

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DON HOWELL
DEPUTY ATTORNEY GENERAL

DATE: JULY 18, 2014

SUBJECT: THE PARTIES' JOINT MOTION AND SETTLEMENT STIPULATION
REGARDING AVISTA UTILITIES ELECTRIC AND NATURAL GAS
GENERAL RATE CASE, CASE NOS. AVU-E-14-05 AND AVU-G-14-01

On July 15, 2014, Avista Corporation dba Avista Utilites (on behalf of all the parties¹) submitted a Joint Motion requesting that the Commission accept a proposed “Stipulation and Settlement” (the “Settlement”) in lieu of Avista filing a general rate case to increase its rates for electric and natural gas services in Idaho. The parties request that the Commission process the proposed Settlement under Modified Procedure. Rule 201, *et seq.*

BACKGROUND

On May 30, 2014, Avista filed an Application requesting that the Commission open a case to allow interested parties to participate in settlement discussions regarding alternatives to the utility filing a general rate case this year. In its Application, Avista expressed an interest in extending its existing settlement rate plan adopted in Order No. 32769 for another year as an alternative to filing a general rate case. The Company indicated it had informal discussions with several customers and interest groups (the parties).

On June 11, 2014, the Commission issued Order No. 33051 opening a case and scheduled a settlement conference for June 25, 2014. The Order granted intervention to the listed parties and otherwise set a deadline for intervention of June 20, 2014. All the parties attended the settlement conference.

¹ The parties joining in the Motion and Settlement include: Clearwater Paper; Idaho Forest Group; Community Action Partnership of Idaho (CAPAI); Idaho Conservation League (ICL); Snake River Alliance (SRA); and Commission Staff.

A. The Current Rate Plan

In March 2013 the Commission issued Order No. 32769 approving a settlement in Avista's last general rate case in AVU-E-12-08/AVU-G-12-07. The approved settlement in the prior rate case contained the following elements:

- A. Rate Freeze – No new electric or natural gas general rate increases to become effective prior to January 1, 2015.
- B. BPA Credit – Avista's electric customers currently receive a rate rebate totaling \$3.865 million related to a prior settlement with the Bonneville Power Administration (BPA). The 15-month rate credit expires January 1, 2015. All other things being equal, expiration of the BPA credit would result in an increase in retail electric rates of 1.3% effective January 1, 2015.
- C. PGA Deferral Credit – Avista's natural gas customers are currently receiving a rebate of \$1.55 million related to its purchased gas cost adjustment (PGA) scheduled to expire on December 31, 2014. All other things being equal, expiration of the PGA deferral credit would result in a 1.7% increase in retail natural gas rates effective January 1, 2015.
- D. 2013 Earnings Test – If Avista's earnings exceed a 9.8% return on equity (ROE) on a consolidated basis, then the Company refunds one half of the excess to customers. For the 2013 earning test, Avista deferred a benefit of \$3.914 million for electric customers and \$444,000 for natural gas customers.
- E. Natural Gas Energy Efficiency Balance – Avista currently has a balance of \$653,000 in its Schedule 191 Natural Gas Energy Efficiency account. This balance represents a benefit to customers.

B. Terms of the Proposed Settlement

In the proposed Settlement in this consolidated case, the parties agreed to generally continue the "freeze" on base rates for electric and gas service under the following terms:

- A. Rate Freeze Continuation – Avista would not increase its electric or natural gas base rates prior to January 1, 2016. The Company could file a rate case after May 31, 2015, but the effective date for any change to base rates would not be earlier than January 1, 2016.
- B. The BPA Credit and PGA Deferral Credit would be replaced with other deferral balances so that customers would not experience rate increases in January 1, 2015.

1. The \$653,000 balance in the natural gas Energy Efficiency account plus the \$444,000 deferral from the 2013 natural gas earnings test would be used to replace the projected 1.7% increase in retail natural gas rates that would otherwise be effective January 1, 2015.
 2. A portion of the 2013 electric Earnings Test deferral (\$3.201 million) would be used to replace the 1.3% increase in retail electric rates to be effective January 1, 2015. The remaining \$713,000 of the 2013 electric Earnings Test deferral would be credited to customers over 12 months through the Company's next PCA case beginning October 1, 2014.
 3. Any difference between the estimated 2015 electric and natural gas credits and the actual amount rebated to customers through December 31, 2015, would be added or subtracted to the PCA and PGA deferral balances, respectively.
- C. Project Compass – Project Compass is the replacement of Avista's outdated customer information system. Eighty percent of the revenue requirement associated with Project Compass during 2015 would be deferred for recovery in a future proceeding. The deferral is due in part to the uncertainty of the timing of the in-service date for Project Compass.
- D. Coyote Springs II/Colstrip O&M – The three year amortization of the 2013 Coyote Springs II and Colstrip O&M deferral balance of \$1.253 million (\$418,000 per year) would begin January 1, 2016, instead of January 1, 2015.
- E. 2014 Earnings Test – Any earnings test deferral for 2014 would be used to support the one-year extension of the existing rate plan as set out below:
1. An ROE "deadband" would be established for 2015 between the authorized ROE of 9.8% and 9.5%.
 2. During calendar year 2015, if Avista earns less than 9.5% ROE (on an actual consolidated basis for electric and natural gas), any earnings test deferral balance from 2014 would be used to move Avista's earnings up to 9.5% ROE on an actual consolidated basis.
 3. Any 2014 earnings test balance not needed to achieve a 9.5% ROE for 2015 (i.e., Avista earns more than 9.5% ROE during 2015), would continue to be held as a deferral for future credit to customers.

4. During calendar year 2015, if Avista earns more than a 9.8% ROE (on an actual consolidated basis), Avista would defer for future credit to customers half of any earnings above 9.8%.
- F. Low-income Issues – On or before October 1, 2014, the parties will meet to review the following issues:
1. The cost-effectiveness and appropriate funding of natural gas and electric demand-side management (DSM) programs for low-income residential customers. Avista will provide the parties with data and its analysis of when and under what conditions natural gas DSM programs will become cost-effective and funding for these programs may resume.
 2. Electric and natural gas usage by low-income customers in the Idaho service territory. Avista will provide usage data and consult with parties to identify their specific data requirements.
 3. No later than December 1, 2014, the parties will determine if a formal filing with the Commission is warranted based upon review of the information set out above.

The parties assert that the terms of the settlement are in the public interest and they urge the Commission to adopt the Settlement. The parties recognize that the Settlement is subject to the Commission's approval. Rule 276. As set out in the parties' Joint Motion, they request that the proposed settlement be process under Modified Procedure and that written comments in support or opposition to the proposed settlement be filed no later than August 15, 2014.

COMMISSION DECISION

1. Does the Commission wish to process the proposed "Stipulation and Settlement" under Modified Procedure and require that written comments be filed no later than August 15, 2014?
2. Given the lack of any proposed increase to base rates, does the Commission believe that a public hearing in this matter is warranted?



Don Howell
Deputy Attorney General

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