

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: JOHN R. HAMMOND JR.
DEPUTY ATTORNEY GENERAL

DATE: FEBRUARY 10, 2021

SUBJECT: AVISTA GENERAL RATE CASE – ELECTRIC CASE NO. AVU-E-21-01,
NATURAL GAS CASE NO. AVU-G-21-01

On January 29, 2021, Avista Corporation (“Avista” or the “Company”) applied to increase its base rates for electric and natural gas service in Idaho.

THE APPLICATION

Avista is a public utility primarily engaged in the generation, transmission, and distribution of electric power and the distribution of natural gas in certain portions of eastern and central Washington, northern Idaho, as well as the distribution of natural gas in northeast and southwest Oregon. *Application* at 2.

The Commission approved Avista’s existing electric base rates and charges for electric service on November 29, 2019, and the Company’s existing base rates and charges for natural gas service on December 28, 2017. *See* Order No. 34499, Case No. AVU-E-19-04 (electric) and Order No. 33953, Case No. AVU-G-17-01 (gas). In its Application, Avista claims its existing rates are not fair, just, and reasonable, and the Company will not have the opportunity to earn a fair rate of return on its investment. *Application* at 5.

In the first year of Avista’s proposal (“Rate Year 1”), the Company would increase its annual *electric* billed revenues by \$24.8 million (10.1%) and its annual *natural gas* billed revenues by \$0.1 million (0.1%), effective September 1, 2021. *Id.* at 1. Avista represents these increases if approved by the Commission, would be entirely offset by the Tax Customer Credit Tariff Schedules 76 (electric) and 176 (natural gas). In the second year (“Rate Year 2”), Avista would increase its annual *electric* billed revenues by \$8.7 million (3.2%) and its *natural gas* billed

revenues by \$1.0 million (2.2%). *Id.* Avista states the increase in *natural gas* billed revenues in Rate Year 2 would be reduced by the Deferred Depreciation Credit Tariff Schedule 177 (natural gas).¹ *Id.*

For electric customers, Avista contends its proposed amortization of \$31.3 million in electric tax benefits through Schedule 76 (electric), beginning September 1, 2021 (*see* Case No. AVU-E-20-12), would offset requested \$24.8 million in base electric rate relief. Accordingly, Avista states electric customers' rates would not increase in Rate Year 1 until approximately November 30, 2022.² *Id.* at 1-2. Avista asserts electric customers would see their bills increase in Rate Year 2, effective September 1, 2022. *Id.* at 2.

For natural gas customers, Avista proposes to amortize \$12.1 million in natural gas tax benefits over 10 years, or about \$1.2 million per year, beginning September 1, 2021, through Tariff Schedule 176 (natural gas).³ This would offset the \$0.1 million increase to natural gas billed revenues in Rate Year 1, and result in an overall reduction for natural gas customers' bills by about 1.8%. In addition, for Rate Year 2, Avista would amortize its \$0.9 million "Natural Gas Deferred Depreciation Expense" balance from September 1, 2022 through August 31, 2023, thus offsetting the Company's proposed \$1.0 million increase through Tariff Schedule 177 (natural gas). Avista alleges that natural gas customers' bills would increase by 0.1%, effective September 1, 2022. *Id.*

Avista alleges the "primary factors" driving the Company's electric and natural gas revenue increases in the Company's proposed two-year rate plan is an increase in net plant investment (including return on investment, depreciation, and taxes, and offset by the tax benefit of interest) from that currently authorized. *Id.* at 5. For Rate Year 1, Avista asserts electric net power supply expenses also contribute significantly to the incremental electric revenue requirement. *Id.* Other changes impacting the Company's revenue requirement requests relate to increases in distribution, operation, and maintenance (O&M), and administrative and general

¹ *See* Case No. AVU-G-18-02.

² Avista filed Case Nos. AVU-E-20-12 and AVU-G-20-01 requesting authorization to change its accounting for federal income tax expense from a normalization method to a flow-through method for certain plant basis adjustments. The Commission approved the Application in Order No. 34906. Subject to similar approvals in other jurisdictions where Avista provides services, these accounting changes could provide immediate benefits to customers. Order No. 34906 at 3.

³ Again, these potential tax benefits, as discussed in footnote 2 above, are subject to similar reviews and approval by other jurisdictions where Avista provides electric and natural gas utility service. *See also* Order No. 34906.

(A&G) expenses for electric and natural gas operations, compared to currently authorized levels. *Id.*

Avista asserts the evidence supporting its requested rate increases for electric and natural gas service is based on a 12-month test year that ended December 31, 2019. *Id.* The Company represents its rate base evidence is presented on an average-monthly-average rate base for Rate Year 1 and 2. *Id.* Avista states its testimony and exhibits document how the test year data was adjusted is provided in the testimony and exhibits of Company witness Elizabeth Andrews, Senior Manager of Revenue Requirements at Avista. *Id.*

Avista asserts that because it serves customers in other states besides Idaho, the testimony accompanying the Company's Application describes the jurisdictional separation of all investments, revenues, and expenses allocated or assigned in whole or in part to the Idaho utility business regulated by this Commission. *Id.* at 5.

Avista requests an overall rate of return of 7.30%, which includes a 50% common equity ratio, a 9.9% return on equity, and a cost of debt of 4.70%. *Id.* at 7. Avista asserts the proposed rate of return and capital structure provides a reasonable balances safety and economy. *Id.*

1. Electric Service

If Avista's Application is approved, in Rate Year 1 beginning on September 1, 2021, a residential electric customer using an average of 892 kilowatt hours ("kWhs") per month would see their monthly bills remain unchanged at \$85.63. *See Press Release, Exhibit B* attached to Application. In Rate Year 2 beginning on September 1, 2022, residential customers using an average of 892 kWhs per month would see their monthly bills increase from \$85.63 to \$89.01, an increase of \$3.38 or 3.9% per month. *Id.* Included in that bill change is a proposed increase in the basic monthly charge of \$2.00, to a level of \$8.00 per month. *Id.*

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Proposed Electric Rate Changes

Rate Schedule	Proposed 2021 Billing Change	Proposed 2022 Billing Change
Residential Service Schedule 1	0.0%	3.9%
General Service Schedules 11 & 12	0.0%	3.4%
Large General Service Schedules 21 & 22	0.0%	3.4%
Extra Large General Service Schedule 25	0.0%	3.4%
Extra Large General Service Schedule 25P	0.0%	1.3%
Pumping Service Schedules 31 & 32	0.0%	3.4%
Street & Area Lighting Schedules 41-49	0.0%	3.4%
Total	0.0%	3.5%

Id.

2. Natural Gas Service

If the Company’s Application is approved, in Rate Year 1 residential customers using an average of 63 therms per month would see their monthly bills decrease by \$0.95, from \$49.49 to \$48.54 beginning on September 1, 2021. *Id.* In Rate Year 2, residential customers using an average of 63 therms per month would see their monthly bills increase from \$48.54 to \$48.59, an increase of \$0.05 or 0.1% per month beginning on September 1, 2022. *Id.* Included is a proposed increase in the basic monthly charge of \$2.00, to a level of \$8.00 per month, offset by a decrease in the volumetric, per therm rate. *Id.*

Proposed Natural Gas Rate Changes

Rate Schedule	Proposed 2021 Billing Change	Proposed 2022 Billing Change
General Service - Schedule 101	-1.9%	0.1%
Large General Service - Schedules 111 & 112	-1.5%	0.1%
Transportation Service – Schedule 146 <i>(excludes commodity and interstate pipeline transportation costs)</i>	-2.7%	0.2%
Total	-1.8%	0.1%

3. Customer Notice

Avista states it will notify customers of the proposed rate changes through inserts to their bills to run from February 3, 2021 through March 3, 2021, and by a press release. *Id.* at 13. Copies of the bill insert and press release are attached as **Exhibit B** to the Application. *Id.*

STAFF RECOMMENDATION

Avista's proposed changes to its rates for electric and gas service take effect on September 1, 2021. Staff recommends the Commission issue a Notice of Application that sets a 21-day intervention deadline and directs Staff to informally confer with the parties about scheduling and other matters that may arise. Staff would then report to the Commission with a proposed schedule. Finally, Staff intends to hold one or more public workshops in Avista's service territory.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Application that:

1. Establishes a 21-day intervention deadline;
2. Directs Staff to informally confer with the parties and report to the Commission with a proposed schedule; and
3. Does the Commission accept Staff's proposal to hold one or more public workshops in Avista's service territory?



John R. Hammond Jr.
Deputy Attorney General

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