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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-19-06
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-19-03
EXTENSION OF AVISTA'S ELECTRIC	)	
AND NATURAL GAS FIXED COST	)	EXHIBIT NO. 2
ADJUSTMENT MECHANISMS IN THE	)	
STATE OF IDAHO	)	
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

Fixed Cost Adjustment Mechanisms – Idaho

March 27, 2019

Agenda

1. Overview of FCA Mechanisms
2. How Has FCA Performed
3. Proposed FCA Changes
4. Other Ideas & Issues
5. Questions

Overview of the Fixed Cost Adjustment Mechanisms

The purpose of the electric and natural gas FCA Mechanisms is to break the link between the Company's Commission-authorized revenues from energy sales, such that the Company's revenues will be recognized based on the number of customers served under the applicable service schedules.

- For electric operations, only **11%** of the Company's <u>fixed costs</u> are recovered in fixed monthly charges, leaving 89% subject to recovery in volumetric rates.

- For electric operations, only **19%** of the Company's <u>fixed costs</u> are recovered in fixed monthly charges, leaving 81% subject to recovery in volumetric rates.

Overview of the Fixed Cost Adjustment Mechanisms

The FCA Mechanisms allow the Company to:

1) defer the difference between actual FCA-related revenue approved for recovery in the Company's last general rate case; and

2) file a tariff to surcharge or rebate, by rate group, the total deferred amount accumulated in the deferred revenue accounts for the prior January through December time period.

What are the benefits of the FCA

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.

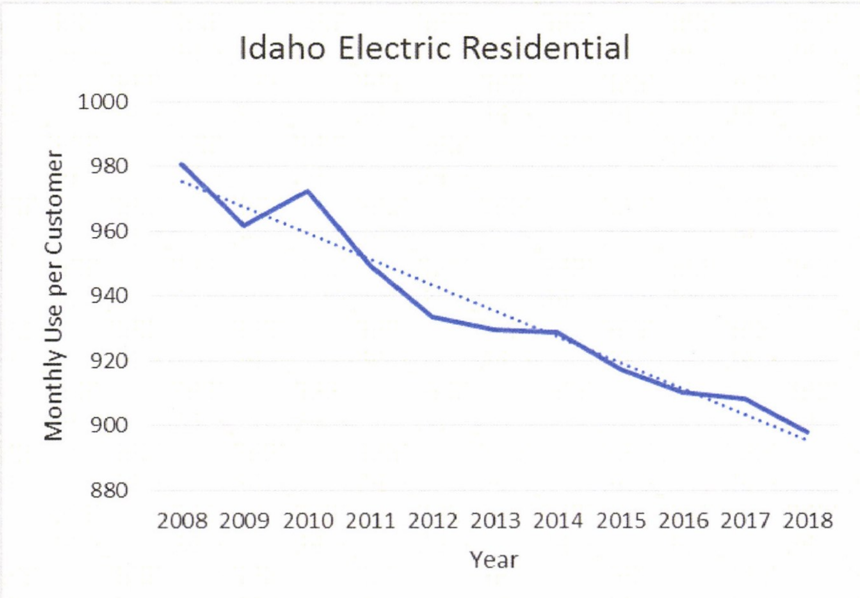
(Order No. 33437 in AVU-E/G-15-05/01)

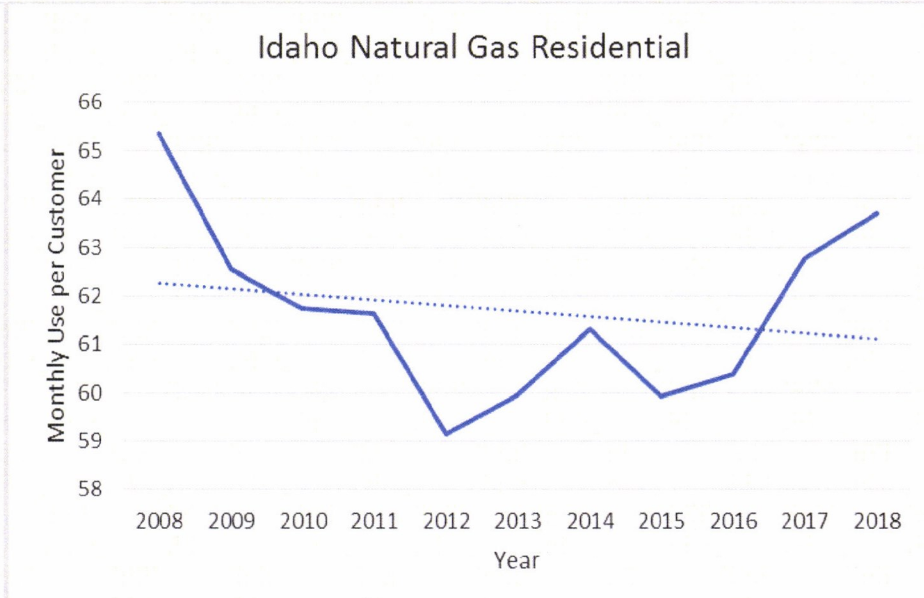
FCA's also remove any throughput incentive utilities may have to increase revenues and earnings

As consumers broadly engage in energy efficiency, all ratepayers may benefit as the high costs of new power plants, transmission lines and pipelines may be reduced or avoided. Decoupling may also reduce volatility in energy bills due to weather and other factors, and it reduces risk for utilities too. It preserves customers' incentive for efficiency while removing utilities disincentives.*

* www.ase.org/resources/utility-rate-decoupling-0

Declining Residential Use Per Customer





What are the mechanics of the FCA Mechanisms?

The electric FCA mechanism applies to Schedules 1, 11, 12, 21, 22, 31 and 32.

Electric Customers are segregated into 2 groups.

- Group 1 - Schedule 1
- Group 2 - Schedules 11, 12, 21, 22, 31, 32.

The natural gas FCA mechanism applies to Schedules 101, 111 and 112.

Natural Gas Customers are segregated into 2 groups.

- Group 1 - Schedule 101
- Group 2 - Schedules 111 and 112.

What are the mechanics of the FCA Mechanisms?

For purposes of simplicity, the mechanics of the electric FCA Mechanism are shown (the mechanics for the natural gas FCA are similar).

<u>Monthly Allowed Delivery Revenue Per Customer is calculated as follows</u>:

- <u>Step 1</u> – Determine the Total Rate Revenue - The Total Rate Revenue is equal to the final base rate revenue approved in the Company's last general rate case.

- <u>Step 2</u> – Determine Variable Power Supply Revenue - The Normalized kWhs by rate schedule from the last approved general rate case are multiplied by the approved Load Change Adjustment Rate (LCAR) to determine the total Variable Power Supply Revenue.

What are the mechanics of the FCA Mechanisms?

Monthly Allowed Delivery Revenue Per Customer is calculated as follows (con't):

- Step 3 – Determine Delivery and Power Plant Revenue for test period existing customers, the mechanism subtracts the Variable Power Supply Revenue from the Total Rate Revenue.
  - For new electric customers, the mechanism also subtracts the Fixed Production and Transmission Revenue from the Total Rate Revenue.
  - Natural Gas FCA mechanism removes Fixed Production and Underground Storage for new customers.

- Step 4 – Remove Basic Charge Revenue – Because the FCA mechanism only tracks revenue that varies with customer energy usage, the revenue from Fixed Charges is removed.

What are the mechanics of the FCA Mechanisms?

Monthly Allowed Delivery Revenue Per Customer is calculated as follows (con't):

- Step 5 – Determine FCA Revenue – FCA Revenue is equal to the Delivery and Power Plant Revenue (Step 3) minus the Basic Charge Revenue (Step 4).

- Step 6 – Determine the FCA Revenue per Customer – Divide the FCA Revenue (by Rate Group) by the approved Rate Year number of Customers (by Rate Group) to determine the annual Allowed FCA Revenue per Customer (by Rate Group)

- Step 7 – Determine the Monthly FCA Revenue per Customer - The annual FCA Revenue per customer is shaped based on the monthly kWh usage from the rate year.

What are the mechanics of the FCA Mechanisms?

Monthly FCA Deferral is calculated as follows:

- Step 1 – Determine the actual number of customers each month.
- Step 2 – Multiply the actual number of customers by the applicable monthly Allowed FCA Revenue per Customer. The result of this calculation is the total Allowed FCA Revenue for the applicable month.
- Step 3 – Determine the actual revenue collected in the applicable month.
- Step 4 – Calculate the amount of fixed charge revenue included in total actual monthly revenue.
- Step 5 – For existing customers, multiply actual kWh sales by the approved Load Change Adjustment Rate. For new customers, multiply actual kWh sales by both the approved Load Change Adjustment Rate and the approved Fixed Production and Transmission Revenue rate.

What are the mechanics of the FCA Mechanisms?

Monthly FCA Deferral is calculated as follows (con't):

- Step 6 – For existing customers, subtract the basic charge revenue and the variable power supply revenue from the total actual monthly revenue. The result is the Actual FCA Revenue. For new customers, subtract the basic charge revenue and the fixed and variable production and transmission revenue from the actual monthly revenue (for electric). The result is the Actual FCA Revenue.

- Step 7 – The difference between the Actual FCA Revenue (Step 6) and the Allowed FCA Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest on the deferred balance will accrue at the Customer Deposit Rate.

What are the mechanics of the FCA Mechanisms?

Annual Rate Adjustment Filings

- Avista files for recovery of refund by July 1 of the year following the year in which deferral balances were calculated.

- Electric FCA rates become effective on October 1 and Natural Gas rates become effective on November 1 of the year following the year in which deferral balances were calculated.

- 3% Annual Rate Increase Limitation:
  - The amount of the incremental proposed rate adjustment under this Schedule cannot reflect more than a 3% rate increase. There is no limit to the level of the FCA rebate.

Have the Mechanisms Been Independently Reviewed?

Yes, in a way.

H. Gil Peach and Associates conducted a thorough review of the mechanics and calculations of Avista's Decoupling Mechanisms in Washington.

The Mechanisms in Washington and Idaho are almost identical, but for the treatment of new customers in Idaho (soon to be adopted in Washington).

"The decoupling mechanisms have worked as expected to stabilize revenue without impacting utility operations and energy efficiency programs. We also found no evidence of adverse impacts to any customer groups. We recommend the electric and natural gas mechanisms be continued and certain modifications be considered."

"We find no conclusive evidence of current adverse impact of decoupling on cost control, operational efficiency, price signals or service quality."

How have the FCA Mechanisms performed?

Electric Results for 2016 through 2018

------------------------------ Electric ------------------------------							
		Residential Group			Non-Residential Group		
	Notes	2016	2017	2018 C	2016	2017	2018 C
Change in Average Use/Cust from Test Year		**(582)**	**348**	**(303)**	**(1,787)**	**(429)**	**(1,623)**
Deferred Revenue ($)		**4,028,203**	**-2,816,256**	**1,753,478**	**2,556,424**	**610,929**	**1,421,402**
Requested Recovery ($)	A	4,104,951	-2,071,515	1,772,689	2,601,586	603,699	1,502,273
Customer Surcharge (Rebate) Revenue ($)		3,290,149	-2,071,515	1,772,689	2,601,586	603,669	1,502,273
Carryover Deferred Revenue ($)		814,802	0	0	0	0	0
Fixed Cost Adj Rate (Schedule 75) ($/kWh)	B	0.00281	-0.00176	0.00150	0.00241	0.00056	0.00140
Incremental Revenue (Percent)		**3.00%**	**-4.73%**	**1.56%**	**2.70%**	**-2.03%**	**0.91%**
Limited by 3% Cap?		Yes	No	No	No	No	No

A: Requested recovery is equal to deferred revenue after adjusting deferral balance carryover from prior year (if any), interest, and revenue related expenses.

B: Fixed Cost Adj rates Schedule 75 (electric) take effect on October 1st of the following year . For example, rates shown in the 2016 column have an effective date of October 1, 2017 (electric).

C: For 2018 Deferred Revenues are Actual Values, however Requested Recovery, Schedule 75 Rates, and Incremental Revenue (Percent) are estimated values that will be finalized in the July FCA surcharge/rebate filing.

How have the FCA Mechanisms performed?

Natural Gas Results 2016 through 2018

----------------------------- Natural Gas -----------------------------							
		Residential Group			Non-Residential Group		
	Notes	2016	2017	2018 C	2016	2017	2018 C
Change in Average Use/Cust from Test Year		**(71)**	**42**	**(26)**	**(1,451)**	**1,129**	**4**
Deferred Revenue ($)		**2,626,654**	**-1,636,265**	**557,464**	**500,253**	**-377,623**	**-137,897**
Requested Recovery ($)	A	2,673,762	-465,043	564,037	509,321	-274,617	-139,390
Customer Surcharge (Rebate) Revenue ($)		1,440,064	-465,043	564,037	383,369	-274,617	-139,390
Carryover Deferred Revenue ($)		1,233,698	0	0	125,952	0	0
Fixed Cost Adj Rate (Schedule 175) ($/therm)	B	0.02466	-0.00766	0.00927	0.01615	-0.01067	-0.00540
Incremental Revenue (Percent)		**3.00%**	**-4.23%**	**2.22%**	**3.00%**	**-5.55%**	**1.09%**
Limited by 3% Cap?		Yes	No	No	Yes	No	No

A: Requested recovery is equal to deferred revenue after adjusting deferral balance carryover from prior year (if any), interest, and revenue related expenses.

B: Fixed Cost Adj rates Schedule 175 (natural gas) take effect on November 1st of the following year. For example, rates shown in the 2016 column have an effective date of November 1, 2017 (natural gas).

C: For 2018 Deferred Revenues are Actual Values, however Requested Recovery, Schedule 175 Rates, and Incremental Revenue (Percent) are estimated values that will be finalized in the July FCA surcharge/rebate filing.

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Potential Changes - Would the Company Adjust Groups?

The Company <u>does not</u> believe that there should be:

1. A change to the Residential and Non-Residential Groupings for the electric and natural gas FCA mechanism.

2. Would continue to exclude Schedules 25, 25P, and Street and Area Light (Schedules 41-49) customers from the electric FCA mechanism and would continue to exclude Schedules 132 and 146 customers from the natural gas FCA mechanism.

What Changes Would the Company Propose?

<u>1. Annual True-up for New Customers</u> – Apply a new customer true-up in the last month of the deferral year to capture annual allowed Revenue per Customer on annual average customers.

Determine Year End Average Customer Adjustment to 2016 - 2018 Deferrals

Electric FCA	2016		2017		2018	
	Residential	Non-Residential	Residential	Non-Residential	Residential	Non-Residentia
Adjusted Deferral	$ 3,990,149	$ 2,556,085	$ (2,861,280)	$ 606,120	$ 1,744,658	$ 1,431,383
Deferral As Booked	$ 4,028,203	$ 2,556,424	$ (2,816,256)	$ 610,929	$ 1,753,478	$ 1,421,402
Change	**$ (38,054)**	**$ (339)**	**$ (45,024)**	**$ (4,809)**	**$ (8,820)**	**$ 9,981**

Natural Gas FCA	2016		2017		2018	
	Residential	Non-Residential	Residential	Non-Residential	Residential	Non-Residentia
Adjusted Deferral	$ 2,593,271	$ 506,645	$ (1,675,797)	$ (378,973)	$ 534,390	$ (125,750)
Deferral As Booked	$ 2,626,654	$ 500,253	$ (1,636,265)	$ (377,623)	$ 557,464	$ (137,897)
Change	**$ (33,383)**	**$ 6,392**	**$ (39,532)**	**$ (1,350)**	**$ (23,074)**	**$ 12,147**

Exhibit No. 2
Case Nos. AVU-E-19-0_ and AVU-G-19-0_
P. Ehrbar, Avista
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What Changes Would the Company Propose? (con't)

<u>2. Timing of Annual Rate Adjustments</u> – Move up the effective date of the annual tariff revisions from October 1st (electric) and November 1st (Natural Gas) to August 1st of every year to mitigate the GAAP reporting rules that only allow the Company to recognize revenue expected to be recovered within 24 months of the end of the deferral period.

<u>3. Timing of Quarterly Reports</u> – Extend the quarterly reporting requirement from 45 to 60 days to avoid having to file confidential reports prior to an earning release.

<u>Planned Washington Decoupling Changes:</u>

New Customer Adjustment consistent with Idaho FCA mechanism

Move up Annual Rate Adjustments to August 1st

Extend the Timing of Quarterly Reports to 60 days

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Questions?