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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO IMPLEMENT FIXED COST ADJUSTMENT RATES FOR NATURAL GAS SERVICE FROM NOVEMBER 1, 2018, THROUGH OCTOBER 31, 2019	)	**CASE NO. AVU-G-18-03** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Sean Costello, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 34114 on July 26, 2018, in Case No. AVU-G-18-03, submits the following comments.

BACKGROUND

On July 2, 2018, Avista Corporation (Avista or Company) applied to the Commission for authorization to implement Fixed Cost Adjustment (FCA) rates for natural gas service from November 1, 2018, through October 31, 2019, and to approve its corresponding modifications to Schedule 175, "Fixed Cost Adjustment Mechanism – Natural Gas." Application at 1. Avista also asks the Commission to approve the level of natural gas FCA revenue deferred during calendar year 2017. The Company separately applied to implement FCA rates for electric service in Case No. AVU-E-18-06. The Company requests the Commission approve a <u>rebate</u>

rate of 0.766 cents per therm for its residential group and 1.067 cents per therm for its non-residential group. Avista requests an effective date of November 1, 2018. *Id.* at 2.

History of Avista's FCA

An 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 sales. Order No. 33437 at 3-4. This decoupling is intended to remove a utility's disincentive to pursue energy efficiency savings. While Staff is encouraged by the Company's successful work to implement cost-effective energy efficiency measures, it is important to note the Company's energy efficiency programs are responsible for only a small fraction of the impact on sales recovered through the FCA.

Staff has argued in past comments that the FCA effectively removes the financial disincentives for energy efficiency. However, the mechanism also removes the Company's risk of declining sales caused by many factors beyond energy efficiency, including weather fluctuations, economic cycles, improved building codes and standards, improved appliance standards, and behavioral responses to higher utility bills. Mitigating risk has value from the Company's standpoint because it stabilizes revenue and may lower capital costs.

In the Company's last rate case, the Commission approved Avista's FCA as a three-year pilot program. *See* Case Nos. AVU-G-15-01; Application at 3; and Order No. 33437 at 10. Order No. 33437 set forth how the FCA mechanism works, including treatment of existing versus new customers, quarterly reporting, annual filings, interest, accounting, and a 3% rate increase cap. *Id.* at 4-6.

Avista's approved FCA mechanism includes separate inputs into the deferral calculation for existing and new customers (i.e., customers added after the January 1, 2015). Natural gas customers added since the test year are subject to a FCA revenue-per-customer that excludes incremental revenue related to fixed production and transmission costs. In order to segregate customers for this calculation, Avista tracks usage of new customers, separately from existing customers. Consequently, FCA revenue-per-customer for new customers is less than that for

[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.

existing customers. The adjustment helps prevent over-recovery by the Company and helps keep FCA surcharges and customers' bills lower.

The natural gas FCA includes customers from two rate groups. Group 1 is Schedule 101 (residential customers). Avista's non-residential customer group (Group 2) includes Schedules 111 and 112. Ehrbar Direct at 74 in Case No. AVU-G-15-01. These two rate groups are included in the FCA because the Company's fixed costs are recovered through variable usage rates that can be strongly affected by weather and other factors.

In Order No. 33437, the Commission ordered the parties to Avista's rate case to review the program's effectiveness at the end of its second full year, to ensure it is functioning as intended. *See* Application at 3-4. However, on June 15, 2018, the Commission approved an addendum to the settlement stipulation approved in AVU-G-15-01, which extended the term of the Company's FCA pilot for an additional year. *See* Order No. 34085. As a result, the Company also proposes changes to its Tariff Sheet 175 to reflect, among other changes: (1) an FCA mechanism term of four years; and (2) interested parties will conduct an effectiveness review at the end of the third year. Application at 4.

STAFF REVIEW

Staff reviewed the Application and supporting workpapers and performed an audit of the Company's FCA deferral accounts and internal controls related to the FCA. Staff 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. The Company's FCA natural gas deferral balances and rates are accurate. Based on its review, Staff recommends that the Commission allow the Company to rebate $465,043 for the residential customer group and $274,617 for the non-residential customer group in the 2018 FCA year. *Id.* at 9-10.

Staff agrees with the reported energy efficiency savings but notes that per-customer consumption has been increasing since the natural gas FCA mechanism was approved in 2015. Also, Staff will assess the mechanism and its effectiveness during the program review following the end of the third full-year, as ordered by the Commission.

Staff supports the Company's requested revisions to Schedule 175, including updating the new customer cost exclusion date from "customers added after January 1, 2015" to the more general terms of "FCA Base test year." *See* Application at 13.

2017 FCA Balances and 2018 FCA Rate Calculation

In its natural gas FCA filing, Avista proposes to decrease rates for both the natural gas residential and non-residential customer groups based on the deferred revenue recorded for January through December 2017. The Company mostly attributes these proposed changes to drivers such as abnormally cold winter weather in 2017, and a FCA revenue shortfall associated with energy efficiency savings. *Id.* at 7-8. The Company states that other drivers are not easily quantifiable but include, among others, the effects of non-programmatic energy efficiency and changes in business cycles. *Id.* at 8.

Avista proposes to credit natural gas residential customers (Group 1—Schedule 101) $465,043. *Id.* The Company calculated this amount by reducing the calendar year 2017 deferral of $1,636,265 by the actual 2016 carry-over balance of $1,189,016, increased by the interest of $16,212, and increased by the revenue-related expense adjustment of $1,581. *Id.* at 9. If approved by the Commission, the currently authorized residential FCA surcharge rate of 2.466 cents per therm will be revised to a rebate of 0.766 cents per therm. This will reduce the Company's residential revenue by $1.9 million (4.23% reduction). *Id.* at 2; and Exhibit B. The Company proposes to record this amount in a regulatory liability balancing account and reduce the account balance each month by the rebate received by customers under the tariff. *Id.* at 10. The FCA proposal reduces the monthly bill of an average residential customer using 63 therms per month by $2.04 – from $48.31 to $46.27 – a 4.2% decrease. *Id.* at 14.

Avista also proposes to credit natural gas non-residential customers (Group 2—Schedules 111 and 112) $274,617. *Id.* at 11; Exhibit B. The Company calculated this amount by reducing the calendar year 2017 deferral of $377,623 by the actual 2016 carry-over balance of $108,778, adding $4,320 in interest, and adding a revenue-related expense adjustment of $1,452. If approved by the Commission, the current authorized non-residential surcharge rate of 1.615 cents per therm will be revised to a rebate rate of 1.067 cents per therm. *Id.* at 10-11. This will reduce the Company's residential revenue by $0.7 million (5.55% decrease). *Id.* at 2; and Exhibit B. The Company would record this amount in a regulatory liability balancing account and reduce the account balance each month by the rebate received by customers under the tariff. *Id.* at 10-11.

Drivers of Increasing Energy Usage

According to the Company, abnormally cold winter weather resulted in increased per-customer residential (2.1 therms) and non-residential (27 therms) monthly consumption relative to the 2015 base year. Application at 7. Even without the effects of 2017's cold winter, per-customer natural gas consumption has been increasing since the Commission approved the Company's FCA mechanism in 2015. After correcting for the effects of weather, monthly gas consumption has increased by approximately 1.4 therms per residential customer and 67 therms per non-residential customer. *See* Company's Response to Staff's Production Request No. 1.

The Company reported that its energy efficiency programs resulted in small monthly decreases of 0.3 therms per residential, and 4.0 therms per non-residential customer. Staff notes that these decreases represent less than 0.5% and 0.3%, respectively, of each group's natural gas consumption. The Company explained that its natural gas energy efficiency programs were suspended during 2014 and 2015, and not reinstated until 2016. Application at 7-8. Staff believes that these decreases may be reasonable, given the relatively short time period over which the Company's energy efficiency programs have been in operation. Staff will review the Company's natural gas energy savings during the next demand-side management prudency review.

Risk Reduction Attributable the FCA

As stated above, the FCA helps stabilize revenue and lower risk to the Company, thus potentially lowering its cost of capital. However, it is less clear how customers benefit from FCA rate adjustments. Avista, Staff, and other interested parties should determine how the value of risk reduction realized by the Company should be shared with customers. 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. Staff believes these issues should be addressed by interested parties during the program review following the end of the third full year, as approved by Order No. 34085.

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application on July 2, 2018. Staff reviewed the documents and determined both meet the requirements of Rule 125 of the Commission's Rules of Procedure. IDAPA 31.01.01.125. The notice was included with bills mailed to customers beginning July 12, 2018, and ending August 10, 2018, providing customers with a reasonable opportunity to file timely comments with the Commission by the September 20, 2018, deadline. As of September 19, 2018, no comments had been filed.

STAFF RECOMMENDATIONS

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

1. The deferral balance of $1,636,265 for the natural gas residential customer group in 2017. This results in a 2018 FCA residential rate of -0.766 cents per therm;

2. The deferral balance of $377,623 for the natural gas non-residential customer group in 2017. This results in a 2018 FCA non-residential rate of -1.067 cents per therm; and

3. The Company's proposed revisions to Tariff Sheet 175.

Respectfully submitted this 20th day of September 2018.

Sean Costello
Deputy Attorney General

Technical Staff: Cassie Koerner
Michael Morrison
Kathy Stockton
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 20TH DAY OF SEPTEMBER 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-18-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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