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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE EXTENSION OF ITS ELECTRIC AND NATURAL GAS FIXED COST ADJUSTMENT MECHANISMS.	**CASE NO. AVU-E-19-06/ AVU-G-19-03** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Dayn Hardie, Deputy Attorney General, and in response to the Notice of Application and Modified Procedure issued in Order No. 34387 on August 1, 2019, in Case No. AVU-E-19-06/AVU-G-19-03, submits the following comments.

BACKGROUND

On July 1, 2019, Avista Corporation ("Company" or "Avista") applied to the Commission seeking an extension of its electric and natural gas Fixed Cost Adjustment ("FCA") mechanisms through March 31, 2025. Application at 1. With its Application, the Company also requested the Commission's approval to alter the first deferral period of the proposed FCA extension so the Company can better align future deferral periods with rate adjustments. *Id.* The Company additionally requested authority to implement an annual true-up as part of its FCA deferred revenue calculations and to extend its quarterly FCA reporting deadline. *Id.* Avista requested that its Application be processed using Modified Procedure with a proposed effective date of January 1, 2020. *Id.* at 2, 8.

History of Avista's FCA

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 sales. This decoupling is intended to remove a utility's disincentive to pursue energy efficiency savings.

The Commission approved Avista's FCA as a three-year pilot program, as part of the approved settlement of Avista's 2015 general rate case. *See* Order No. 33437. This 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 10. On June 15, 2018, the Commission approved an addendum to the settlement stipulation approved in Order No. 33437, which extended the term of the Company's FCA for an additional year. *See* Order No. 34085. 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.

In the present case, the Company proposes to extend its electric and natural gas FCA mechanisms through March 31, 2025 and has committed to attending a workshop with Commission Staff and interested parties before June 30, 2024, to discuss the future of its electric and natural gas FCA mechanisms. *Id* at 4.

Staff Concerns Raised in Previous FCA Proceedings

The FCA goes beyond its stated function of removing a utility's disincentive to pursue energy efficiency savings. Staff has stated in past comments that while Avista's FCA is effective at shielding utility revenues from the reduction in sales produced by energy efficiency, the mechanism also removes much of the Company's fixed cost risk of reduced sales attributable to many other factors. These factors include weather, economic cycles, improved building codes and standards, improved appliance standards, and behavioral responses to higher electric bills.

[1] Fixed costs are a utility's costs to provide service that do not vary with energy use, output, or production, for example, infrastructure and customer service costs.

Addressing the risk associated with fixed cost recovery has value from the Company's standpoint because it stabilizes revenue and may lower capital costs. Staff has stated that customers should share in the benefits of lower capital costs.

Staff has also stated in past comments related to Idaho Power's FCA that its mechanism provides for recovery of costs without verification that these costs are incurred. The same concern applies to Avista's FCA. This means that unlike the Power Cost Adjustment ("PCA") mechanisms in place for both Avista and Idaho Power, recovery of costs in the FCA are not trued up to actual costs. Staff's concern regarding Avista's FCA is somewhat mitigated because Avista has filed two electric general rate cases and one natural gas rate case since the implementation of its FCA. These frequent filings have provided an opportunity for periodic review of the Company's capital expenditures.

STAFF REVIEW

Staff recommends the Commission approve Avista's request for the extension of its electric and natural gas FCA mechanisms through March 31, 2025. Additionally, Staff recommends the Commission approve the Company's request to: (1) alter the first deferral period of the proposed FCA extension so the Company can better align future deferral periods with rate adjustments, (2) implement an annual true-up as part of its FCA deferred revenue calculations, and (3) extend its quarterly FCA reporting deadline.

Staff's recommendation is based on its review of the Company's Application, the testimony of Company witness Mr. Patrick Ehrbar, and the attachments thereto. Although Staff has concerns with several aspects of the FCA, Staff supports the extension primarily because it helps remove a utility's disincentive to pursue energy efficiency savings. Acquiring cost-effective energy efficiency is an important part of least-cost, least-risk integrated resource planning.

As mentioned above, the FCA removes much of the risk of fixed cost recovery through adjustments that help stabilize utility revenue. For example, if a cool summer results in lower sales and insufficient revenue to cover fixed cost estimates, a subsequent FCA surcharge helps make up the shortfall. Revenue stabilization reduces financial risk and can help reduce the Company's cost of equity. Lower equity costs benefit Avista, and if passed on to customers, help mitigate customer rate increases. If Avista's proposed FCA is approved, Staff may consider proposing reductions to the Company's return on equity to ensure these benefits are passed to customers.

Despite Staff's concerns with the FCA, Staff supports Avista's request for an extension in this case because the Company has been open to refining the mechanism over time. For example, since implementation of the FCA, Avista has proposed several modifications that have been accepted by the Commission. Avista is proposing three additional modifications in this proceeding. Staff supports the extension of the FCA through March 31, 2025, in part, because of Avista's demonstrated efforts to address and remedy stakeholders' concerns with the FCA.

Staff believes that the three modifications proposed by Avista will improve the functionality of the FCA and recommends Commission approval of each.

First, the Company has proposed to alter the first deferral period of the proposed FCA extension period so the Company can better align future deferral periods with rate adjustments. Staff agrees with the Company that its proposal will reduce the time between the deferral period and the effective date of any adjustment.

Currently, the Company files its previous year's FCA adjustments on or around June 30 following a 12-month deferral period covering January 1 through December 31 of the previous year. FCA rates then become effective on October 1 (electric) and November 1 (natural gas). Under the Company's proposal, the deferral periods will move forward by six months, which means that they will begin calculating the FCA deferral on July 1 rather than January 1. To transition to deferral periods beginning July 1, 2019, the Company is proposing an eighteen-month deferral period (January 1, 2020 through June 30, 2021) as the first deferral period if its Application is approved. Subsequent deferral periods will be 12 months and will run from July 1 through June 30 as discussed above. Because each deferral period will move forward by six months, the Company is proposing that the filing dates move from June 30 to July 31. Any rebate or surcharge will be implemented closer to the deferral period. Rates will continue to be effective on October 1 (electric) and November 1 (natural gas). Staff views the reduction in lag time between the deferral period and the effective date as a beneficial modification to the FCA mechanism. Placing a rate adjustment closer in time to the cause for the adjustment improves the transparency of rates.

Second, the Company proposed an annual true-up[2] as part of its FCA deferred revenue calculations. Staff supports this modification because the current deferred revenue calculation, based on the calculation of 12-monthly results, does not mathematically match the annual FCA revenue-per-customer result. The proposed true-up corrects this mismatch. Staff agrees with Avista's observation that the proposed change puts the actual results more on par with the derivation of the authorized amounts (i.e., authorized annual revenue-per-customer as compared to the sum of monthly revenue-per-customer). The Company provided an analysis showing there would have been a small impact if this change had been made during the past three years of the FCA. Staff reviewed those results, described in the testimony of Mr. Ehrbar, and agrees with Avista's conclusion.

Third, the Company has proposed to extend the quarterly FCA reporting deadline. Specifically, the Company proposes to modify when it files its FCA quarterly reports with the Commission from 45 days to 60 days after the end of each quarter. Staff supports this modification because it provides for a more careful review without impeding the timely implementation of rates.

STAFF RECOMMENDATION

Staff recommends that the Commission approve:

1. the Company's proposal to extend its electric and natural gas FCA mechanisms through March 31, 2025;
2. the Company's proposal to alter the first deferral period of the proposed FCA extension so the Company can better align future deferral periods with rate adjustments;
3. the Company's proposal to implement an annual true-up as part of its FCA deferred revenue calculations;
4. the Company's proposal to extend its quarterly FCA reporting deadline; and
5. revised tariffs to conform to the aforementioned Staff recommendations 1 through 4.

[2] Staff clarifies that "true-up" in this case does not mean aligning to actual incurred costs, as it does in the PCA. In this context, "true-up" means aligning to authorized levels of recovery.

Additionally, Staff recommends that the Commission order the Company to attend a workshop with Commission Staff and interested parties before June 30, 2024, to discuss the future of its electric and natural gas FCA mechanisms.

Respectfully submitted this 7th day of November 2019.

Dayn Hardie
Deputy Attorney General

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 7th DAY OF NOVEMBER 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NOS. AVU-E-19-06/AVU-G-19-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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