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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Daphne Huang, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 33817, submits the following comments.

BACKGROUND

On July 3, 2017, Avista Corporation ("Avista" or "the Company") filed an Application asking 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 separately applied to implement FCA rates for natural gas service in Case No. AVU-G-17-03. The Company proposes per kilowatt-hour (kWh) FCA surcharge rates for both residential and non-residential groups in this case.

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 effectiveness at the end of its second full year, to ensure it is functioning as intended. *Id.* 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.

The FCA 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 costs[1] 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 Application (at 4, lines 1-6) quotes from the Commission Order No. 33437, which approved Avista's Fixed Cost Adjustment Mechanism:

> Fixed cost adjustment mechanisms are intended to encourage conservation, and allow customers more control over their bills. Further, the proposed FCA will remove any financial disincentive of the Company to encourage energy conservation.

STAFF ANALYSIS

In its electric FCA filing, Avista proposes to increase rates for each rate group, based on the deferred revenue recorded for January through December 2016. The Company mostly attributes these electric FCA surcharges to abnormally warm weather and savings from energy efficiency programs in 2016. Application 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 (table includes interest and revenue-related expenses), 12-13. The Company proposes 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.*

[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.

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.* (table includes interest and revenue-related expenses), 13-14. The Company proposes to increase non-residential rates by 0.241 cents per kWh, to recover $2,601,585 from commercial and industrial customers. *Id.* at 10-11. 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 11.

Staff has reviewed the Company's filing, supporting workpapers, and production responses and verified that the Company used the Commission-approved methodology authorized by Order No. 33437 to calculate the FCA deferral balance and associated rates for residential and non-residential classes. Based on its review, Staff recommends that the Commission allow the Company to recover $3,290,149 for the residential customer group and $2,601,585 for the non-residential customer group in the 2017 FCA year.

History of Avista's FCA

As noted above, the Commission approved Avista's FCA as part of the settlement in the Company's 2015 rate case. The Parties to that settlement based the mechanism on Idaho Power's FCA, but made several refinements to that mechanism. Most significantly, Parties agreed that existing and new customers (i.e., customers added after the 2014 test year) would be treated differently for the FCA deferral calculation. For new customers, recovery of incremental revenue related to fixed production and transmission costs is excluded from the FCA. Consequently, the FCA revenue-per-customer for new customers is less than the FCA revenue-per-customer for existing customers. This prevents what the Staff views as a cost over-recovery by the Company and helps keep FCA surcharges and customers' bills lower.

Additionally, Avista's FCA applies over a broader group of non-residential customers than Idaho Power's FCA. Avista's FCA is applicable to non-residential customers up to a demand of 2,500 kilovolt-amperes. Avista's FCA also applies to pumping service and farm pumping service (agricultural irrigation). Idaho Power's FCA applies to one non-residential rate schedule, Schedule 7 (Small General Service). Schedule 7 is limited to customers with monthly energy use of 2,000 kWh or less, which is about three times the average residential level of usage or less. Idaho Power's FCA does not apply to pumping service.

2016 FCA Balances and 2017 FCA Rate Calculation

Staff verified that the Company correctly calculated the residential customer group deferral balance as $4,028,203 and correctly limited rate recovery through the 2017 FCA residential rate to the 3% cap of $3,290,149. Staff confirmed that applying the 3% cap results in a 2017 FCA residential rate of 0.281 cents per kWh. Staff agrees that the remaining deferral balance of $814,802 should be recovered or offset in a future period.

Staff also verified that the Company correctly calculated the non-residential customer group deferral balance as $2,601,585 and that it is not affected by the 3% cap. Staff confirmed the 2017 FCA non-residential rate of 0.241 cents per kWh is correct. The Company's proposed 2017 FCA rates of 0.281 cents per kWh and 0.241 cents per kWh, for residential and non-residential classes respectively, are shown in the Company's proposed First Revision Sheet 75 under Monthly Rate for Group 1 (residential) and Group 2 (non-residential).

Future Collection of the Remaining Residential Balance

Excluding the effect of the remaining $814,802 from the 2016 deferral balance, mid-year estimates of the 2017 FCA residential deferral balance indicate that it may result in a rebate, rather than a surcharge, to customers. It is important to note that the 2017 residential deferral balance is still preliminary and six months remain in the FCA year, so the final 2017 residential deferral balance is still uncertain. However, if the current trend holds, it may be possible to collect the remaining $814,802 from the 2016 deferral balance at the same time as the 2017 deferral balance without exceeding the 3% cap. Staff will continue to monitor the 2017 deferral balance and will evaluate the collection of the outstanding 2016 balance when the Company makes its 2018 FCA filing.

Drivers of Declining Energy Usage

The Company states that the FCA balances are surcharges because the monthly use-per-customer in 2016 was lower than the use-per-customer established in the 2014 test year. The Company identifies weather, energy efficiency and "other" as drivers of the lower use-per customer in 2016. The Company further states that it has estimated that the approximate $4 million residential FCA deferral balance is comprised of a $2.4 million (60%) deferral due to weather, a $1.5 million (37.5%) deferral due to energy efficiency programs, and a $0.1 million (2.5%) deferral due to other factors. For non-residential classes, the Company has estimated that the approximate $2.5 million FCA deferral balance is comprised of a $0.3 million (12%) deferral due to weather, a $1.2 million (48%) deferral due to energy efficiency programs, and a $1.0 million (40%) deferral due to other factors. For the combined residential and non-residential FCA revenue deferral, 41.5% is due to weather, 42.5% is due to energy efficiency programs and 16.9% is due to other factors. The Company's analysis shows that less than half of the total FCA revenue deferral balance is caused by declining usage associated with energy efficiency programs.

Risk Reduction Attributable to the FCA

Staff agrees that fixed cost adjustment mechanisms remove financial disincentives for utilities to pursue energy efficiency. While Staff is encouraged by the Company's successful work to acquire cost-effective energy efficiency, the Company's programs are responsible for less than half of the overall decline in sales recovered through the FCA. The 2016 use-per-customer analysis described above demonstrates that Avista's FCA removes financial disincentives for energy efficiency, but it also removes risk of declining sales associated with weather fluctuations, business cycles, and all other factors. Mitigating weather and other risks has significant value from the Company's standpoint. However, it is less clear how customers benefit from FCA rate adjustments for weather and other factors. Staff believes that Avista, Staff, and other interested parties should evaluate the relative benefits of the FCA to the Company and its customers, and determine how the value of risk reduction realized by the Company should be shared with customers. Staff believes these issues should be addressed by interested parties at the end of the second full year of the FCA's initial three-year term, which is the time established in the Stipulation and Settlement (approved by the Commission in Order No. 33437) for program review.

Tariff Revisions

The Company proposes revisions to Tariff Sheets 75A, 75B, and 75C to more precisely describe the steps to calculate the FCA deferral balance and associated rates. Specifically, the proposed revision to Tariff Sheet 75A provides detail on the calculation of Fixed Production and Transmission Revenue (Step 2) and on the calculation of Delivery and Power Plant Revenue

(Step 3). The revision affecting Delivery and Power Plant Revenue provides clarification on differences in the calculation for existing customers and for new customers.

The proposed revision to Tariff Sheet 75B provides clarification on differences in Steps 5 and 6 of the calculation of the Monthly FCA Deferral for existing customers and for new customers. The revision also specifies that interest on the deferred balance (the difference on Actual FCA revenue and Allowed FCA Revenue) accrues at the customer deposit rate.

The proposed revision to Tariff Sheet 75C provides a detailed explanation of the 3% rate increase limitation. Staff believes that revisions to Tariff Sheets 75A, 75B, and 75C provide clarification and enhanced transparency, and better conform the FCA tariffs to the terms of the Stipulation and Settlement approved by the Commission in Order No. 33437.

CUSTOMER NOTICE AND PRESS RELEASE

Avista filed its Application on July 5, 2017. The Company noted that it would be filing several additional rate adjustment cases in the near future, and "in an effort to minimize potential customer confusion, a single news release will be issued … providing details about each of the Company's rate requests." Application at 17. Similarly, the Company intended to provide a single notice to customers addressing four separate cases: Fixed Cost Adjustment (AVU-E-17-04); Residential Exchange Program (AVU-E-17-05); Energy Efficiency Rider (AVU-E-17-06); and Power Cost Adjustment (AVU-E-17-07).

The Company filed its press release and customer notice covering all four cases on August 4, 2017. Staff reviewed both documents and determined that, with respect to this case (AVU-E-17-04), they do not comply with Rule 125 of the Commission's Rules of Procedure. IDAPA 31.01.01.125. Rules 125.04 and 125.05 require the press release and customer notice to be filed with the Company's Application. Although the Staff understands the Company's desire to minimize potential customer confusion and provide information in a way that emphasizes the net effect of all four cases, 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. In the future, Staff recommends that the Company not delay issuing press releases and customer notifications.

The notice was included with customer bills beginning August 8, 2017 and ending August 24, 2017. On August 24, 2017, 9,959 customers who would have received a bill after that date were sent a copy of the customer notice by direct mail. Also on August 24, 2017, electronic notices were emailed to 26,498 customers. Given the Company's efforts, customers will be made aware of cases and have an opportunity to file comments by August 31, 2017. Nevertheless, Staff recommends that the Commission accept late-filed comments from customers.

CUSTOMER COMMENTS

As of August 31, 2017, the Commission has received 12 comments from customers, all of which were opposed to the proposed increase.

STAFF RECOMMENDATION

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

1. The deferral balance of $4,028,203 for the electric residential customer group in 2016, while limiting recovery through the 2017 FCA to the 3% cap at $3,290,149. The remaining deferral balance of $814,802 should be recovered or offset in a future period. This results in a 2017 FCA residential rate of 0.281 cents per kWh.
2. The deferral balance of $2,601,585 for the non-residential electric customer group in 2016. This results in a 2017 FCA non-residential rate of 0.241 cents per kWh.
3. The Company proposed revisions to Tariff Sheets 75A, 75B, and 75C.

Additionally, Staff recommends that the Commission accept late-filed comments from customers.

Staff believes these rates provide adequate opportunity for the Company to collect its authorized deferred revenue and allow the Company a fair and equitable recovery of fixed costs.

Respectfully submitted this 31st day of August 2017.

Daphne Huang
Deputy Attorney General

Technical Staff: Bentley Erdwurm
Donn English
Rachelle Farnsworth
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i:umisc:comments/avue17.4djhdkderfbe comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 31^{ST} DAY OF AUGUST 2017, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-17-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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