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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA'S APPLICATION TO IMPLEMENT FCA RATES FOR NATURAL GAS SERVICE FROM NOVEMBER 1, 2020 THROUGH OCTOBER 31, 2021	**CASE NO. AVU-G-20-05** **COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

BACKGROUND

On June 30, 2020, Avista Corporation ("Company" or "Avista") applied to the Commission for authorization to implement Fixed Cost Adjustment ("FCA") rates for natural gas service effective from November 1, 2020, through October 31, 2021, to approve its 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 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 requests an effective date of November 1, 2020. *Id.* at 2.

Overview of Avista's FCA Mechanism

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 the fixed costs[1] of providing service, thus decoupling the utility's revenues from its customers' energy usage. This decoupling is intended to remove a utility's disincentive to pursue energy efficiency savings. The Commission originally approved Avista's FCA as a three-year pilot program, and part of the approved settlement of Avista'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. In the order approving the FCA program, the Commission noted that the parties to Avista's general 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; and (3) alter its quarterly FCA reporting requirement to 60-days after the end of each quarter. Order No. 34502; Case Nos. AVU-E-19-06 and AVU-G-19-03.

STAFF REVIEW

Staff reviewed the Company's Application, supporting workpapers, and the proposed changes to Schedule 175, including the updated language to incorporate modifications authorized

[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.

by Order No. 34502. Staff performed an audit of the Company's FCA deferral accounts and internal controls related to the FCA. Staff verified that the Company used the Commission-approved methodology authorized by Order Nos. 34502, 34085 and 33437 to calculate the FCA deferral balance and associated rates for residential and non-residential classes. Staff's review confirmed the Company's FCA natural gas deferral balances and rates were correctly calculated. Staff recommends Commission approval of the Company's Application—rebating $509,799 to the natural gas residential customers on Schedule 101 at the rate of 0.783 cents per therm, and $178,131 to the non-residential customers on Schedules 111 and 112 at the rate of 0.687 cents per therm during the upcoming FCA year.

Additionally, Staff recommends that the Commission approve the Company's proposed updates to Schedule 175 to include the modifications authorized in Order No. 34502. The Company will also file its FCA Applications by July 31 of each year during the extended FCA period.

In its filing, Avista proposes a rate rebate for its natural gas residential and non-residential customer groups based on the amount of deferred revenue recorded for each group between January 1, 2019 and December 31, 2019. The combined effect of the expiring FCA rate and the proposed new rates is illustrated in the Table No. 1, below. The residential customer group rate change represents a $1.1 million or 2.2% decrease in FCA revenue, and the non-residential customer group rate change represents a $35,000 or 0.3% decrease in FCA revenue.

Table No 1: Combined Impact of Present and Proposed FCA Rates

	Expiring Present FCA Revenue	Proposed FCA Revenue	Change in FCA Revenue
Residential	$ 619,181	$ (509,799)	$ (1,128,980)
Non-Residential	$ (143,645)	$ (178,131)	$ (34,485)
Total	**$ 475,536**	**$ (687,930)**	**$ (1,163,465)**

As illustrated in Table No. 2, below, Avista's proposed rebate to residential customers is calculated by adjusting the 2019 calendar year over-collection of $517,162. The adjustment includes the 2018 residual balance of $22,393, plus interest and revenue related expense adjustments. The Company's proposed rebate rate of 0.783 cents per therm is designed to refund the $509,799 to the Company's natural gas residential customers served under rate Schedule 101. If approved, 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.

Table No. 2: Residential Natural Gas Customers Rebate

2019 Deferred Revenue	($517,162)
Add: 2018 Residual Balance	$22,393
Add: Interest through 10/31/2021	($12,200)
Add: Revenue Related Expense Adj.	($2,830)
Total Rebate	($509,799)
Customer rebate	**($509,799)**
Carryover Deferred revenue	$0

The non-residential rebate is illustrated in Table No. 3, below. For its non-residential customer groups, Avista's proposed rebate rate of 0.687 cents per therm is designed to refund $178,131 to customers receiving service under rate Schedules 111 and 112. If approved, 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.

Table No. 3: Non-Residential Natural Gas Customers Rebate

2019 Deferred Revenue	($175,310)
Add: 2018 Residual Balance	$2,617
Add: Interest through 10/31/2021	($4,347)
Add: Revenue Related Expense Adj.	($1,092)
Total Rebate	($178,131)
Customer rebate	**($178,131)**
Carryover Deferred revenue	$0

Energy Consumption Drivers

The proposed FCA rebates for both the residential and non-residential customer groups in 2019 are the result of increases in use-per-customer from levels established in the 2016 test year. The 2016 use-per-customer levels are used to establish the FCA base period. Compared to 2019 average monthly use-per-customer, residential use was higher by three therms, and non-residential was higher by 71 therms.

Avista estimated the impacts 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.

Table No. 4, below, 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 fluctuations in energy sales, and that the FCA mechanism provides fixed cost recovery for a wide range of factors.

Table No. 4: Effects of the Drivers on Use-per-Customer and FCA Revenue in Million Dollars (MM $)

Source	Residential UPC (Therms)	Residential FCA Revenue		Non-Residential UPC (Therms)	Non-Residential FCA Revenue
Weather	+2.0	$940,000		+28.3	$110,000
Energy Efficiency	-0.7	($350,000)		-8.6	($30,000)
Other	+1.2	($70,000)		+51.7	$100,000
Total	**+2.5**	**$520,000**		**+71.4**	**$180,000**

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.

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application. Each document addresses three cases: this case (AVU-G-20-05), the Purchased Gas Cost Adjustment (AVU-G-20-04), and the electric Fixed Cost Adjustment (AVU-E-20-8). Staff reviewed the documents and determined that all meet the requirements of Rule 125 of the Commission's Rules of Procedure. The notice was included with bills mailed to customers between July 6, 2020 and August 3, 2020, providing customers with a reasonable opportunity to file timely comments with the Commission by the October 7, 2020, deadline. As of October 6, 2020, no customer comments had been filed.

STAFF RECOMMENDATION

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

1. The proposed FCA residential rebate rate of 0.783 cents per therm, which is designed to refund $509,799 to the Company's residential natural gas customer group.
2. The proposed FCA non-residential rebate rate of 0.687 cents per therm, which is designed to refund $178,131 to the Company's non-residential natural gas customer groups.
3. The proposed updates to the language in the Schedule 175 to include the modifications authorized in Order No. 34502.

Respectfully submitted this 7th day of October 2020.

Dayn Hardie
Deputy Attorney General

Technical Staff: Johan Kalala-Kasanda
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 7TH DAY OF OCTOBER 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-20-05, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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