

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DAYN HARDIE
DEPUTY ATTORNEY GENERAL

DATE: JULY 25, 2019

SUBJECT: AVISTA'S APPLICATION TO IMPLEMENT FCA RATES FOR
NATURAL GAS SERVICE FROM NOVEMBER 1, 2019 THROUGH
OCTOBER 31, 2020; CASE NO. AVU-G-19-04.

On July 1, 2019, Avista Corporation ("Company" or "Avista") applied to the Commission for authorization to implement Fixed Cost Adjustment ("FCA") rates for natural gas service from November 1, 2019 through October 31, 2020, and to approve its corresponding modifications to Schedule 175, "Fixed Cost Adjustment Mechanism – Natural Gas." Application at 1. Avista also asks that the Commission approve the level of natural gas FCA revenue deferred during calendar year 2018. *Id.* The Company separately applied to implement FCA rates for electric service, in Case No. AVU-E-19-07. The Company proposes per therm FCA surcharge rates for residential customers and rebate rates for non-residential customers. The Company's Application, if approved would increase overall natural gas revenues by \$1.2 million. *Id.* at 12. The monthly bill of an average residential gas customer would increase by about \$1.05, or 2.3%. *Id.* at 11. Avista asks that its Application be processed by Modified Procedure, and requests an effective date of November 1, 2019. *Id.* at 2.

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 costs¹ of providing service, thus decoupling the utility's revenues from its customers' energy usage. Order No. 33437 at 3. This decoupling removes a utility's incentive to increase sales as a means of increasing revenue and profits, and encourages energy conservation. *Id.* at 3-4. The Commission approved

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.

Avista's FCA as a three-year pilot program, and part of the approved settlement of Avista's 2015 rate case. *See* Case Nos. AVU-E-15-05; AVU-G-15-01; Application at 3; and 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. Application at 3-4. The settlement stipulation in those cases and Tariff Sheet 175 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.

On June 15, 2018, the Commission approved an addendum to the settlement stipulation approved in AVE-E-15-05 and AVU-G-15-01, which extended the term of the Company's FCA pilot for an additional year. *See* Order No. 34085. The Company, Commission Staff, and interested parties reviewed the FCA mechanisms on March 27, 2019. Application at 4 n.2. The Company has separately applied to extend the electric and natural gas FCA mechanisms through March 31, 2025 in Case Nos. AVE-E-19-06 and AVU-G-19-03.

PROPOSED 2019-2020 FCA RATE ADJUSTMENT

In its natural gas FCA filing, Avista proposes a rate surcharge for residential customer group and a rate rebate for its non-residential customer groups based on the amount of deferred revenue recorded for each group in January through December 2018. The Company mostly attributes these proposed changes to drivers such as warm weather in January, May, and December 2018, and FCA revenue shortfall associated with energy efficiency programmatic savings. *Id.* at 6-7. According to the Company, other drivers are not easily quantifiable but include, among other things, the effects of non-programmatic energy efficiency and changes in business cycles. *Id.* at 7.

Avista recorded \$557,464 in the surcharge direction in deferred revenue for its natural gas residential customer group in 2018. *Id.* (table includes: carry over balance, interest, and revenue-related expenses). After taking into account the 2017 carry over balance of \$27,725, the Company proposes a surcharge of \$601,306, at a proposed rate of 0.951 cents per therm, to the Company's residential natural gas customers served under rate Schedule 101. *Id.* at 7-8; Exhibit B. 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 surcharge received from customers under the tariff. *Id.* at 8.

For its natural gas non-residential customer groups, Avista recorded \$137,897 in the rebate direction in deferred revenue in 2018. *Id.* (table includes: carry over balance, interest, and revenue-related expenses). After taking into account the 2017 carry over balance of (\$853), the Company proposes to rebate \$142,949, at a proposed rate of -0.554 cents per therm, to the Company's commercial and industrial natural gas customers served under rate Schedules 111 and 112. *Id.* at 8-9; Exhibit B. If approved by the Commission, 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 9.

With its Application, Avista submitted its residential and non-residential rate calculation, support for the Company's deferrals, and its proposed FCA tariff Sheet 175.

STAFF RECOMMENDATION

Staff recommends that the case be processed by Modified Procedure with a comment deadline of October 8, 2019, and reply deadline of October 15, 2019.

COMMISSION DECISION

Does the Commission wish to process this case under Modified Procedure with a comment deadline of October 8, 2019, and reply deadline of October 15, 2019?



Dayn Hardie
Deputy Attorney General

E:\Legal\GAS\AVUG-19-04\memos\AVUG1904_dec memo_dh.docx