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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA)	
CORPORATION'S APPLICATION TO)	CASE NO. AVU-G-19-04
IMPLEMENT FIXED COST ADJUSTMENT)	
RATES FOR NATURAL GAS SERVICE)	
FROM NOVEMBER 1, 2019, THROUGH)	COMMENTS OF THE
OCTOBER 31, 2020.)	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. 34393 on August 5, 2019, in Case No. AVU-G-19-06, submits the following comments.

BACKGROUND

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 customers, effective from November 1, 2019 through October 31, 2020, and to approve its corresponding modifications to Schedule 175, “Fixed Cost Adjustment Mechanism – Natural Gas.” The Company requested that the Commission issue an order approving FCA deferrals for

the period January 1, 2018 through December 31, 2018, and approve separate per therm FCA rates, a surcharge rate for its residential group customers, and a rebate rate for its non-residential group customers. The 2017 residential group deferral (current FCA rate) is a rebate of -0.766 cents per therm and the proposed 2018 FCA rate is a surcharge of 0.951 cents per therm. The 2017 non-residential group deferral is a rebate of -1.067 cents per therm and the proposed 2018 FCA rate is a rebate of -0.554 cents per therm.

The Company's Application, if approved, would increase overall natural gas revenues by around \$1.2 million, with around \$1.1 million of the increase attributable to the residential group and \$0.1 million attributable to the non-residential group. The monthly bill of an average residential natural gas customer using 61 therms per month would increase by \$1.05, from \$45.67 to \$46.72 (a 2.3% increase).

The Application states that the Company's proposed FCA rates conform to the 3% annual rate increase limitation for both the residential and non-residential classes. For purposes of confirming the 3% rate increase limitation when switching from a rebate to a surcharge, the calculation uses a rate of zero as the base to begin the new period. Using the zero base, the proposed 2018 FCA surcharge rate represents the Company's recovery from residential consumers of \$601,306, a 1.3% increase, and a Company rebate to non-residential customers of \$142,949, a 1.2% decrease in the rates.

Avista requested that its Application be processed by Modified Procedure with an effective date of November 1, 2019.

History of Avista's FCA

A Fixed Cost Adjustment 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 for providing service, thus decoupling the utility's revenues from sales. Order No. 33437 at 3. This decoupling is intended to remove a utility's disincentive to pursue energy efficiency savings.

Staff has stated in past comments that while the FCA is effective at shielding utility revenues from the reduction in sales produced by energy efficiency, the mechanism has a much broader impact. Avista's FCA removes the Company's fixed cost risk of reduced sales caused by many factors beyond the Company's energy efficiency efforts, including weather, economic

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.

cycles, improved building codes and standards, improved appliance standards, and behavioral responses to higher utility bills. Addressing these risks has value from the Company's standpoint because it stabilizes revenue and as a result may lower capital costs.

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* Case Nos. AVU-E-15-05, AVU-G-15-01. The Order also 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.

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 pilot for an additional year. *See* Order No. 34085; Application at 3-4. 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 mechanisms. Avista has filed a separate application with the Commission to extend the term of the FCA mechanisms through March 31, 2025. (AVU-E-19-06, AVU-G-19-03)

Avista's approved FCA mechanism includes separate inputs into the deferral calculation for existing and new customers (i.e., customers added after the test period). For new natural gas customers added after the test period, recovery of incremental revenue related to fixed production and underground storage facility costs is excluded. In order to identify 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 for existing customers. The adjustment helps prevent over-recovery by the Company keeping FCA surcharges and customers' bills lower.

The natural gas FCA includes customers from two groups: (1) Schedule 101 (residential), and (2) Schedules 111 and 112 (non-residential). 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.

STAFF ANALYSIS

For the 2018 FCA year, Staff recommends that the Commission allow the Company to recover \$601,306 from the residential customer group with a surcharge rate of 0.951 cents per therm and to refund \$142,949 to the non-residential customer group with a rebate rate of -0.554 cents per therm. The proposed FCA rates represent rate increases from (1) the current rebate of -0.766 cents per therm for the residential group and (2) rebate of -1.067 cents per therm for the non-residential group.

Staff's recommendation is based on its review of the Company's Application, including the supporting workpapers and responses to production requests. Staff also verified that the Company used the Commission-approved methodology authorized in Order No. 33437 to calculate its FCA deferral balance and associated rates for both residential and non-residential customer groups. Staff reviewed the amortization from the prior year's deferral balance, the therm sales for the FCA year, new and existing customer counts, revenue from fixed costs collections, the interest calculation, plus the internal control processes and internal audit documents pertaining to the aforementioned items. Staff also verified that the authorized amounts used to calculate the deferral were the same used to determine base rates authorized during the deferral period. Staff then verified the FCA deferral amount and rates for residential and non-residential customers.

As illustrated in Table 1 below, Avista's proposed surcharge of \$601,306 from natural gas residential customers is calculated by adjusting upward the 2018 calendar year deferral of \$557,464 by the actual 2017 carry-over balance of \$26,725, adding \$13,304 in interest, and adding a revenue-related expense adjustment of \$3,813. The Company's proposed 0.951 cents per therm rate is designed to recover the \$601,306 surcharge from the Company's residential natural gas customers. Staff verified these residential calculations. If approved by the Commission, the Company would record this amount in a regulatory balancing account and reduce the account balance each month by the surcharge received under the tariff.

Table 1: Residential Recovery

2018 Deferred Revenue	\$557,464
Plus 2017 Carry-Over Balance	\$26,725
Plus Interest through 10/21/2020	\$13,304
Plus Revenue-Related Expense Adjustment	\$3,813
Total for Recovery	\$601,306

Avista’s proposed rebate of \$142,949 from natural gas non-residential customers is presented in Table 2 below. This is calculated by adjusting downward the 2018 calendar year deferral balance of -\$137,897 (resulting in a larger rebate rate) by the actual 2017 carry-over balance of \$853, adjusting downward by \$3,409 in interest, and \$790 of revenue-related expense. The Company’s proposed -0.554 cents per therm non-residential FCA rate is designed to refund the \$142,949 rebate to customers in Schedules 111 and 112 (affected non-residential schedules). Staff verified these non-residential calculations. If approved by the Commission, the Company would record this amount in the regulatory balancing account, and reduce the account balance each month by the rebate received by customers under the tariff.

Table 2: Non-Residential Rebate

2018 Deferred Revenue	(\$137,897)
Plus 2017 Carry-Over Balance	(\$853)
Plus Interest through 10/21/2020	(\$3,409)
Plus Revenue-Related Expense Adjustment	(\$790)
Total Rebate	(\$142,949)

Energy Consumption Drivers

The proposed FCA surcharge deferrals for the residential customer group in 2018 are the result of reductions in use-per-customer from levels in the 2016 test year. The 2016 use-per-customer levels are used to establish the FCA base period. The proposed FCA rebate deferrals for the non-residential customer group in 2018 are the result of increases in use-per-customer from levels in the 2016 test year. Residential average monthly use-per-customer was lower by 2 therms, and non-residential average monthly use-per customer was higher by 1 therm in 2018.

Avista estimated the impact of three primary drivers of FCA revenue deferrals: (1) Weather, (2) Energy Efficiency, and (3) “Other.” The Company identifies the “Other” drivers as items that are difficult to quantify, such as the effects of non-programmatic energy efficiency and the business cycle. The “Other” drivers have a more significant impact on non-residential customers than on residential customers. Weather is an especially significant driver for residential customers because residential energy usage is relatively sensitive to weather fluctuations.

The following table shows Avista’s estimates of these drivers on use-per-customer (UPC) in therms and FCA revenue in millions of dollars (MM\$). The results demonstrate that energy efficiency is not the sole driver of declining energy sales, and that the FCA mechanism provides fixed cost recovery for a wide range of factors.

Table 3: Effects of the Drivers on Use-per-Customer and FCA Revenue in Million Dollars (MM \$)

Source	Residential UPC (Therms)	Residential FCA Revenue (MM\$)		Non-Residential UPC (Therms)	Non-Residential FCA Revenue (MM\$)
Weather	-3.2	-\$1.50		-36	-\$0.14
Energy Efficiency	-0.4	-\$0.20		-6	-\$0.02
Other	+1.4	+\$1.44		+42	+\$0.30
Total	-2.2	-\$0.56		0	+\$0.14

Risk Reduction Attributable to the FCA

The FCA helps stabilize revenue and lowers risk to the Company, thus potentially lowering its cost of capital. However, it is less clear how customers benefit from FCA rate adjustments. 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.

FCA Rates since Inception of the Program

There have been three rate adjustments since the FCA was approved in Avista's 2015 general rate case settlement, including the current FCA rate proposal. The residential rates and non-residential rate are shown in Table 4 below:

Table 4: History of FCA Rates

Effective Dates	Residential (Cents/Therm)	Non-Residential (Cents/Therm)
Nov. 1, 2017 - Oct. 31, 2018	2.466	1.615
Nov. 1, 2018 - Oct. 31, 2019	-0.766	-1.067
Nov. 1, 2019 - Oct. 31, 2020*	0.951	-0.554

* Nov. 1, 2019 - Oct. 31, 2020 shows rates proposed in this proceeding.

Table 4 shows that the rates have been both positive (surcharges) and negative (rebates) over the period.

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application. Staff reviewed the documents and determined that both meet requirements contained in 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 1, 2019 and ending August 16, 2019, providing customers with a reasonable opportunity to file timely comments with the Commission by the October 8, 2019, deadline.

PUBLIC COMMENTS

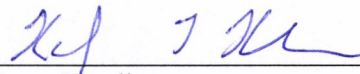
As of October 7, 2019, the Commission had received one comment, which opposed the proposed rate increase.

STAFF RECOMMENDATION

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

1. The proposed FCA residential surcharge rate of 0.951 cents per therm, which is designed to recover \$601,306 from the Company's residential natural gas customer group; and
2. The proposed FCA non-residential rebate rate of -0.554 cents per therm, which is designed to refund \$142,949 to the Company's non-residential natural gas customer group.

Respectfully submitted this 8th day of October 2019.


For: _____
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Deputy Attorney General

Technical Staff: Bentley Erdwurm
Johan Kalala-Kasanda
Yao Yin
Jolene Bossard

i:umisc:comments/avug19.4dhbejkyyjb comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 8th DAY OF OCTOBER 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-G-19-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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