BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION FOR THE EXTENSION OF ITS ELECTRIC AND NATURAL GAS FIXED COST ADJUSTMENT MECHANISMS IN THE STATE OF IDAHO	))))))	**CASE NO. AVU-E-19-06 AVU-G-19-03** **ORDER NO. 34502**

On July 1, 2019, Avista Corporation ("Company") applied to the Commission requesting approval to: 1) extend its Fixed Cost Adjustment ("FCA") mechanisms for electric and natural gas service through March 31, 2025; 2) modify its upcoming deferral period to run from January 1, 2020 through June 30, 2021; 3) implement an annual true-up to its FCA mechanisms; and 4) extend its FCA quarterly reporting requirement from 45-days to 60-days. The Company requested a January 1, 2020 effective date and that its Application be processed by Modified Procedure.

On August 1, 2019, the Commission issued a Notice of Application and Notice of Modified Procedure establishing a November 7, 2019 public comment deadline and a November 18, 2019 Company reply deadline. Order No. 34387. Staff filed the only comments, and supported the Company's Application. The Company did not reply.

With this Order we approve the Company's Application.

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 costs[1] of providing service, thus decoupling the utility's revenues from its customers' energy usage. *See* Order No. 33437 at 3; Ehrbar Direct at 6-7. Decoupling is intended to remove a utility's incentive to increase energy sales as a means of increasing revenue and profits, and to encourage energy conservation. Order No. 33437 at 3-4.

The Commission initially approved the Company's FCA as a three-year pilot program, and as part of the approved settlement of the Company's 2015 general rate case. *See* Case Nos. AVU-E-15-05, AVU-G-15-01; Application at 3; and Order No. 33437 at 10. The Order also

[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.

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. Order No. 33437 at 10. On June 15, 2018, the Commission approved an addendum to the settlement stipulation approved in AVU-E-15-05 and AVU-G-15-01, which extended the term of the Company's FCA for an additional year. *See* Order No. 34085; Application at 3. Pursuant to the addendum to the settlement stipulation, the Company, Commission Staff, and interested parties met on March 27, 2019 to review the effectiveness of the FCA mechanism. Application at 2.

THE APPLICATION

The Company proposed to extend its electric and natural gas FCA mechanisms through March 31, 2025 and committed to attending a workshop with Commission Staff and interested persons and parties before June 30, 2024, to discuss the future of its electric and natural gas FCA mechanisms. Application at 4.

During the initial deferral period of the proposed FCA extension, the Company will use a one-time filing adjustment to shrink rate-lag. *Id.* at 5. Currently, the Company files its previous year's FCA adjustments by June 30 following the deferral period for rates that will become effective on October 1 (electric) and November 1 (natural gas). *Id.* Under the Company's proposal, the Company will use a one-time 18-month deferral period, January 1, 2020 through June 30, 2021, to move the deferral period closer to the filing and effective dates. *Id.* After the initial deferral adjustment period, subsequent deferral periods will run from July 1 through June 30. *Id.* The new filing date will move from June 30, the current filing date, to July 31 of each year. *Id.* Rates will still become effective on October 1 (electric) and November 1 (natural gas) as they previously have. *Id.*

Additionally, the Company proposed to modify its FCA mechanisms to include an annual true-up of the FCA, comparing computed deferred revenue to the actual deferred revenue.[2] *Id.* at 5.

Finally, the Company proposed to change when it files its FCA quarterly reports with the Commission from 45-days after the end of each quarter to 60-days after the end of each quarter. *Id.* at 6.

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[2] At the end of each 12-month deferral period, the annual FCA revenue per customer will be multiplied by the number of actual customers. The results of that calculation will be compared to the actual deferred revenue for the same 12-month period. The difference between the actual deferred revenue and the calculated revenue will be added to, or subtracted from, the total balance. For the initial period of the FCA extension, this will be based on an 18-month calculation.

THE COMMENTS

Staff reviewed the Company's Application, supporting work papers, Company sponsored testimony, and production responses. Staff recommended the Commission approve the Company's Application. Staff Comments at 3. Staff said the FCA mechanism works, as intended, by helping to remove the Company's disincentive to pursue energy efficiency savings. *Id.* Staff also said that cost-effective, energy efficiency savings are an important part of the Company's integrated resource plan. *Id.*

However, in its comments, Staff reiterated similar concerns it has cited in previous FCA comments, both gas and electric. Staff noted that while the FCA is effective at shielding the Company's revenues from reductions in sales attributed to increased energy efficiency, it also removes a significant portion of the fixed cost risk attributable to factors that include weather, economic cycles, and improved building standards. *Id.* at 2. Staff said the lower risk associated with fixed cost recovery through the FCA stabilizes revenue and therefore may reduce the Company's capital costs. *Id.* at 3. Staff again suggested that customers should share the benefits of lower capital costs through smaller future rate increases. *Id.* Additionally, Staff expressed concern that the FCA provides for fixed cost recovery without verification that costs are incurred by the Company because FCA costs are not trued up to actual costs like those in the Power Cost Adjustment. *Id.*

Despite its concerns, Staff said the frequent rate case filings made by the Company have provided Staff opportunities to review of the Company's capital expenditures, therefore mitigating much of Staff's concern described above. *Id.* at 4-5. Staff also acknowledged the Company's willingness to modify the FCA mechanism over time as a reason it supports the proposed extension and modification. *Id.*

Besides Staff's recommendation to extend the FCA through March 31, 2025, Staff also recommended the Commission approve the Company's request to alter its first deferral period of the FCA extension to better set-up future deferral periods and reduce lag time between FCA effective dates.[3] *Id.* Staff said the reduction in lag time between the deferral period and the effective date is both beneficial to the FCA mechanism and increases transparency. *Id.* Staff also supported the annual true-up proposed by the Company. *Id.* at 5. Staff agreed with the Company that the

[3] Currently the Company's FCA deferral period is a calendar year, January 1 through December 31. The Company then files its FCA application by June 30 and new FCA rates are effective beginning October 1 (electric) and November 1 (gas).

current monthly deferred revenue calculations do not mathematically match the annual revenue per customer. *Id.* Staff said the proposed modification corrects the FCA deferred revenue issue by having the FCA calculation follow authorized annual revenue per customer as opposed to the current sum of monthly revenue per customer. *Id.* Finally, Staff supported modification of the FCA quarterly reporting deadline from 45-days to 60-days because it would allow for a more careful review and not alter the timely implementation of FCA rates. *Id.*

COMMISSION FINDINGS AND DISCUSSION

The Commission has jurisdiction over the Company and this matter under Title 61 of the Idaho Code, including Idaho Code §§ 61-501, 61-502, and 61-503. The Commission has reviewed the record and finds the Company's requested FCA extension and modifications to be fair, just, reasonable, and in the public interest. We find the Company's FCA mechanism effectively promotes energy conservation without jeopardizing the Company's recovery of fixed costs. There is no evidence to suggest any harm will come from extending the Company's FCA mechanism through March 31, 2025, or from any of the Company's other proposed modifications. Further, allowing the Company to use an initial, 18-month deferral period will help reduce lag time between future deferral periods and effective dates.

We acknowledge Staff's concerns as to whether customers benefit from the FCA rate adjustments for weather and other factors. We continue to encourage interested persons and parties to examine this question in more detail for future analysis and discussion.

We believe the Company's proposed modifications will allow the FCA mechanism to operate more efficiently going forward without affecting customers. These changes represent an evolution in the program that the Company should continue to closely monitor and refine during the extension period.

ORDER

IT IS HEREBY ORDERED that the Company's Application is approved and its FCA mechanisms are extended, effective January 1, 2020 through March 31, 2025.

IT IS FURTHER ORDERED that the Company may alter the first deferral period of its FCA extension by using a one-time 18-month deferral period, January 1, 2020 through June 30, 2021.

IT IS FURTHER ORDERED that the Company may implement an annual true-up and alter its quarterly reporting to 60-days from the end of each quarter for the FCA.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within 21-days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 13th day of December 2019.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian
Commission Secretary

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