

DECISION MEMORANDUM

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

FROM: DAPHNE HUANG
DEPUTY ATTORNEY GENERAL

DATE: JULY 18, 2017

SUBJECT: AVISTA'S APPLICATION TO IMPLEMENT FCA RATES FOR NATURAL GAS SERVICE FROM NOVEMBER 1, 2017 THROUGH OCTOBER 31, 2018, CASE NO. AVU-G-17-03

On July 3, 2017, Avista Corporation applied to the Commission for authorization to implement Fixed Cost Adjustment (FCA) rates for natural gas service from November 1, 2017 through October 31, 2018, and to approve its corresponding modifications to Schedule 175, "Fixed Cost Adjustment Mechanism – Natural Gas." The Company separately applied to implement FCA rates for electric service, in Case No. AVU-E-17-04. The Company proposes per therm FCA surcharge rates for both residential and non-residential groups in this case. Avista asks that its Application be processed by Modified Procedure, and requests an effective date of November 1, 2017.

BACKGROUND

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 fixed costs¹ of providing service, thus decoupling the utility's revenues from its customers' energy usage. Order No. 33437 at 3. This decoupling removes a utility's incentive to increase sales as a means of increasing revenue and profits, and encourages energy conservation. *Id.* at 3-4; Application at 4. The Commission approved Avista's FCA as a three-year pilot program, and part of the approved settlement of Avista's 2015 rate case, Case Nos. AVU-E-15-05, AVU-G-15-01. Application at 3; Order No. 33437 at 10. In the Order approving the FCA program, the Commission noted that the parties to Avista's rate case agreed to review the program's effectiveness at the end of its

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.

second full year, to ensure it is functioning as intended. *Id.* at 3-4. The Order also set forth how the FCA mechanism works, including treatment of existing versus new customers, quarterly reporting, annual filings, interest, accounting, and 3% rate increase cap. *Id.* at 4-6.

PROPOSED 2017-2018 FCA RATE ADJUSTMENT

In its natural gas FCA filing, Avista proposes to increase rates for each rate group based on the amount of deferred revenue recorded for January through December 2016. The Company mostly attributes these natural gas FCA surcharges to abnormally warm weather and savings from energy efficiency programs in 2016. Application at 7-8.

Avista recorded \$2,626,654 in surcharge deferred revenue for its natural gas residential customer group in 2016, which is affected by the 3% rate increase cap. *Id.* at 9 (table includes interest and revenue-related expenses), 12-14. The Company proposes to increase residential rates by 2.466 cents per therm, to recover \$1,440,064 from residential customers. *Id.* at 9. If approved by the Commission, the Company would record this amount in a regulatory asset balancing account and reduce the account balance each month by the revenue collected under the tariff. *Id.* at 10. The remaining deferral balance of \$1,233,698 would be carried over to be recovered or potentially offset in a future period. *Id.*

For its non-residential group, Avista recorded \$500,253 in surcharge deferred revenue in 2016, which is also affected by the 3% rate increase cap. *Id.* (table includes interest and revenue-related expenses), 12-14. The Company proposes to increase non-residential rates by 1.615 cents per therm, to recover \$383,369 from commercial and industrial customers. *Id.* at 10-11. If approved by the Commission, the Company would record this amount in a regulatory asset balancing account and reduce the account balance each month by the revenue collected under the tariff. *Id.* at 11. The remaining deferral balance of \$125,952 would be carried over to be recovered or potentially offset in a future period. *Id.*

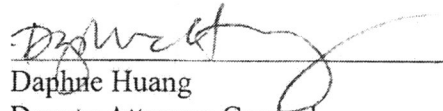
With its Application, Avista submitted its residential and non-residential rate calculation, support for the Company's deferrals, and its proposed FCA tariff, Schedule 175.

STAFF RECOMMENDATION

Staff recommends that the case be processed by Modified Procedure with a comment deadline of September 27, 2017, and reply deadline of October 11, 2017.

COMMISSION DECISION

Does the Commission wish to process this case under Modified Procedure with a comment deadline of September 27, 2017, and reply deadline of October 11, 2017?


Daphne Huang
Deputy Attorney General

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