BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO IMPLEMENT FIXED COST ADJUSTMENT RATES FOR NATURAL GAS SERVICE FROM NOVEMBER 1, 2020 THROUGH OCTOBER 31, 2021	))))))))	**CASE NO. AVU-G-20-05** **ORDER NO. 34823**

On June 30, 2020, Avista Corporation ("Company" or "Avista") applied to the Commission for authority to implement Fixed Cost Adjustment ("FCA") rates for natural gas service effective from November 1, 2020 through October 31, 2021, to approve the Company's corresponding modifications to Schedule 175, "Fixed Cost Adjustment Mechanism – Natural Gas," and to update language in Schedule 175 to incorporate modifications authorized in Order No. 34502. Application at 1-2. Avista also asks that the Commission approve the level of natural gas FCA revenue deferred during calendar year 2019. *Id.* at 1. The Company separately applied to implement FCA rates for electric service in Case No. AVU-E-20-06 (the Commission approved the Company's 2020-21 electric FCA rates in Order No 34802). The Company proposes per therm FCA rebate rates for its residential and non-residential gas customers. The Company's Application, if approved, would incrementally decrease overall natural gas revenues by about $1.1 million. *Id.* at 13. The monthly bill of an average residential gas customer would decrease by about $1.11, or 2.2%. *Id.* at 12. Avista asks that its Application be processed by Modified Procedure and requests an effective date of November 1, 2020. *Id*. at 2.

The Commission issued a Notice of Application and Notice of Modified Procedure setting deadlines for interested persons to submit comments. Order No. 34729. Staff filed the only comments, and recommended the Commission approve the Application. The Company did not file a reply.

Having reviewed the record, the Commission now approves the Company's Application as set forth below.

BACKGROUND

The FCA is a rate adjustment mechanism designed to break the link between the 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. This decoupling removes a utility's incentive to increase sales to increase revenue and profits and encourages energy conservation. *Id.* at 3-4. The Commission originally approved 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 Schedule 175 also set forth how the FCA mechanism works, including treatment of existing versus new customers, quarterly reporting requirements, annual filings, interest, accounting, and a 3% rate increase cap. *Id.* at 4.

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. On December 13, 2019, the Commission authorized the Company to: (1) extend its FCA mechanism for both gas and electric through March 31, 2025; (2) alter the first deferral period of the FCA extension by using a one-time, 18-month deferral period from January 1, 2020 through June 30, 2021; (3) alter its quarterly FCA reporting requirement to 60-days after the end of each quarter; and (4) file its FCA applications by July 31 of each year instead of by June 30. Order No. 34502; Case Nos. AVU-E-19-06 and AVU-G-19-03.

THE APPLICATION

In its natural gas FCA filing, the Company proposes rate rebates for its residential gas customer group and its non-residential gas customer group based on the amount of deferred revenue recorded for each group in January through December 2019. *Id*. at 12. The Company mostly attributes the proposed changes to cooler weather in February and March 2019 and "other" drivers. *Id*. at 7. Other drivers are not easily quantifiable according to the Company's Application

[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.

but include the effects of non-programmatic energy efficiency and changes in business cycles. *Id*. at 8.

The Company recorded $517,162 in the rebate direction in deferred revenue for its natural gas residential customer group in 2019. *Id.* (table includes: 2018 residual balance, interest, and revenue-related expenses). After considering the 2018 residual balance of $22,393, the Company proposes a $509,799 rebate, at a proposed rate of -0.783 cents per therm, to the Company's residential natural gas customers served under rate Schedule 101. *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.

For its natural gas non-residential customer groups, Avista recorded $175,310 in the rebate direction in deferred revenue in 2019. *Id*. (table includes: 2018 residual balance, interest, and revenue-related expenses). After considering the 2018 residual balance of $2,617, the Company proposes a $178,131 rebate, at a proposed rate of -0.687 cents per therm, to the Company's commercial and industrial natural gas customers served under rate Schedules 111 and 112. *Id*. at 9-10; 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 10.

The Company also proposed to update Schedule 175 to include the modifications authorized in Order No. 34502. These modifications include authority to: (1) extend gas and electric FCA mechanisms through March 31, 2025; (2) alter the first deferral period of the FCA extension by using an 18-month deferral period from January 1, 2020 through June 30, 2021; (3) alter quarterly FCA reporting requirement to 60 days after the end of each quarter; and (4) file annual FCA applications by July 31 during the extension period. *Id*. at 2 and 6.

With its Application, the Company submitted its residential and non-residential rate calculations, support for its deferrals, and its proposed FCA Schedule 175 that incorporates modifications authorized by Order No. 34502.

THE COMMENTS

Staff reviewed the Company's Application, supporting work papers, and production responses and believes the Company properly calculated its proposed FCA deferral balances and rates using the method authorized in Order No. 33437. Staff recommended the Commission allow the Company, in the 2020-21 FCA year, to refund $509,799 to residential customers with a rebate rate of -0.783 cents per therm, and refund $178,131 to non-residential customers with a rebate rate of -0.687 cents per therm. Staff Comments at 3.

Staff agreed that the FCA helps to stabilize revenue and lowers risk to the Company, potentially lowering its cost of capital. Staff is unsure how customers benefit from the annual FCA rate adjustments. *Id*. at 6. Although Staff has not recommended a lower cost of equity for the Company to memorialize its reduced risk from the FCA, Staff may do so in future proceedings. *Id*.

Staff supported the proposed updates to the language in Schedule 175 to include the modifications authorized in order No. 34502. *Id*. at 3, 6.

Staff noted that the Company included notices with customer bills between July 6, 2020 and August 3, 2020. *Id*. at 6. Staff believed customers were sufficiently notified of their opportunity to comment. *See* IDAPA 31.01.01.125; and Staff Comments at 6.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over the Company and this matter under Title 61 of the Idaho Code, and specifically *Idaho Code* §§ 61-336, 61-502, and 61-622. The Commission has reviewed the record, including the comments, and finds the Company's requested natural gas FCA residential rate rebate of -0.783 cents per therm, and FCA non-residential rebate rate of -0.687 cents per therm to be fair, just, and reasonable. The Commission finds that the Company correctly calculated its deferral balances. The 3% annual rate adjustment cap is not operative because the Company's proposed surcharge rates do not reach the cap for either residential or non-residential consumer groups. The Commission finds the Company's proposed Schedule 175, which includes the modifications authorized by Order No. 34502, meets the Commission's requirements. The Commission thus approves the Company's Application and Schedule 175, as filed, effective November 1, 2020.

ORDER

IT IS HEREBY ORDERED that the Company's Application is approved. The Company's filing for residential and non-residential FCA Natural Gas Service rates from November 1, 2020 through October 31, 2021, is granted, as requested, effective November 1, 2020.

IT IS FURTHER ORDERED that the Commission approves the Company's Schedule 175 as filed, incorporating the modifications approved in Order No. 34502 in addition to the updated FCA rates.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of 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 26th day of October 2020.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

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