Office of the Secretary
Service Date
March 13, 2025

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION FOR THE EXTENSION OF AVISTA'S ELECTRIC AND NATURAL GAS FIXED COST ADJUSTMENT MECHANISMS IN THE STATE OF IDAHO	)))))))	**CASE NO. AVU-E-24-11 AVU-G-24-04 ORDER NO. 36509**

On September 20, 2024, Avista Corporation ("Company") applied to extend its electric and natural gas Fixed Cost Adjustment Mechanisms ("FCA Mechanisms") through August 31, 2029. According to the Application, the FCA Mechanisms are set to expire on March 31, 2025. Consequently, the Company seeks an extension to the Company's electric and natural gas FCA Mechanism Tariff Schedules 75 and 175, effective April 1, 2025.

On October 10, 2024, the Commission issued a Notice of Application and Notice of Intervention Deadline. Order No. 36351. No parties intervened.

On November 25, 2024, the Commission issued a Notice of Modified Procedure, setting public comment and Company reply deadlines. Commission Staff ("Staff") filed the only comments.

Having reviewed the record, the Commission now issues this Order approving the Company's Application.

THE APPLICATION

The FCA Mechanisms are rate adjustment mechanisms designed to break the link between the amount of energy a utility sells and the Commission-authorized revenue collected to recover fixed costs of providing service. This uncouples the utility's revenues from sales. Decoupling is intended to remove a utility's disincentive to pursue energy efficiency savings and to stabilize rates for customers.

The Commission approved the Company's electric and natural gas FCA Mechanisms as a three-year pilot program in 2015. Order No. 33437. The Company's FCA Mechanisms initially became effective on January 1, 2016. The order approving this initial pilot program set forth how the FCA Mechanisms work, including: rates of existing versus new customers, quarterly reporting, annual filings, interest, accounting, and 3% rate increase cap. After an initial one-year extension, and during which the effectiveness of the FCA Mechanisms was reviewed, the Commission subsequently extended the duration of the FCA Mechanisms to March 31, 2025. Order No. 34502. The Company seeks to extend the effective period of its electric and natural gas FCA Mechanism Tariff Schedules 75 and 175 through August 31, 2029.

STAFF COMMENTS

After reviewing the Application, supporting testimony, and the Company's Decoupling Evaluation ("Evaluation"), Staff recommended the Commission approve the Company's request to extend the FCA Mechanisms.[1] Despite harboring some concerns over some aspects of the FCA Mechanisms, Staff believed these mechanisms benefit the Company and its customers.

1. Customer Benefits

Staff believed that, by separating revenue from sales, the FCA Mechanisms protect customers by eliminating: (1) the incentive for the Company to increase sales; and (2) the disincentive to promote conservation. Staff also noted that the refund or credit of sales revenue exceeding that approved by the Commission is an additional benefit to customers. Additionally, Staff indicated that the 3% annual rate increase limitation in the FCA Mechanisms reduces the likelihood of rate shock, providing further justification for Staff's support of their continuation.

2. Company Benefits

Staff believed the FCA Mechanisms protect the Company from under-recovering its fixed costs during periods of reduced use-per-customer. Staff referenced testimony from a Company employee submitted in support of the Application stating that with the FCA Mechanisms, the Company collects revenues in amounts the Commission determined the Company should recover in the Company's last rate case—not additional revenue the Company would not otherwise receive. Staff also observed that the Company's Evaluation indicated that the FCA Mechanisms stabilize the Company's revenue—halving electric revenue variability and reducing gas variability by 20%. Staff asserted that this revenue stabilization lowers the Company's financial risk. This

[1] In 2022, the Company engaged a third-party to develop and author the Evaluation. This document, required by the Commission's Washington State counterpart, was intended to analyze the effect of the FCA Mechanisms on conservation and the extent of cost recovery occurring across the Company's customer classes from 2020 to 2022. Additionally, the Evaluation determined that (1) the FCA Mechanisms effectively decoupled revenue from sales during the timeframe evaluated; (2) there was no conclusive evidence of adverse effects resulting from the FCA Mechanisms, and (3) deferral amounts had been properly calculated. According, the Evaluation recommended continued use of the FCA Mechanisms.

can reduce the Company's cost of equity which can indirectly benefit customers through smaller rate increases.

3. Staff Concerns

Staff reiterated a concern expressed in prior cases that the Company and customers do not equally share in the benefits the FCA Mechanisms provide. Specifically, Staff noted that, in addition to shielding utility revenues from reduced sales resulting from energy efficiency, the FCA Mechanisms also significantly reduce fixed-cost risk associated with various other factors—including weather, economic cycles, improved building codes and standards, improved appliance standards, and behavioral responses to higher electric bills. Reducing these risks stabilizes the Company's revenue and may lower capital costs, benefiting the Company. Staff believed customers should share the benefits of such lower capital costs.

Staff also noted the general trend among utilities, including the Company, to claim that an FCA Mechanism removes a utility's disincentive to pursue energy efficiency savings. However, in the Evaluation, it stated that nothing suggested "a relationship between decoupling and conservation results for program savings, expenditures, or customers served. These relationships are as likely to have occurred in the absence of decoupling as they occurred with decoupling". H. Gil & Associates at 4-13. Nevertheless, the Evaluation asserted that the FCA Mechanisms remain useful by providing an annual opportunity to timely adjust rates in response to weather and other load influencing factors.

Despite the concerns described above, Staff supported extending the FCA Mechanisms because of the Company's openness to reforming them and demonstrated efforts to address and remedy stakeholder concerns.

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction over the Company and this matter under Title 61 of the Idaho Code, including *Idaho Code* §§ 61-501, 61-502, and 61-503. The Commission has reviewed the record and finds extending the Company's FCA Mechanisms through August 31, 2029 to be fair, just, reasonable, and in the public interest. The FCA Mechanisms benefit the Company and its customers without jeopardizing the Company's recovery of fixed costs. Moreover, there is no evidence indicating that extending the FCA Mechanisms through August 31, 2029, risks harming the Company or its customers.

We acknowledge Staff's concerns regarding whether customers benefit from the FCA rate adjustments for weather and other factors. According to the Evaluation, decoupling the Company's revenues from sales did not improve conservation results for program savings, expenditures, or customers served. In light of this, the Evaluation asserted that the FCA Mechanisms should be characterized as a means of timely revenue recovery in response to variations in weather patterns. Even if the FCA Mechanisms have not directly increased conservation, they still benefit customers by eliminating the Company's incentive to increase sales. Additionally, based on the Company's past receptiveness to reforming the FCA Mechanisms to redress stakeholder concerns, we anticipate that the Company will continue to work with interested parties to address the concerns described in Staff's comments.

ORDER

IT IS HEREBY ORDERED that the Company's Application is approved and its FCA Mechanisms are extended through August 31, 2029, effective as of April 1, 2025.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within 21-days of the service date of this Order with regard to any matter decided in 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.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 13th day of March 2025.

EDWARD LODGE, PRESIDENT

JOHN R. HAMMOND JR., COMMISSIONER

DAYN HARDIE, COMMISSIONER

ATTEST:

Monica Barrios-Sanchez
Commission Secretary

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