

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE FIXED COST)	
ADJUSTMENT MECHANISM (FCA))	
ANNUAL RATE ADJUSTMENT FILING)	CASE NO. AVU-E-17-04
OF AVISTA CORPORATION FOR)	
ELECTRIC SERVICE FROM OCTOBER 1,)	ORDER NO. 33899
2017 THROUGH SEPTEMBER 30, 2018)	
)	

Avista applied to the Commission for authorization to implement Fixed Cost Adjustment (FCA) rates for electric service from October 1, 2017 through September 30, 2018, and to approve its corresponding modifications to Schedule 75, “Fixed Cost Adjustment Mechanism – Electric.” The Company proposed a 3% rate increase for residential customers, and a 2.7% rate increase for non-residential customers, and requested an effective date of October 1, 2017. Application at 2.

The Commission issued a Notice of Application and Notice of Modified Procedure. Order No. 33817. Staff timely filed written comments, to which the Company did not reply. The Commission also received 17 public comments. Having reviewed the record, the Commission enters this Order approving the Company’s Application. The Commission’s decision is more fully 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 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; Application at 4.

The Commission approved Avista’s FCA as a three-year pilot program, and part of the approved settlement of Avista’s 2015 rate case, Case Nos. AVU-E-15-05, AVU-G-15-01. Application at 3; 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

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.

effectiveness at the end of its second full year, to ensure it is functioning as intended. Application at 3-4. The Order 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 4-6.

APPLICATION

Avista proposed to increase rates for each rate group, based on the deferred revenue recorded for January through December 2016. Application at 3. The Company mostly attributed these electric FCA surcharges to abnormally warm weather and savings from energy efficiency programs in 2016. *Id.* at 7-8.

Avista recorded \$4,028,203 in surcharge deferred revenue for its electric residential customer group in 2016, which is affected by the 3% rate increase cap. *Id.* at 9, 12-13. With interest through September 30, 2018, and revenue related expenses, the total amount is \$4,104,951. *Id.* at 9. The Company proposed to increase residential rates by 0.281 cents per kWh, to recover \$3,290,149 from residential customers. *Id.* at 9. 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 revenue collected under the tariff. *Id.* at 10. The remaining deferral balance of \$814,802 would be carried over to be recovered or potentially offset in a future period. *Id.*

For its non-residential group, Avista recorded \$2,556,424 in surcharge deferred revenue in 2016, which is not affected by the 3% rate increase cap. *Id.* at 10, 13-14. With interest through September 30, 2018 and revenue related expenses, the total amount is \$2,601,586. The Company proposed to increase non-residential rates by 0.241 cents per kWh, to recover the full \$2,601,586 from commercial and industrial customers. *Id.* at 10-11. If the proposal is approved, the Company would record this amount in a regulatory asset balancing account and reduce the account balance each month by the revenue collected under the tariff. *Id.* at 11.

COMMENTS

A. Staff

On its review of the Company's Application and exhibits, Staff supported the Company's requested rate increases for residential and non-residential customers. Staff Comments at 2. Staff recognized that the Company's FCA "removes financial disincentives for energy efficiency," but noted that the FCA also "removes risk of declining sales associated with weather

fluctuations, business cycles, and all other factors.” *Id.* at 5. Staff thus asserted it is unclear “how customers benefit from FCA rate adjustments for weather and other factors.” *Id.* Staff suggested that the Company share the “value of risk reduction realized by the Company” with customers. *Id.* Ultimately, Staff recommended that the Commission accept the Company’s proposed Tariff Sheets 75A, 75B, and 75C as filed.

Staff believed the Company’s customer notice and press release did not fully comply with Rule 125. *Id.* at 6. The Company filed its Application on July 5, 2017, but did not file a press release or customer notice until August 4, 2017. *Id.* The Company advised Staff that the press release and notice, which covered this and three other case filings,² were intended to “minimize potential customer confusion.” *Id.* Staff stated it understood the Company’s desire to minimize confusion and to inform customers of the net effect of all four cases, but “the lengthy delay, coupled with the Commission’s comment deadline of August 31, 2017, created the need to provide direct notice to some customers at additional cost to the Company.” *Id.*

Staff noted that the Company included notices with customer bills between August 8 and 24, and provided email notices to more than 26,000 customers. Staff thus believed customers were sufficiently notified of their opportunity to comment. Nonetheless, Staff recommended that the Company avoid future delays of its press releases and customer notices. *Id.*

B. Public Comments

The Commission received 17 public comments, all opposing Avista’s request. Several customers noted they are on fixed incomes and cannot afford the rate increase. Others believe the increase is unreasonable and unfair. Many questioned the pending merger with HydroOne, and its connection to Avista’s requested rate increase.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over Avista under Title 61 of the Idaho Code, and specifically *Idaho Code* §§ 61-336, -502, and -622. The Commission has reviewed the record and finds the Company’s requested rate increases for residential and non-residential customers to be fair, just, and reasonable. The Commission finds that the Company correctly calculated its deferral balances and appropriately applied the 3% annual rate adjustment cap for its residential

² The three cases are AVU-E-17-05 (Avista’s residential and small farm energy rate adjustment filing), AVU-E-17-06 (Avista’s energy efficiency tariff rider filing), and AVU-E-17-07 (Avista’s annual Power Cost Adjustment filing).

customers. The Commission thus approves the Company's proposed Tariff Sheets 75A, 75B, and 75C as filed, effective October 1, 2017.

We acknowledge Staff's concern about whether customers benefit from FCA rate adjustments for weather and other factors. We encourage interested persons and parties to examine this question in the ongoing review of Avista's FCA program. We look forward to the results of such an analysis in the Company's next FCA filing. *See* Order No. 33437 at 10.

As to the Company's late customer notice and press release, we remind the Company that we expect it to comply with Rule 125 of our Rules of Procedure. Rules 125.03 and .04 require the Company to file its customer notice and press release with its Application, which the Company did not do. IDAPA 31.01.01.125.03-.04. Adequate notice is important to ensure customers have a meaningful opportunity to participate.

In this case, we received 17 public comments, all opposing the Company's requested rate increases. We note that several questioned whether the Company's pending merger with HydroOne impacted the requested rate increase here. The Commission considered and approved the Company's FCA mechanism as part of Avista's general rate case in 2015. Order No. 33437 at 10. While we are sympathetic to the customers' concerns, the Company's request to implement an adjustment to the FCA is a routine filing that is unrelated to Avista's merger with HydroOne. Based on our review, Avista is requesting recovery of costs specifically related to the FCA mechanism. We approve the FCA rate adjustment as just and reasonable.

ORDER

IT IS HEREBY ORDERED that the Company's FCA Filing for Electric Service from October 1, 2017 through September 30, 2018 is granted as requested, effective October 1, 2017. The Commission approves the Company's Tariff Sheets 75A, 75B, and 75C, as filed.

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 29th
day of September 2017.



PAUL KJELLANDER, PRESIDENT




KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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