties agreed to a 9.5% return on equity and the following capital structure and rate of return:

Component	Capital Structure	Pro Forma Cost	Pro Forma Weighted Cost
Total Debt	50.00%	5.34%	2.67%
Common Equity	50.00%	9.50%	4.75%
Total	100.00%		7.42%

The terms of the settlement reflect a reduction in Avista's return on equity of \$2.438 million for electric, and \$415,000 for natural gas. Settlement at 4, 8.

B. Settled Increase by Service Schedule

The following tables reflect the agreed upon percentage increase by schedule for electric and natural gas service:

Electric Increase

Rate Schedule	Net Increase in Billing Rates
Residential Schedule 1	0.9%
General Service Schedule 11/12	0.5%
Large General Service Schedule 21/22	0.6%
Extra Large General Service Schedule 25	0.6%
Clearwater Paper Schedule 25P	0.4%
Pumping Service Schedule 31/21	0.7%
Street & Area Lights Schedules	0.8%
Overall	0.7%

Natural Gas Increase

Rate Schedule	Net Increase in Billing Rates
General Service Schedule 101	4.1%
Large General Service Schedule 111/112	1.5%
Interruptible Sales Service Schedule 131/132	2.7%
Transportation Service Schedule 146	5.2%
Overall	3.5%

C. Fixed Cost Adjustment

The Stipulation also includes implementation of a revenue-per-customer fixed cost adjustment (“FCA”) mechanism for electric and natural gas operations for an initial term of three years with a collaborative review at the end of the second full year. The FCA will compare actual FCA revenues to allowed FCA revenues determined on a per-customer basis, with any differences deferred for later rebate or surcharge.

Customers in the FCA will be segmented into two rate groups (residential and commercial).³ FCA surcharges cannot exceed a 3% annual rate adjustment; any unrecovered balances will be carried forward to future years; FCA balances will accrue interest at the customer rate for deposit (see Utility Customer Relations Rule 106, IDAPA 31.21.01.106); and there is no limit on the level of the FCA rebate.

³ “Commercial” electric customers are in rate Schedules 11, 12, 21, 22, 31 and 32; commercial gas customers are in rate Schedules 111 and 112.

D. Other Settlement Provisions

1. Cost-of-Service. After conducting cost-of-service studies for both electric and natural gas customers, Avista proposed moving electric customers 25% toward cost-of-service, and gas customers 33% toward cost-of-service. Based on the presented data, none of the participating parties found the Company's proposal objectionable, and thus the parties agreed to the incremental move for cost-of-service. For settlement purposes, the parties agreed to use a pro rata allocation of the Company's electric and natural gas rate spread percentages based on its proposed moves towards unity. Settlement at 13.

2. Rate Design. For settlement purposes, the parties agreed that the revenue requirement for each electric and natural gas service schedule would be applied as a uniform percentage increase to each rate. The parties further agreed that there would be no change to the electric monthly basic service charge for residential electric customers, and the natural gas monthly basic service charge for Schedule 101 gas customers would increase by \$1.00 per month, from \$4.25 to \$5.25. Settlement at 13-14.

3. Rebates. The proposed settlement specifies that the current \$2.8 million annual electric rebate for Schedule 97 customers will continue through December 31, 2017, by using \$5.6 million in 2014 revenue sharing. Further, the settlement agreement specifies that \$0.2 million in 2014 revenue sharing will be used to partially offset the expiration of the \$1.2 million rebate for natural gas customers on January 1, 2016. *Id.* at 14-15.

4. Low-Income Issues. Under the proposed settlement, Avista has agreed to meet and confer with interested parties prior to the Company's next general rate case, with an initial meeting to take place no later than June 30, 2016, to better identify the usage patterns of low-income customers. The parties agreed further to assess the feasibility and performance of the Company's Low Income Weatherization and Low Income Energy Conservation Education Programs and discuss funding of those programs in the future. *Id.* at 15-16.

COMMENTS AND SETTLEMENT TESTIMONY

A. Public Comments

After the initial Application was filed, the Commission received approximately 60 customer comments regarding the proposed increase in Avista's electric and gas rates. The vast majority of these comments were from residential customers who intensely oppose any increase

in rates. Additionally, a few customers expressed concern that the fixed cost adjustment mechanism would merely shift an additional financial burden onto customers.

Notably, the Commission received a comment from an Avista customer expressing dissatisfaction with Avista's initial rate increase in light of a news report that a local hospital was awarded a grant from the Avista Foundation. The customer apparently presumed the rate increase would support things like the grant program as well as the Company's stock price.⁴

Following notice of the proposed settlement, the Commission received only one customer comment expressing support generally for the settlement, but opposing the implementation of the FCA. No customers testified during the telephonic customer hearing on November 23, 2015.

B. The Company

The Company's witnesses testified that the settlement is in the public interest and a fair, just and reasonable compromise of the parties' positions. Tr. at 8. The Company notes that the settlement is "the end result of extensive audit work conducted through the discovery process, including various on-site audit visits by Commission Staff, and hard bargaining by all Parties in this proceeding." *Id.*

Company witness Elizabeth Andrews explained that the settlement is in the public interest for several reasons. First, the settlement is the product of the give-and-take of negotiation that produced a just and reasonable end result. Second, it is supported by evidence demonstrating the need for rate adjustments to provide recovery of necessary expenditures and investment, the costs of which are not offset by a growth in sales margins. Finally, she pointed out that the settlement enjoys broad-based support from the variety of constituencies represented in this case. Tr. at 9.

C. CAPAI

CAPAI unconditionally supported and joined in the settlement. Tr. at 99. CAPAI's witness Christina Zamora testified that Avista's original proposal was objectionable because it included a significantly higher revenue requirement, phased-in over two years. CAPAI supported the settlement because of the significant reduction in the revenue requirement. Ms.

⁴ The Commission notes that the Avista Foundation is a separate, non-profit organization established by Avista Corp. The foundation does not receive funding from Avista Utilities ratepayers. Furthermore, Avista is not seeking nor receiving recovery for donations, grants, or company stock.

Zamora also noted that the 3% cap on a FCA surcharge will “help to avoid rate shock in any given year.” Tr. at 104.

She explained that CAPAI participated fully throughout the entirety of this case and in all settlement negotiations. At the conclusion of negotiations, CAPAI determined that the settlement is in the best interests of Avista’s low-income ratepayers and all ratepayers in general. Tr. at 99.

D. Commission Staff

Staff witness Randy Lobb testified that Staff only agreed to the settlement after a comprehensive review of “the Company’s application, thorough audit of the Company books and records and extensive negotiation with parties to the case. . . .” Tr. at 58. Staff identified 23 adjustments to the Company’s requested electric revenue requirements and 16 adjustments on the gas side. Tr. at 67.

In addition to an overall reduction in return on common equity, Mr. Lobb explained that Staff focused on adjusting three general categories: (1) eliminate test year pro forma expense and investment beyond December 31, 2015; (2) modify miscellaneous test year expenses; and (3) lengthen amortization periods for deferred accounts. Tr. at 61.

Mr. Lobb pointed out that the Company had originally proposed a return on common equity of 9.9% while the settlement specifies a return of 9.5%. Staff reasoned that the lower return is within a reasonable range for Avista’s financial situation and represents a reasonable compromise here. Thus, through settlement, the return on equity adjustment reduced electric revenue requirement by \$2.44 million and natural gas revenue requirement by \$415,000. He also stated that “limiting test year pro forma expense and investment to December 31, 2015, better reflects known and measurable costs actually incurred by the Company and is consistent with [Commission Order No. 30772].” Tr. at 71. Staff accepted the stipulated rate design which is aimed at moving all customer classes closer to their actual cost-of-service. Further, he insisted that Staff supported implementation of the proposed FCA mechanism, stating, “[i]f the Company successfully encourages lower energy and gas consumption, Staff believes the FCA will undoubtedly save customers money in the long run by deferring or eliminating capital costs that might otherwise be required to serve growing load.” Tr. at 88.

Throughout the settlement, he maintained that Staff strove to “achieve an outcome that is better for customers than what otherwise could be achieved through a litigated case.” Tr.

at 67. Based upon Staff's thorough investigation and analysis, he testified that the proposed settlement is fair, just, and reasonable and in the public interest. Consequently, Staff recommended the Commission should approve the settlement.

DISCUSSION AND FINDINGS

A. Standard of Review

The Commission's process for considering settlement stipulations is set forth in Procedural Rules 271-277. IDAPA 31.01.01.271-277. When a settlement is presented to the Commission, the Commission will prescribe the procedures appropriate to the nature of the settlement to consider it. In this case, the Commission accepted testimony in support of the settlement and convened both a technical hearing and public customer hearing on the Settlement. IDAPA 31.01.01.274. The purpose of an evidentiary hearing on a settlement is "to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy." IDAPA 31.01.01.274 and .275. Finally, the Commission is not bound by settlement agreements. Instead, the Commission "will independently review any settlement proposed to it to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy." IDAPA 31.01.01.276.

B. The Proposed Settlement

At the outset, we note that the parties to this case represent a wide variety of customers interests and that all parties have testified or otherwise represented that the settlement is a reasonable compromise of disputed issues, and that the Commission should approve it in the public interest. Based upon our thorough review, we find the settlement is fair, just and reasonable.

The Company initially applied to increase revenue from electric and natural gas service by \$13.2 million and \$3.2 million in 2016, and sought an additional \$13.7 million and \$1.7 million in 2017. The Company also filed supporting testimony to justify these initial requests. Commission Staff reviewed the Application and identified a number of adjustments. Staff acknowledged that it might not have prevailed on some of the identified adjustments if the matter had proceeded to a full hearing. Under the settlement, Avista will recover much smaller amounts, \$1.7 million in additional annual electric revenue, and \$2.5 million in additional annual

natural gas revenue. Put another way, the settlement represents a significant reduction in Avista's requested revenue increase.

The Company submits that its existing rates are insufficient to recover costs and expenses. We find that the stipulated \$1.7 million in additional annual electric revenue, and \$2.5 million in additional annual natural gas revenue will provide adequate recovery for the Company without unreasonably burdening the utility's customers. Consequently, we find the stipulated revenue increase to be just, fair and reasonable. *See Idaho Code* § 61-622. We further find that the parties' compromises regarding cost of service and rate design are fair and reasonable.

The parties have also agreed upon a three-year FCA pilot for electric and natural gas operations. The FCA will compare actual FCA revenues to allowed FCA revenues determined on a per-customer basis. Any differences will be deferred for a rebate or surcharge. There are a number of customer safeguards, including that an FCA surcharge cannot exceed a 3% annual rate adjustment. Any unrecovered balances will be carried forward to recover in future years. Further, there is no limit to the level of the FCA rebate. As part of the Stipulation, Staff and other interested parties, will review the efficacy of the FCA after its second full year to ensure it is functioning as intended. Fixed cost adjustment mechanisms are intended to encourage conservation, and allow customers more control over their bills. Further, the proposed FCA will remove any financial disincentive of the Company to encourage energy conservation.

Accordingly, on the record in this case, we find the terms of the settlement to be just, fair, and reasonable. The settlement represents a reasonable compromise of the positions held by the parties and reflects a significant reduction in the requested revenue increase. We thus find it is in the public interest. *See IDAPA* 31.01.01.274-276.

The Commission appreciates the parties' work on the settlement, and their ability to resolve all of the issues in this case.

INTERVENOR FUNDING

On December 7, 2015, CAPAI timely filed a Petition for Intervenor Funding, seeking an award of \$7,072.15. *See CAPAI's* Petition for Intervenor Funding. Intervenor funding is available under *Idaho Code* § 61-617A, which declares it is the "policy of [Idaho] to encourage participation at all stages of all proceedings before this Commission so that all affected customers receive full and fair representation in those proceedings." The statute empowers the Commission to order any regulated utility with intrastate annual revenues exceeding \$3.5 million

to pay all or a portion of the costs of one or more parties for legal fees, witness fees and reproduction costs not to exceed a total for all intervening parties combined of \$40,000. *Id.* The Commission must consider the following factors when deciding whether to award intervenor funding:

- (a) A finding that the participation of the intervenor has materially contributed to the decision rendered by the Commission;
- (b) A finding that the costs of intervention are reasonable in amount and would be a significant financial hardship for the intervenor;
- (c) The recommendation made by the intervenor differed materially from the testimony and exhibits of the Commission Staff; and
- (d) The testimony and participation of the intervenor addressed issues of concern to the general body of users or consumers.

Idaho Code § 61-617A(2). To obtain an intervenor funding award, an intervenor must comply with Commission Rules of Procedure 161 through 165. Rule 162 provides the form and content for the petition. IDAPA 31.01.01.162.

Commission Findings: We find that CAPAI's Petition satisfies the intervenor funding requirements. CAPAI intervened and participated in all aspects of the proceeding, with a focus on residential rate design issues, with an underlying focus on low-income customers. CAPAI's Petition shows that it worked closely with Avista throughout the process both formally and informally. CAPAI notes that the Company has agreed to meet with CAPAI, Staff and all other interested parties no later than June 2016, to discuss means by which to obtain better low-income data including identifying an accurate methodology to identify the Company's low-income customer base, and consumption tendencies of those customers. CAPAI further notes that the Company has agreed to re-assess its Low Income Weatherization Assistance and Low Income Conservation Education programs, how to maximize their cost-effectiveness and what appropriate future funding levels could be reasonably justified.

The Commission further finds that CAPAI has materially contributed to the Commission's decision. CAPAI's recommendation materially differs from Staff's testimony and exhibits, and CAPAI'S participation addressed issues of concern to the general body of customers. Finally, we find the costs and fees incurred by CAPAI are reasonable in amount, and that CAPAI, as a non-profit organization, would suffer financial hardship if the request is not

approved. Accordingly, we approve an award of intervenor funding to CAPAI in the amount of \$7,072.15. This amount will be recovered from Avista residential electric and natural gas customers.

ORDER

IT IS HEREBY ORDERED that the parties' Motion to Accept the Stipulation and Settlement is approved.

IT IS FURTHER ORDERED that the proposed electrical and natural gas tariff schedules, attached to the Stipulation, are approved as filed, effective January 1, 2016.

IT IS FURTHER ORDERED that CAPAI's Petition for Intervenor Funding is granted in the amount of \$7,072.15.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 18th
day of December 2015.



PAUL KJELLANDER, PRESIDENT

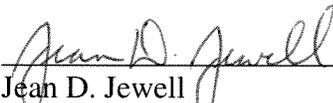


MARSHA H. SMITH, COMMISSIONER



KRISTINE RAPER, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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