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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE FIXED COST ADJUSTMENT MECHANISM (FCA) ANNUAL RATE ADJUSTMENT FILING OF AVISTA CORPORATION FOR NATURAL GAS SERVICE FROM NOVEMBER 1, 2017 THROUGH OCTOBER 31, 2018	))))))	**CASE NO. AVU-G-17-03** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Daphne Huang, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 33816, submits the following comments.

BACKGROUND

On July 3, 2017, Avista Corporation ("Avista" or "the Company") filed an Application asking 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.

The Commission approved Avista's FCA as a three-year pilot program, as part of the stipulation 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 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.

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 costs[1] of providing service, thus decoupling the utility's revenues from its customers' energy usage. Order No. 33437 at 3.

The Application (at 4, lines 1-6) quotes from the Commission Order No. 33437, which approved Avista's Fixed Cost Adjustment Mechanism:

> Fixed cost adjustment mechanisms are intended to encourage conservation, and allow customers more control over their bills. Further, the proposed FCA will remove any financial disincentive of the Company to encourage energy conservation.

STAFF ANALYSIS

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 primarily attributes the 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 exceeded 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.* 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.

For its non-residential group, Avista recorded $500,253 in surcharge deferred revenue in 2016, which also exceeded the 3% rate increase cap. *Id.* at 14 (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.* at 11.

Staff has reviewed the Company's filing, supporting workpapers, and production request responses and verified that the Company used the Commission-approved methodology authorized by Order No. 33437 to calculate the FCA deferral balance and associated rates for residential and non-residential classes. Based on its review, Staff recommends that the Commission allow the Company to recover $1,440,064 for the residential customer group and $383,369 for the non-residential customer group in the 2017 FCA year.

History of Avista's FCA

As described above, the Commission approved Avista's FCA as part of the settlement in the Company's 2015 rate case. The Parties to that settlement based the mechanism on Idaho Power's FCA, but made several refinements to that mechanism. Most significantly, Parties agreed that existing and new customers (i.e., customers added after the 2014 test year) would be treated differently for the FCA deferral calculation. For new customers, recovery of incremental revenue related to fixed production and storage costs is excluded from the FCA. Consequently, the FCA revenue-per-customer for new customers is less than the FCA revenue-per-customer for existing customers. This prevents what Staff views as a cost over-recovery by the Company and helps keep FCA surcharges and customers' bills lower.

Avista's gas FCA also applies to more non-residential customer classes than Idaho Power's FCA. Idaho Power's FCA applies to one non-residential rate schedule, Schedule 7 (Small Commercial Service.) Avista's gas FCA applies to Schedule 111 (General Service – Firm) and 112 (Large General Service – Firm).

2016 FCA Balances and 2017 FCA Rate Calculation

Staff verified that the Company correctly calculated the residential customer group deferral amount of $2,673,762 and correctly limited rate recovery through the 2017 FCA residential rate to the 3% cap of $1,440,064. Staff confirmed that applying the 3% cap results in a 2017 FCA residential rate of 2.466 cents per therm. Staff agrees that the remaining deferral balance of $1,233,698 should be recovered or offset in a future period.

Staff also verified that the Company correctly calculated the non-residential customer group deferral balance amount of $509,321 and correctly limited rate recovery through the 2017 FCA non-residential rate to the 3% cap of $383,369. Staff confirmed that applying the 3% cap results in a 2017 FCA non-residential rate of 1.615 cents per therm. Staff agrees that the remaining deferral balance of $125,952 should be recovered or offset in a future period.

The Company's proposed 2017 FCA rates of 2.466 cents per therm for residential and 1.615 cents per therm for non-residential are shown in the Company's proposed First Revision Sheet 175 under Monthly Rate for Group 1 (residential) and Group 2 (non-residential).

Future Collection of the Remaining Balances

Excluding the effect of the remaining $1,233,698 from the 2016 residential deferral balance, current estimates of the 2017 FCA residential deferral balance show that it may result in a rebate, rather than a surcharge, to customers. A similar situation exists for the non-residential FCA balance. Before including the effect of the $125,952 remaining non-residential balance from 2016, current estimates of the 2017 FCA non-residential deferral balance also show a rebate to customers.

Staff cautions that the 2017 residential and non-residential deferral balances are still preliminary and six months remain in the FCA year, so the final 2017 deferral balances are still uncertain. If the current trends hold, it may be possible to collect the remaining $1,233,698 and $125,952 from the 2016 residential and non-residential deferral balances at the same time as the 2017 deferral balances without exceeding the 3% caps. Staff will monitor the 2017 deferral balances and evaluate the collection of the outstanding 2016 balances when the Company makes its 2017 FCA filing.

Drivers of Declining Gas Usage

The Company states that the FCA balances are surcharges because the monthly use-per-customer in 2016 was lower than the use-per-customer established in the 2014 test year. In 2016, average monthly usage in both residential and non-residential sectors decreased from the test year. Average residential monthly usage decreased by five therms per customer and non-residential usage decreased by 121 therms per customer. The Company identifies weather, energy efficiency and "other" as drivers of the lower use-per-customer in 2016.

Of the approximately $2.6 million residential balance, abnormally warm weather in 2016 resulted in revenue shortfalls of about $2.4 million. Of the approximately $500,000 non-residential balance, $200,000 was related to abnormally warm weather.

Although the Company identifies energy efficiency as one of the factors contributing to the decline in use-per-customer, the revenue shortfall associated with the Company's natural gas energy efficiency programs was very small: $100,000 (3.8%) of the total residential balance and $10,000 (2.0%) of the non-residential balance. Avista's Idaho natural gas energy efficiency programs were suspended during 2014 and 2015. The programs were re-instated in 2016, but the program impact between the 2014 test year and 2016 was minimal. The Company's 2016 DSM Annual Report shows the residential group saved approximately154,000 therms and non-residential groups saved approximately 35,000 therms during 2016. Application at 8.

Staff notes that both natural gas FCA customer groups exceeded the 3% rate cap increase in the first year of FCA implementation and that energy efficiency drove a very small part of that balance.

Risk Reduction Attributable to the FCA

Staff agrees that fixed cost adjustment mechanisms remove financial disincentives for utilities to pursue energy efficiency. While Staff is encouraged by the Company's successful work to acquire cost-effective energy efficiency, the Company's programs are responsible for a very small fraction of the overall decline in sales recovered through the FCA. The 2016 use-per-customer analysis described above demonstrates that Avista's FCA removes financial disincentives for energy efficiency, but it also removes the risk of declining sales associated with weather fluctuations, business cycles, and all other factors. Although mitigating weather and other risks have significant value from the Company's standpoint, it is less clear how customers benefit from FCA rate adjustments for weather and other factors. Staff believes that Avista, Staff, and other interested parties should evaluate the relative benefits of the FCA to the Company and its customers and determine how the value of risk reduction realized by the Company should be shared with customers. Staff believes these issues should be addressed by Parties at the end of the second full year of the FCA's initial three-year term, which is the time established for program review in the settlement approved by the Commission in Order No. 33437.

Tariff Revisions

The Company proposes revisions to Tariff Sheets 175, 175A, 175B, and 175C to more precisely describe the steps to calculate the FCA deferral balance and associated rates. The proposed revision to Tariff Sheet 175 changes the monthly rate for Group 1 (Schedule 101 General Service) customers from $0.00000 per therm to $0.02466 per therm and Group 2 (Schedule 111 and 112 Large General Service) customers from $0.00000 per therm to $0.01615 per therm. The proposed revision to Tariff Sheet 175A provides clarification on the calculation of Total Delivery Revenue and Allowed FCA Revenue for new customers. The proposed revision to Tariff Sheet 175B provides clarification on the calculation of actual revenue collected related to fixed production and storage costs for new customers. The proposed revision to Tariff Sheet 175C provides a detailed explanation of the 3% rate increase limitation.

Staff believes that revisions to Tariff Sheets 175A, 175B, and 175C provide clarification and enhanced transparency, and better conform the FCA tariffs to the terms of the Stipulation and Settlement approved by the Commission in Order No. 33437.

CUSTOMER NOTICE AND PRESS RELEASE

Avista filed its Application on July 3, 2017. The Company noted that it would be filing several additional natural gas rate adjustment cases in the near future, and "in an effort to minimize potential customer confusion, a single news release will be issued … providing details about each of the Company's rate requests." Application at 17.

On August 23, 2017, the Company filed its customer notice, which contained information regarding this case (AVU-G-17-03) only. On September 8, 2017, the Company filed its press release, which included information for both this case and another case (Avista's annual Purchased Gas Cost Adjustment, Case No. AVU-G-17-04). Staff reviewed both documents and determined that, with respect to this case, they do not comply with Rule 125 of the Commission's Rules of

Procedure. IDAPA 31.01.01.125. Rules 125.04 and 125.05 require the press release and customer notice to be filed with the Company's Application.

The notice was included with customer bills beginning August 15, 2017, and ending September 13, 2017. Customers have the opportunity to file comments on or before the Commission's comment deadline of September 27, 2017.

CUSTOMER COMMENTS

As of September 27, 2017, the Commission has received 17 comments from customers, all of which were opposed to the proposed increase.

STAFF RECOMMENDATION

Staff recommends that the Commission approve the Company's FCA filing, specifically:

1. The deferral balance of $2,673,762 for the natural gas residential customer group in 2016, while limiting recovery through the 2017 FCA to the 3% cap at $1,440,064. The remaining deferral balance of $1,233,698 should be recovered or offset in a future period. This results in a 2017 FCA residential rate of 2.466 cents per therm.
2. The deferral balance of $509,321 for the natural gas non-residential customer group in 2016, while limiting recovery through the 2017 FCA to the 3% cap at $383,369. The remaining deferral balance of $125,952 should be recovered or offset in a future period. This results in a 2017 FCA non-residential rate of 1.615 cents per therm.
3. The Company's proposed revisions to Tariff Sheets 175, 175A, 175B, and 175C.

Staff believes these rates provide adequate opportunity for the Company to collect its authorized deferred revenue and allow the Company a fair and equitable recovery of fixed costs.

Respectfully submitted this 27th day of September 2017.

Daphne Huang
Deputy Attorney General

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 27TH DAY OF SEPTEMBER 2017, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-17-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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