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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S ANNUAL FIXED COST ADJUSTMENT MECHANISM FILING	)	**CASE NO. AVU-E-20-06**
	)	**COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission ("Staff") submits the following comments regarding the above referenced case.

BACKGROUND

On June 30, 2020, Avista Corporation ("Company" or "Avista") applied to the Commission for authorization to implement Fixed Cost Adjustment ("FCA") rates for electric service customers from October 1, 2020 through September 30, 2021, and to approve its corresponding modifications to Schedule 75, "Fixed Cost Adjustment Mechanism – Electric." The Company requested that the Commission issue an order approving FCA deferrals for the period January 1, 2019 through December 31, 2019, and approve separate per kilowatt-hour ("kWh") FCA surcharge rates for its residential group and non-residential group customers. The Company's Application, if approved, would decrease its overall electric revenues by about \$3.0 million. The monthly bill of an average residential electric customer (898 kWh per month) would decrease by $1.17, from $85.30 to $84.13 (1.4% decrease). *Application* at 12. The Company also proposes to update language in Schedule 75 to reflect the approved extension of the FCA mechanism through March 31, 2025. *Id.* at 2; *see also* Order No. 34502.

Avista requested that its Application be processed by Modified Procedure with an effective date of October 1, 2020.

Overview of Avista's FCA

The FCA is a rate adjustment mechanism designed to break the link between the amount of energy a utility sells and the revenue it collects to recover the fixed cost[1] of providing service, thus decoupling the utility's revenues from sales. This decoupling is intended to remove a utility's disincentive to pursue energy efficiency savings.

While the FCA is effective at shielding utility revenues from the reduction in sales produced by energy efficiency, the mechanism has a much broader impact. Avista's FCA removes the Company's fixed cost recovery risk from reduced sales caused by many factors beyond energy efficiency, including weather, economic cycles, improved building codes and standards, improved appliance standards, and behavioral responses to higher electric bills. Addressing these risks has value from the Company's standpoint because it stabilizes revenue and, as a result, may lower capital costs.

The Commission approved Avista's FCA as a three-year pilot program as part of the settlement stipulation for Avista's 2015 general rate case. *See* Case Nos. AVU-E-15-05. The Commission approved the extension of the FCA from January 1, 2020 through March 31, 2025, by Order No. 34502 at 4. As part of the extension, the Commission approved changing the annual deferral period to be July through June 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, however, 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.*

[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 costs.

STAFF ANALYSIS

Avista proposes to reduce the FCA surcharges from a present level of $3,422,280 over twelve months to a proposed level of $450,589, a reduction of $2,971,691 in electric revenue (1.2%). The proposed FCA surcharges totaling $450,589 are comprised of $333,905 to be recovered from the residential customer group and $116,684 from the non-residential customer group. For the 2019 FCA year Staff recommends that the Commission approve the Company's proposed surcharges and corresponding surcharge rates of 0.028 cents per kWh and 0.011 cents per kWh for the residential and non-residential customer groups, respectively. The proposed FCA rates represent decreases from the current surcharge rate of 0.158 cents per kWh for the residential group and surcharge rate of 0.145 cents per kWh for the non-residential group.

Present and proposed surcharges are summarized in Table No. 1 below:

Table No. 1: Present and Proposed FCA Surcharges

	Expiring Present FCA Revenue	Proposed FCA Revenue	Change in FCA Revenue
Residential	$ 1,884,176	$ 333,905	$ (1,550,271)
Non-Residential	$ 1,538,104	$ 116,684	$ (1,421,420)
Total	**$ 3,422,280**	**$ 450,589**	**$ (2,971,691)**

Additionally, Staff recommends that the Commission approve the Company's proposed revisions to Schedule 75, "Fixed Cost Adjustment Mechanism – Electric." The Company has 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. If the Commission approves the recommendations, these modifications to the mechanism going forward will be in compliance with the Commission Order.

Staff's recommendations are based on its review of the Company's Application, including the supporting workpapers and responses to production requests. This review provided Staff with reasonable assurance that the FCA deferral balance and associated rates for both residential and non-residential classes have been correctly calculated by the Company. Staff reviewed the amortization from the prior year's deferral balance, the kWh sales for the FCA year, new and existing customer counts, the revenue from fixed costs collections, the interest calculations, and the submitted revenue reports. Staff verified that the authorized amounts used to calculate the deferral were the same used to determine base rates authorized during the deferral period. Furthermore, Staff conducted an examination of the internal control processes as well as the associated internal audit documents and found these to be compliant.

Energy Consumption Drivers

According to the Company the proposed FCA surcharge deferrals are the result of reductions in use-per-customer from 2016 test-year levels used to establish the FCA base period. The Company asserted that monthly use-per-customer in 2019 declined by 5 kWh and 106 kWh for the residential and non-residential groups, respectively, when compared to the base period. Avista estimated the impact of three primary drivers of FCA revenue deferrals: (1) Weather, (2) Energy Efficiency and (3) "Other." The Company identifies the "Other" drivers as items that are more difficult to quantify, such as the effects of non-programmatic energy efficiency and the business cycle. The "Other" drivers have a more significant impact on the non-residential group than on the residential group. Weather is a more significant driver for residential group than for non-residential group. This is expected because residential energy usage is relatively sensitive to weather fluctuations. The following table shows Avista's estimates of these drivers on use-per-customer ("UPC") in kWh and FCA revenue in million dollars (MM$). The results demonstrate 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.

Table No. 2: Effects of the Drivers on Use-per-Customer and FCA Revenue in Million Dollars (MM $)

Source	Resid UPC (kWh)	Resid FCA Revenue (MM$)		Non-Resid UPC (kWh)	Non-Resid FCA Revenue (MM$)
Weather	+13	+$1.2		+15	+$0.3
Energy Efficiency	-23	-$2.0		-278	-$4.6
Other	+5	+$0.5		+157	+$4.2
Total	**-5**	**-$0.3**		**-106**	**-$0.1**

Risk Reduction Attributable to the FCA

The FCA helps stabilize revenue lowering risk to the Company, thus, potentially lowering its cost of capital. However, it is less clear how customers benefit from FCA rate adjustments. Thus far, Staff has not recommended a lower cost of equity to recognize the lower risk to the Company, but Staff may consider such a proposal in the future.

Overall Impact of Three Filings Effective October 1, 2020

The Company has made two other rate adjustment filings, also effective October 1, 2020. 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). The $3.0 million decrease in electric revenues from the proposed FCA represents a 1.2% revenue decrease. The net effect of Avista's three filings (FCA, PCA, and BPA) is to decrease electric revenues by $0.2 million (0.1% decrease). The net effect of the three filings on the average residential electric customer's monthly bill is a decrease of 6 cents (0.1% decrease). Table No. 3 below summarizes the impact to electric revenues of the three filings.

<u>Table No. 3: Summary of Overall Impact to Idaho Electric Revenues</u>

Filing	2019	2020	Net Effect	% Change
PCA	$ (1,735,996)	$ 459,391	$ 2,195,387	0.9%
BPA	(4,769,359)	(4,188,620)	580,739	0.2%
FCA	3,422,280	450,589	(2,971,691)	-1.2%
Total	(3,083,075)	(3,278,640)	(195,565)	-0.1%

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application. Each document addresses 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). Staff reviewed the documents and determined that both meet the requirements of Rule 125 of the Commission's Rules of Procedure. 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. As of September 8, 2020, no customer comments had been filed.

STAFF RECOMMENDATION

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

1. The proposed FCA residential surcharge rate of 0.028 cents per kWh, which is designed to recover $333,905 from the Company's residential electric customers; and
2. The proposed FCA non-residential surcharge rate of 0.011 cents per kWh, which is designed to recover $116,684 from the Company's non-residential electric customers.

Respectfully submitted this 9th day of September 2020.

John R. Hammond, Jr.
Deputy Attorney General

Technical Staff: Bentley Erdwurm
Johan Kalala-Kasanda
Curtis Thaden

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 9th DAY OF SEPTEMBER 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-20-06, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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