

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF AVISTA CORPORATION DBA AVISTA)	CASE NO. AVU-E-19-04
UTILITIES FOR AUTHORITY TO)	
INCREASE ITS RATES AND CHARGES FOR)	
ELECTRIC SERVICE TO ELECTRIC)	ORDER NO. 34499
CUSTOMERS IN THE STATE OF IDAHO)	
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On June 10, 2019, Avista Corporation dba Avista Utilities (“Avista” or “Company”) filed an Application seeking authority to increase its rates for electric service in Idaho. Avista proposed an increase in electric base revenues of \$5.255 million or 2.1%. The Company also requested an effective date of January 1, 2020, for the proposed rate increase.

The Commission issued a Notice of Application and granted intervention to Idaho Forest Group LLC (“IFG”), Clearwater Paper Corporation (“Clearwater Paper”), Walmart Inc. (“Walmart”), Idaho Conservation League, Inc., (“ICL”), and the Community Action Partnership Association of Idaho, Inc. (“CAPAI”). *See* Order Nos. 34368, 34369, 34374 and 34384.

On September 12, 2019, the Commission set deadlines for the parties to file testimony and exhibits, scheduled a settlement conference for the parties and set a date and time for a technical hearing.¹ *See* Order No. 34433.

The parties held settlement discussions on October 1, 2019, and on October 15, 2019, the Company filed a Motion for Approval of Stipulation and Settlement (“Motion”) with a copy of the proposed Stipulation and Settlement (“Settlement”) attached.² The Settlement was signed and supported by all parties that intervened in the case. On October 28, 2019, the Company filed an amended Settlement that corrected minor errors in the original document.

On October 22, 2019, the Commission issued an Order providing Notice of the Proposed Settlement. Order No. 34462 also amended the case schedule setting forth 1) deadlines for filing of testimony to support the Settlement; 2) deadlines for filing of written comments; 3)

¹ “A technical hearing is a public hearing where parties present witnesses and their prepared testimony and exhibits.” IDAPA 31.01.01.241.04.a.

² Avista and the Commission Staff signed the Motion.

scheduling a public workshop, public hearing and separate public telephonic hearing for customers of the Company, public officials and any other person not related to parties in the case; and, 4) vacating the scheduled technical hearing and resetting it for Friday, November 22, 2019. *Id.* at 4-6.

On November 7, 2019, the Commission Staff (“Staff”) held a public workshop in Coeur d’Alene, Idaho followed by a public hearing for customers of the Company, public officials and any other person not related to parties to the case.³ On November 22, 2019, the Commission held a technical hearing and public telephonic hearing in Boise, Idaho. After the technical hearing and telephonic public hearing the Commission closed the written comment period and the record. *See* Order No. 34462. Having reviewed the record, the Commission now issues this Order approving the Settlement based on the findings set forth below.

OVERVIEW OF THE SETTLEMENT

The proposed Settlement was executed by the Company and all other parties. The Settlement provides Avista should be allowed to implement revised tariff schedules designed to decrease annual base electric revenues by \$7.188 million, or 2.84% (on a billed basis the decrease is 2.80%), with an effective date of December 1, 2019. *See Settlement* at 2-3.

Under the Settlement, Avista’s base rates and billing rates would change by schedule because of the decrease in annual base electric revenues as follows:

Proposed Resulting Percentage Decrease by Electric Service Schedule Effective December 1, 2019

<u>Rate Schedule</u>	<u>Decrease in Base Rates</u>	<u>Decrease in Billing Rates</u>
Residential Schedule 1	-1.0%	-1.0%
General Service Schedules 11/12	-8.4%	-8.2%
Large General Service Schedules 21/22	-4.5%	-4.4%
Extra Large General Service Schedule 25	-1.0%	-1.0%
Clearwater Paper Schedule 25P	-1.0%	-1.0%
Pumping Service Schedules 31/32	-1.6%	-1.5%
Street & Area Lights Schedules 41-48	0.0%	0.0%
Overall	<u>-2.8%</u>	<u>-2.8%</u>

³ Rule 241 of the Commission’s Rules of Procedure provides, that “[a] customer hearing is a public hearing for customers, public officials, and other persons not related to parties in the case to provide testimony.” IDAPA 31.01.01.241.04.b.

Id. at 10.

In the Settlement, the parties also agreed to a 9.5% return on equity (“ROE”) and a 50.0% common equity ratio which represents a continuation of the presently authorized ROE and capital structure for the Company. *Id.* at 3; *see also* 33953. The Settlement provides for Avista’s capital structure and the resulting rate of return as set forth below:

Component	Capital Structure	Cost	Weighted Cost
Debt	50%	5.20%	2.60%
Common Equity	50%	9.50%	4.75%
Total	100%		7.35%

Id. at 3.

In the Settlement, the parties agreed to remove the net expenses for the Palouse Wind Project⁴ and Rattlesnake Flat Wind⁵ Power Purchase Agreements from power supply expense in this rate case. *See Settlement* at 4 and 7. However, the parties agreed the costs for these wind projects should be included in the Company’s Power Cost Adjustment mechanism (“PCA”) subject to the current sharing (90% customer, 10% Company). *Id.* at 8. Further, the parties agreed Idaho will be assigned its proportional share of all environmental attributes from these wind projects. *Id.*

The Settlement does not set forth an agreement on any particular cost-of-service methodology. However, it does recognize that certain rate schedules are well above their cost of service and that customers taking service under Avista’s Schedules 11/12 and 21/22 would receive a revenue decrease above the overall percentage base rate change to move them closer to cost-of-service parity. *Id.* at 9. The remaining schedules would also receive revenue decreases below the overall percentage base rate change, at varying levels, to move most of them closer to their cost of service. *Id.*

The Settlement also provides increased funding for the Low-Income Weatherization Assistance (“LIWA”) program, raising it by \$50,000 to \$850,000 annually. *Id.* at 10.

The Settlement further provides Avista will establish an Energy Efficiency Assistance Fund (“EEAF”) to help fund projects not fully funded through existing energy efficiency

⁴ The Palouse Wind Project is a wind farm located in Whitman County, Washington. The associated PPA is a 30-year contract that was executed by the Company in 2011. *See Settlement* at footnote 5, p. 8.

⁵ The Rattlesnake Flat Wind project is a wind farm located in Adams County, Washington. Rattlesnake Flat is expected to begin commercial operation in December 2020 under a 20-year contract. *See Settlement* at footnote 6, p. 8.

incentives or that do not otherwise qualify for traditional energy efficiency funding. *Id.* at 10. The EEAF would be funded as follows:

- i. The final deferral balance related to the “AFUDC Equity Tax Deferral”, addressed in Case Nos. AVU-E-19-02 and AVU-G-19-01, as ordered in Commission Order No. 34326 would be a source of funding. The deferral balance is about \$800,000.
- ii. Avista would contribute below-the-line dollars of \$800,000 in 2019 as a match to the estimated AFUDC Equity Tax Deferral (in subsection i.)

Id. The EEAF funds would be disbursed as directed by an EEAF Advisory Group, a new committee of stakeholders tasked with determining which existing or new programs should receive this funding to address energy efficiency, weatherization, conservation, and low-income needs in Avista’s Idaho service territory. *Id.* at 10-11. The EEAF Advisory Group will consider the needs of all parties and remain flexible on the timing of any disbursements. *Id.* at 11. Any entity seeking funding must first attempt to qualify their applicable project under Avista’s existing energy efficiency programs. *Id.* The EEAF Advisory Group initially would consist of representatives from Avista, Staff, the Lewiston Community Action Partnership, ICL, Idaho Forest, and Clearwater Paper. *Id.* The EEAF Advisory Group may add representatives at its discretion. *Id.*

Under the Settlement, Avista agrees to work with Clearwater Paper to attempt to qualify the following projects for demand-side management (“DSM”) funding under Tariff Schedule 90:⁶

- Variable speed drives on the No.1 paper machine hydropulper.
- Variable speed drives on the No. 4 power boiler demineralized water pumps.
- Energy efficient chillers and compressors for the Lurgi system.
- A variable speed drive on the No. 1 paper machine white water system.
- Variable speed drives on the two wastewater outfall pumps.

Id. at 11.

⁶ Avista’s Tariff Schedule 90 allows for possible DSM funding of up to 70% of the Clearwater Paper and Idaho Forest projects, subject to meeting certain specified cost-effectiveness criteria. The portion of the estimated cost of these identified projects that are not reimbursed under Schedule 90 will be considered for funding through the EEAF, where the EEAF Advisory Group will consider the needs of all parties and remain flexible on the timing of any disbursements.

In the Settlement, Avista also agrees to work with Idaho Forest to attempt to qualify the following projects for DSM funding under Tariff Schedule 90:

- Installation of information technology to gather plant information data (“PI Data”) on energy usage at Idaho Forest's Lewiston plant, and through an installed interface, transmit real-time energy load information data for each operating station to Idaho Forest and Avista. This may serve as a useful demonstration project for data interfaces with other customers on Avista's system. The total estimated cost is \$300,000.
- Replacement of aging compressors, saws and other equipment with state of the art machinery at Idaho Forest's Lewiston and Grangeville plants, to increase productivity and energy efficiency.

Id.

COMMENTS AND TESTIMONY OF PARTIES

Staff and the Company filed testimony supporting the Settlement. CAPAI and ICL also filed written comments⁷ to support the Settlement. The foregoing submissions are described in more detail below:

I. Testimony in Support of the Settlement

A. The Company

Ms. Elizabeth M. Andrews represented the Settlement results from extensive audit work conducted through discovery and on-site auditing visits by the Commission Staff. *See Direct Testimony of Elizabeth M. Andrews* at p. 5. Ms. Andrews stated the Settlement resolved all the issues among the parties associated with the calculation of Avista's requested cost of capital, including capital structure and cost components, and resolves all revenue requirement issues. *Id.* According to Company witness Joseph D. Miller, the Settlement includes terms regarding rate spread and rate design. *See Direct Testimony of Joseph D. Miller* at p. 2. Mr. Miller also testified the Settlement contains components for the new level of power supply revenues, expenses, retail load and Load Change Adjustment Rate related to Avista's Power Cost Adjustment mechanism.

⁷ On October 31, 2019, CAPAI filed the testimony of Will Gehl, the Executive Director of CAPAI which supported the Settlement. Unfortunately, due to illness, Mr. Gehl was not able to attend the technical hearing on November 22, 2019. As such the Commission has treated Mr. Gehl's testimony as written comments so they may be included in the record.

Id. at 3-4. Finally, Mr. Miller represented the Settlement contained the new level of baseline values for the Fix Cost Adjustment mechanism. *Id.*

Company witness Ms. Andrews explained the Settlement is in the public interest for several reasons. *Id.* at 6. First, Ms. Andrews testified “it was the product of the give-and-take of negotiation” that produced a just and reasonable end result. *Id.* Second, Ms. Andrews contended the Settlement is supported by evidence showing the need for rate adjustments to provide for the recovery of necessary expenditures and investment, the costs of which are not offset by a growth in sales margins. *Id.* Third, Ms. Andrews noted the Settlement enjoys support from a variety of customer groups. *Id.* Fourth, Ms. Andrews represented the Settlement provides a base rate reduction by December 1, 2019, which would benefit all customers as they budget for their winter heating needs. *Id.* In sum, Ms. Andrews asserted the Settlement strikes a reasonable balance between the interests of the Company and its customers, including low-income customers, and therefore represents a reasonable compromise among differing interests and points of view. *Id.* at 14.

B. Staff

Staff witness Donn English testified that before the settlement conference in the case Staff extensively reviewed the Company’s Application, associated testimony and work papers to identify adjustments to the Company’s revenue requirement request, and to prepare to file testimony for a potential fully-litigated proceeding. *See Direct Testimony of Donn English* at p. 7. Mr. English represented that Staff auditors engaged in an extensive investigation of the Company’s regulated operations and worked with other technical staff from the Utilities Division of the Commission to determine the prudence of capital additions and verify in-service dates. *Id.* at 7-8. Mr. English noted Staff also served over 150 production requests on the Company as part of its comprehensive investigation. *Id.* at 8. Mr. English asserted that because of this investigation Staff was prepared to recommend 28 adjustments to the Company’s requested revenue requirement, representing a decrease of \$14.35 million. *Id.*

Mr. English testified Staff found the Settlement was reasonable because all 28 revenue requirement adjustments identified by Staff were incorporated either fully or partially in it. *Id.* at 9. As a result the Settlement sets forth an electric revenue decrease of \$7.188 million. Mr. English also represented the Settlement provides a reasonable balance between the Company’s opportunity to earn a return and affordable rates for customers. *Id.* Mr. English also stated the Settlement

reflects a 9.5% return on equity (“ROE”) for the Company based on a capital structure of 50% equity and 50% debt⁸ which Staff reasoned was consistent with the Company’s currently authorized ROE, and other utilities’ ROEs in the Northwest. *Id.* at 10-11.

Mr. English further testified the Settlement provides additional funding for energy efficiency projects and the Company’s LIWA program. *Id.* Mr. English stated the Settlement also addresses cost-of-service differentials raised by the parties, including Staff, by distributing a rate decrease based on cost causation principles to bring customer classes closer to parity. *Id.* at 9-10.

Based on the foregoing, Staff believed the proposed Settlement is fair, just, and reasonable and in the public interest, and that the Commission should approve it. *Id.* at 2.

II.

Comments

A. CAPAI

In its comments CAPAI supported and joined in the Settlement, believing it to be “fair, just and reasonable, and in the interests of the general body of Avista’s ratepayers.” *See Direct Testimony of Wil Gehl* at p. 8. In reaching this conclusion, CAPAI pointed to specific parts of the Settlement that were of great importance to it. *Id.* at 5. First, CAPAI is pleased with the rate decrease afforded by the proposed Settlement. *Id.* at 5. Second, although residential customers would not receive as great a rate reduction as some other customer classes, CAPAI recognized:

[T]here are classes who clearly are paying more than their share of cost of service and a case resulting in a rate decrease seems an ideal time to bring those classes closer to their share of cost of service while the Residential class will still receive a rate decrease.

Id. at 6. Third, CAPAI supported the Settlement because it did not change the basic charge for the residential class. *Id.* at 6-7. Fourth, CAPAI appreciated the Company’s commitment to LIWA by its agreement to increase funding by \$50,000. *Id.* at 7. Fifth, CAPAI supported the Settlement because it includes CAPAI as a participant in the EEAF Fund, which could result in additional weatherization funding for Avista’s low-income customers. *Id.*

B. ICL Statement of Position

On October 31, 2019, ICL filed a Statement of Position (“Statement”) to support the Settlement under 31.01.01.255. *Statement of Position* at 1. ICL filed the Statement as an

⁸ Mr. English noted in his testimony that the Company had proposed a 9.9% rate on equity in its Application. *Id.* at 10.

alternative to filing testimony so it could avoid the expense of hiring a witness. *Id.* ICL represented it engaged in this case to address concerns about spending ratepayer dollars on the Colstrip coal plant and to secure additional support to help customers conserve energy. *Id.* ICL stated through negotiation the parties achieved reduced electric rates and increased conservation funding in the Settlement. *Id.* As a result, ICL signed the Settlement and believes it is in the public interest.

PUBLIC COMMENTS AND TESTIMONY

Two Avista customers testified at the customer hearing on November 7, 2019. Both opposed Avista's use of coal, specifically at the Colstrip plant. They both opposed Avista continuing to spend money on Colstrip.

In addition, the Commission received 20 customer comments regarding the Application or Settlement. The vast majority of these were from residential customers who strongly opposed any rate increase. Many of the commenters indicated they are retired or on fixed incomes and cannot afford a rate increase.

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over this matter under *Idaho Code* §§ 61-502 and 61-503. The Commission has the express statutory authority to investigate rates, charges, rules, regulations, practices, and contracts of public utilities and to determine whether they are just, reasonable, preferential or discriminatory, or in violation of any provision of law, and may fix the same by Order. *Idaho Code* §§ 61-502 and 61-503.

The Commission's process for considering settlement stipulations is set forth in its Rules of Procedure 271-277. IDAPA 31.01.01.271-277. When a settlement is presented to the Commission, it "will prescribe the procedures appropriate to the nature of the settlement to consider the settlement." IDAPA 31.01.01.274. In this case, the Commission convened both a technical hearing and public customer hearings on the Settlement. IDAPA 31.01.01.274. Proponents of a proposed settlement must show "that the settlement is reasonable, in the public interest, or otherwise in accordance with law or regulatory policy." IDAPA 31.01.01.275. Finally, the Commission is not bound by settlement agreements. IDAPA 31.01.01.276. 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." *Id.*

The Commission has reviewed the Application, Settlement, testimony, and comments. The parties have built a substantial record through their filings, negotiations and participation in hearings setting forth their justifications for signing and supporting the Settlement. We appreciate the investment of time and resources the parties and members of the public have made to participate in this case. The robust record has greatly assisted the Commission, allowing it to clearly understand the issues. Based on our review of the record, we find that the Settlement is fair, just and reasonable and we approve it.

The Commission finds that under the Settlement, Avista will implement tariff schedules designed to decrease annual base electric revenue by \$7.188 million or 2.84%, effective December 1, 2019. The Commission notes that the Settlement's rate changes and associated revenue requirement departed significantly from the Company's original proposal. The resulting rate decrease provided by the Settlement for Avista's customers, particularly residential customers, is extremely timely as the winter heating season begins.

Due to the rate decrease specified in the Settlement, the Commission also finds it is an opportune time to implement rate changes in varying amounts for each of Avista's customer classes that will allow the Company to move most customer classes closer to their cost of service.

The Commission finds the Rattlesnake Flats Wind Project will not be operational and delivering power under the associated Power Purchase Agreement ("PPA") until December of 2020. Accordingly, the Commission does not determine the prudence of costs related to the Rattlesnake Flats PPA, associated costs the Company will incur to build infrastructure to connect to the Rattlesnake Flats Wind project. The Commission also does not decide the prudence of the Company's entering into the PPA at this time. However, in the future, the Commission will determine the prudence of recovering the actual power supply costs from the Rattlesnake Flats PPA through PCA filings at the current sharing level of 90% customers, 10% Company. We find this proposed methodology reasonable.

The Commission recognizes the Settlement resulted from compromises reached by a diverse group of Avista's customers and stakeholders. The consensus culminating in the Settlement will benefit customers through decreased rates for service, a funding increase for low-income weatherization and the establishment and funding of the EEAF which will help fund energy efficiency projects that qualify. Based on the record, we find that the Settlement is in the public interest and is fair, just and reasonable and shall be approved.

At this time the Commission reserves decision on any intervenor funding request that might be made by any intervening party. Requests for intervenor funding must be filed with the Commission no later than 5:00 p.m. (MST) on Friday, November 29, 2019. The Commission's review and decision on any such request will be made by a separate order.

ORDER

IT IS HEREBY ORDERED that the Settlement regarding Avista's Application in Case No. AVU-E-19-04 is approved.

IT IS FURTHER ORDERED that the Company may implement revised tariff schedules designed to recover the decreased annual electric revenue from Idaho customers consistent with the Settlement, with revised rates effective December 1, 2019, as set forth in the Settlement. The Company is directed to file the appropriate tariff schedules with the Commission before those dates.

IT IS FURTHER ORDERED that petitions for intervenor funding must be filed by 5:00 p.m. (MST) on Friday, November 29, 2019.

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 with regard to any matter decided in 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.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29th
day of November 2019.


PAUL KJELLANDER, PRESIDENT


KRISTINE RAPER, COMMISSIONER


ERIC ANDERSON, COMMISSIONER

ATTEST:


Diane M. Hanian
Commission Secretary

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