

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA) **CASE NO. AVU-E-20-06**
CORPORATION’S ANNUAL FIXED COST)
ADJUSTMENT MECHANISM FILING)
) **ORDER NO. 34802**
)
_____)

On June 30, 2020, Avista Corporation (“Company” or “Avista”) applied to the Commission for authority to set FCA rates for electric service from October 1, 2020, through September 30, 2021, and to approve its corresponding modifications to Schedule 75, “Fixed Cost Adjustment Mechanism – Electric.” The Company proposes to reduce its present FCA surcharge rates for residential and non-residential customers. Specifically, the Company requested an FCA surcharge rate of 0.028 cents per kilowatt-hour (“kWh”) for the Residential Group (Schedule 1) and a FCA surcharge rate of 0.011 cents per kWh for the Non-Residential Group (Schedules 11, 12, 21, 22, 31 and 32). *Application* at 1-2. The proposed Residential Group rate change is a \$1.6 million, or 1.4% decrease to residential customers, and the proposed Non-Residential Group rate change is a \$1.4 million, or 1.6% decrease to non-residential customers. *Id.* at 2. The Company asked that its Application be processed by Modified Procedure and requested an October 1, 2020, effective date. *Id.* at 2.

On July 20, 2020, the Commission issued Notice of Application and Notice of Modified Procedure establishing a public comment period and Company reply deadline. The Commission Staff (“Staff”) filed comments on September 9, 2020. The Company did not file reply comments.

Having reviewed the record, the Commission enters this Order approving the Company’s Application.

BACKGROUND

The FCA is a rate adjustment mechanism designed to break the link between the energy a utility sells and the revenue it collects to recover fixed costs¹ of providing service, thus decoupling the utility’s revenues from its customers’ energy usage. *See* Order No. 33437 at 3. Decoupling encourages energy conservation by removing a utility’s incentive to sell more to increase revenue and profits. *Id.* at 10.

¹ “Fixed costs” are a utility’s costs to provide service that do not vary with energy use, output, or production, and remain relatively stable between rate cases – for example, infrastructure and customer service.

The Commission approved the Company's FCA as a three-year pilot program in the approved settlement ("Settlement") of Avista's 2015 general rate case. *See* Case Nos. AVU-E-15-05, AVU-G-15-01; *Application* at 3; and Order No. 33437 at 10. Order No. 33437 set forth how the FCA mechanism works, including: treatment of existing versus new customers, quarterly reporting, annual filings, interest, accounting, and a 3% rate increase cap. Order No. 33437 at 10.

On June 15, 2018, the Commission approved an addendum to the Settlement, which extended the Company's FCA pilot for an additional year. *See* Order No. 34085 at 2; *Application* at 3-4. Pursuant to the addendum to the Settlement, the Company, Staff, and interested parties met on March 27, 2019, to review the effectiveness of the FCA mechanism. *Application* at 5. The Commission approved the extension of the FCA from January 1, 2020 through March 31, 2025. *See* Order No. 34502 at 4. As part of the extension, the Commission approved the modification of the deferral period to a July to June basis by using a one-time 18-month deferral period, January 1, 2020, through June 30, 2021. *Id.* The effective date of electric FCA rate adjustments is still October 1, but the annual rate adjustment filings will be made by July 31 of each year, beginning with next year's filing. *Id.*; *see also Application* at 6. Other modifications to the FCA include an annual revenue-per-customer true-up to the deferral calculation and quarterly reports due by 60-days after the end of each quarter. *Id.*; *see also Application* at 6.

APPLICATION

In its electric FCA filing, Avista proposed to decrease rates for its Residential Group and Non-Residential Groups based on the deferred revenue recorded for January 1, 2019, through December 31, 2019. The Company attributed its electric FCA surcharge deferred revenues to lower monthly use-per-customer ("UPC") than the UPC that was embedded in the 2016 test year. The primary drivers for the change in UPC are mostly due to cooler weather in February and March of 2019, that fluctuated with offsetting impacts through the rest of the year and savings from energy efficiency programs in 2019. *Id.* at 6-7.

1. Residential Group Rate Determination

Avista recorded \$337,502 in the surcharge direction in deferred revenue in 2019 for its Residential Group and -\$9,294 in 2018 FCA carryover and other adjustments for accumulated interest and revenue related expense. *Id.* at 8. The Company proposed to decrease the FCA surcharge rate for the Residential Group from 0.158 cents per kWh to 0.028 cents per kWh to recover \$333,905 from the Company's residential electric customers served under rate Schedule

1. *Id.* at 8. The Company represented that interest on the deferred balance would accrue at the customer deposit interest rate. *Id.* at 8-9. If the proposed surcharge is approved by the Commission, the 2019 deferral balance, plus interest through September, will be transferred into the regulatory asset balancing account with any outstanding balance from the surcharge approved for recovery in the prior year FCA rate filing. *Id.* at 9. Avista stated the balance in the account will be reduced each month by the revenue collected under the tariff. *Id.* at 9. The Company represented that residential customers using an average of 898 kilowatt-hours per month would see their monthly bills decrease from \$85.30 to \$84.13, a decrease of \$1.17 per month, or 4%. *Id.* at 12.

2. Non-Residential Group Rate Determination

Avista recorded \$109,351 in the FCA surcharge direction in deferred revenue in 2019 for its Non-Residential Groups and \$7,242 in 2018 FCA carryover and other adjustments for accumulated interest and revenue related expense. *Id.* at 9. The Company proposes to decrease the FCA surcharge rate for the Non-Residential Groups from 0.145 cents per kWh to 0.011 cents per kWh to recover \$116,684 from non-residential electric customers in Schedules 11, 12, 21, 22, 31, and 32. *Id.* at 9. If the Commission were to approve the proposed surcharge, then Avista would transfer the 2019 deferral balance, plus interest through September, into the regulatory asset balancing account with any outstanding balance from the surcharge approved for recovery in the prior year FCA rate filing. *Id.* at 10. Avista stated the balance in the account will be reduced each month by the revenue collected under the tariff. *Id.*

3. Proposed Tariff Modifications

As part of its Application, the Company included revisions to the Term provision stated on tariff Sheet 75, the Calculation of Monthly FCA Deferral mechanism description stated on tariff Sheet 75B, and the Annual Electric FCA Rate Adjustment provision on tariff Sheet 75C to reflect these approved modifications to the mechanism going forward in compliance with the Commission Order. *Id.* at 6.

4. 3% Annual Rate Increase Test

Avista asserted that the 3% annual rate increase limitation is not an issue in this case because the Company is proposing to decrease its FCA surcharge rates. *Id.* at 10-11.

5. Existing and New Customers

Avista represented that the Settlement provides that electric customers added after the test year are subject to an FCA Revenue-Per Customer that excludes incremental revenue related to fixed production and transmission costs. *Id.* at 11. The Company stated separate calculations for new versus existing customers are clearly identified in the FCA base approved in Order No. 33953 for rates effective January 1, 2019 and Order No. 34499 for rates effective December 1, 2019. *Id.*

Due to this segregation, Avista tracks the usage of new customers since January 1, 2017, as compared with existing customers. *Id.* In general, the average usage of new customers is lower compared to the average usage of existing customers. *Id.* The Company represented that new customer meters, on average, have less usage in the first 6 to 12 months, and then generally see increases until usage is consistent with the average usage of existing customers after that period. *Id.* at 11-12. This is due, in part, to the lag that occurs between when a meter is installed and billing commences, and when a customer moves into the premises. *Id.* at 12. Avista will continue to track the usage of new customers over the FCA term. *Id.*

6. Communications and Service of Application

Avista represented it brought the Application to the attention of customers by serving a copy on the service list in Case Nos. AVU-E-15-05 and AVU-G-15-01, the cases that gave rise to the FCA mechanisms. *Id.* at 12-13. The Company also stated that a news release and customer notice was issued on June 30, 2020, and the customer notice would be inserted in customer bills starting in the July timeframe and will run for a full billing cycle. *Id.*

COMMENTS

Staff recommended that the Commission approve the Company's proposed, decreased surcharges and corresponding surcharge rates of 0.028 cents per kWh and 0.011 cents per kWh for the Residential Group and Non-Residential Groups for the 2019 FCA year. *Staff Comments* at 3. Additionally, Staff recommended that the Commission approve the Company's proposed revisions to Schedule 75, "Fixed Cost Adjustment Mechanism - Electric." *Id.* Staff noted the Company included revisions to the Term provision stated on tariff Sheet 75, the Calculation of Monthly FCA Deferral mechanism description stated on tariff Sheet 75B, and the Annual Electric FCA Rate Adjustment provision on tariff Sheet 75C. *Id.*

After its review Staff believed that it has reasonable assurance that the FCA deferral balance and associated rates for the Residential Group and Non-Residential Groups have been correctly calculated by the Company. *Id.*

Staff asserted that Avista's estimates of UPC in kWh and FCA revenue demonstrated that energy efficiency is not the sole driver of declining energy sales, and that the FCA mechanism provides fixed cost recovery for a wide range of factors. *Id.* Staff also stated that the FCA helps stabilize revenue-lowering risk to the Company, potentially lowering its cost of capital. *Id.* at 5. However, Staff asserted that it is less clear how customers benefit from FCA rate adjustments. *Id.* Staff indicated that although Staff is not currently recommending a lower cost of equity to recognize the lower risk to the Company, it may do so in the future. *Id.*

Staff noted Avista has made two other rate adjustment filings that request an October 1, 2020, effective date. Avista's proposed Power Cost Adjustment ("PCA") filing (AVU-E-20-07), if approved, will increase electric revenues by about \$2.2 million (0.9% increase) and its proposed Residential and Small Farm Energy Rate Adjustment ("BPA") filing (AVU-E-20-08), if approved, will increase electric revenues by \$0.6 million (0.2% increase). *Id.* The \$3.0 million decrease in electric revenues from the proposed FCA represents a 1.2% revenue decrease. *Id.* The net effect of Avista's three filings is to decrease electric revenues by \$0.2 million (0.1% decrease). *Id.* As a result, if these proposals are approved the average residential electric customer's monthly bill will decrease by 6 cents (0.1% decrease). *Id.*

Staff stated the Company's press release and customer notice addressed three cases: this case (AVU-E-20-06), the natural gas Fixed Cost Adjustment (AVU-G-20-5), and the Purchased Gas Cost Adjustment (AVU-G-20-04). *Id.* Staff reviewed the documents and determined that both meet the requirements of Rule 125 of the Commission's Rules of Procedure. *Id.* The notice was included with bills mailed to customers beginning July 6, and ending August 3, 2020, providing customers with a reasonable opportunity to file timely comments with the Commission by the September 9, 2020, deadline. *Id.* at 5-6. As of September 16, 2020, no customer comments had been filed.

Staff recommended that the Commission approve the Company's FCA filing with corresponding modifications to Schedule 75, Fixed Cost Adjustment Mechanism-Electric, as filed.

COMMISSION DISCUSSION AND FINDINGS

The Commission has jurisdiction over the Company and this matter pursuant to *Idaho Code* §§ 61-336, 61-502, 61-503 and 61-622. 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, 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 has reviewed the record and finds the Company's requested FCA Residential Group (Schedule 1) surcharge rate of 0.028 cents per kWh, and FCA Non-Residential Group (Schedules 11, 12, 21, 22, 31 and 32) surcharge rate of 0.011 cents per kWh to be fair, just, and reasonable. The Commission finds that the Company correctly calculated its deferral balances. The 3% annual rate adjustment cap is not operative. *See* Order No. 34451. The Commission thus approves the Company's Application and proposed revisions to Schedule 75, including revisions to the Term provision on tariff Sheet 75, the Calculation of Monthly FCA Deferral mechanism description on tariff Sheet 75B, and the Annual Electric FCA Rate Adjustment provision on tariff Sheet 75C.


ORDER

IT IS HEREBY ORDERED that the Company's Application is approved. Avista's FCA Filing for Electric Service from October 1, 2020 through September 30, 2021, is granted as requested, effective October 1, 2020. The Company is authorized to implement a FCA surcharge rate of 0.028 cents per kWh for its Residential Group (Schedule 1) and 0.011 cents per kWh for its Non-Residential Group (Schedules 11, 12, 21, 22, 31 and 32).

IT IS FURTHER ORDERED that the Commission approves the Company's proposed Schedule 75 as filed, that includes revisions to the Term provision on tariff Sheet 75, the Calculation of Monthly FCA Deferral mechanism description on tariff Sheet 75B, and the Annual Electric FCA Rate Adjustment provision on tariff Sheet 75C.

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 1st day of October 2020.



PAUL KJELLANDER, PRESIDENT



KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Jan Noriyuki
Commission Secretary

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