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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO IMPLEMENT FIXED COST ADJUSTMENT RATES FOR ELECTRIC SERVICE FROM OCTOBER 1, 2018 THROUGH SEPTEMBER 30, 2019.	)	**CASE NO. AVU-E-18-06** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Sean Costello, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 34112 on July 26, 2018, in Case No. AVU-E-18-06, submits the following comments.

BACKGROUND

On July 2, 2018, Avista Corporation (Avista) applied to the Commission for authorization to implement Fixed Cost Adjustment (FCA) rates for electric service from October 1, 2018, through September 30, 2019, 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-18-03. The Company requests that the Commission issue an order approving FCA deferrals for the period January 1, 2017, through December 31, 2017. The Company also requests the Commission approve a per kilowatt-hour (kWh) FCA rebate rate of 0.176 cents for its Residential Group and a per kWh FCA surcharge rate of 0.056 cents for its Non-Residential Group from October 1, 2018, through September 30, 2019. Application at 1. Avista requests an effective date of October 1, 2018. *Id.* at 2; 14.

History of Avista's FCA

An 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 sales. This decoupling is intended to remove a utility's disincentive to pursue energy efficiency savings.

Staff has argued in past comments that while the FCA is effective at shielding utility revenues from the reduction in sales produced by energy efficiency, the mechanism has a much broader impact. Avista's FCA removes the Company's fixed cost risk of reduced sales caused by many factors beyond energy efficiency, including weather, economic cycles, improved building codes and standards, improved appliance standards, and behavioral responses to higher electric bills. Addressing these risks has value from the Company's standpoint because it stabilizes revenue and may lower capital costs.

The Commission 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. The Order set forth how the FCA mechanism works, including treatment of existing versus new customers, quarterly reporting, annual filings, interest, accounting, and a 3% rate increase cap. *Id.* at 4-6.

Avista's approved FCA mechanism is based on Idaho Power's FCA mechanism, with several refinements specific to Avista. Most significantly, existing and new customers (i.e., customers added after the 2014 test year) have a separate input for the FCA deferral calculation. Specifically, electric customers added since the test year are subject to a FCA revenue-per-customer that excludes incremental revenue related to fixed production and transmission costs. In order to segregate customers for this calculation, Avista tracks usage of new customers since January 1, 2016, separately from existing customers. Consequently, FCA revenue-per-customer

[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 costs.

for new customers is less than that for existing customers. This mechanism prevents over-recovery by the Company and helps keep FCA surcharges and customers' bills lower.

The non-residential customer group identified by Avista for the FCA is also broader than Idaho Power's FCA group. Idaho Power's FCA non-residential group only applies to one rate schedule, Schedule 7 (Small General Service). Avista's FCA is applicable to non-residential customers with a demand as high as 2,500 kilovolt-Amperes and also includes pumping service and farm pumping service (agricultural irrigation). These two rate groups were targeted in the FCA mechanism because the Company's fixed costs are recovered through variable usage rates that can be strongly affected by weather and other factors.

In Order No. 33437, the Commission ordered the parties to Avista's rate case to review the program's effectiveness at the end of its second full year, to ensure it is functioning as intended. *See* Application at 3-4. However, 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. As a result, the Company updated its Tariff Sheet 75 to reflect, among other changes: (1) an FCA mechanism term of four years; and (2) interested parties will conduct an effectiveness review at the end of the third year of the pilot. *Id.*

STAFF REVIEW

Staff reviewed the FCA and associated documentation and then verified that the deferral balance and FCA rates are materially accurate. Based on its review, Staff recommends that the Commission allow the Company to rebate $2,071,515 to the residential customer group with a rate of 0.176 cents per kWh and recover $603,669 for the non-residential customer group in the 2018 FCA year with a rate of 0.056 cents per kWh. On the other hand, Staff could not reconcile the Company's demand-side management (DSM) savings estimates identified as a driver of reduced energy consumption, though this finding does not affect Staff's recommendation at this time. Lastly, Staff suggests the Company assess the balance of risk between itself and customers when the program is reviewed after the third year of the pilot program.

Audit Results

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. Staff has reasonable assurance that the Company's FCA deferral and FCA rate are materially accurate. Staff audited the amortization from the prior year's deferral balance, the kWh sales for the FCA year, new and existing customer counts, revenue from fixed cost collections, and the interest calculation. The audit included a review of internal control processes as well as internal audit documents pertaining to these items. Staff checked the authorized amounts used to calculate the deferral and confirmed that they were the same used to determine base rates that were authorized during the deferral period. Staff then recalculated the FCA deferral amount and rates. Staff agrees that in this case the FCA deferral is not subject to the 3% cap because there is no proposed carry-over for either rate class.

2017 FCA Balances and 2018 FCA Rate Calculation

In its Application, Avista proposes to decrease rates for both the electric residential customer group and the non-residential electric customer groups based on the deferred revenue recorded for January through December 2017. Though non-residential customer groups' rates are lower than 2017, the rate is still a surcharge. The Company mostly attributes these changes to drivers such as abnormally cold weather in January and February 2017, hot weather during the summer of 2017, and savings from energy efficiency programs in 2017. *Id.* at 7-8. The Company states that other drivers are not easily quantifiable but include, among others, the effects of non-programmatic energy efficiency and changes in business cycles. *Id.* at 8.

The Company asserts that the FCA balances are the result of higher monthly use-per-customer than the use in the 2015 test year. Abnormally cold winter weather, and abnormally warm summer weather in 2017 resulted in excess revenue of approximately $3.2 million residential and $1.1 million for non-residential. *Id.* at 7. The Company calculated that under normal weather conditions there would have been a $1.8 million residential and $2.5 million non-residential revenue shortfall associated with programmatic energy efficiency savings. *Id.* at 8.

Avista proposes to credit electric residential customers (Group 1 – Schedules 1, 12, and 22) $2,071,515. The Company calculated this amount by reducing the calendar year 2017 deferral of $2,816,256 by the actual 2016 carry-over balance of $788,461, increased by the interest of $31,328, and increased by the revenue-related expense adjustment of $12,392.

Id. at 9. If approved by the Commission, the currently authorized residential FCA surcharge rate of 0.281 cents per kWh will be revised to a rebate rate of 0.176 cents per kWh. This will reduce the Company's residential revenue by $5.4 million (4.7% reduction). *Id.* at 9; and Exhibit B. The Company proposes to 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 FCA proposal reduces the monthly bill of a residential customer using 910 kWh per month by $4.16 – from $88.49 to $84.33 – a 4.7% decrease.

Avista also proposes to surcharge $603,669 from commercial and industrial customers (Group 2 - Schedules 11, 12, 21, 22, 31 and 32). *Id.* at 10-11; Exhibit B. The Company calculated this amount by reducing the calendar year 2017 deferral of $610,929 by the actual 2016 carry-over balance of $15,748, adding $7,623 in interest, and adding a revenue-related expense adjustment of $865. If approved by the Commission, the current authorized non-residential surcharge rate of 0.241 cents per kWh will be revised to 0.056 cents per kWh. *Id.* at 10-11. This proposed change in the non-residential FCA rate from a larger surcharge to a smaller surcharge reduces non-residential revenue by $2.0 million (2.0% reduction). The Company proposes to record this amount in a regulatory asset balancing account, with any outstanding balance from the surcharge approved in Case No. AVU-E-17-04, and reduce the account balance each month by the revenue collected under the tariff. *Id.* at 11.

Energy Consumption Drivers

According to the Company, uncharacteristic weather patterns in 2017 resulted in increased per-customer residential (38 kWh) and non-residential (67 kWh) monthly consumption relative to the 2015 base year. *Id.* at 8. Absent calendar year 2017's exceptional weather conditions, Staff believes that per-customer consumption would have decreased; however, Staff is not convinced that the reductions the Company attributes to its DSM programs are credible.

Staff notes that since the Commission approved the Company's FCA mechanism in 2015, total monthly weather normalized consumption has decreased by 9.29 kWh per residential customer and 108.44 kWh per non-residential customer. *See* Company's response to Staff's Production Request No. 3. These decreases represent a 1.0% reduction in residential and 2.8% reduction in non-residential consumption compared to 2015 weather-normalized consumption.

The Company reported that its energy efficiency programs resulted an average monthly decrease of 22 kWh per residential customer and 150.5 kWh per non-residential customer relative to the 2015 test year. Given that the energy efficiency decreases are much greater that the total decreases in weather-normalized consumption, Staff believes the Company's energy efficiency savings are overstated.

Staff has expressed concerns about the Company's reported energy efficiency savings estimates in previous cases. *See* Case Nos. AVU-E-13-09, AVU-E-14-07, and AVU-E-16-06. Most recently, in AVU-E-16-06, Staff wrote: "[i]n this case, the Company's Annual Reports were unreliable for use by [S]taff because there are questions as to the validity of the information contained within it." *See* Case No. AVU-E-16-06 Staff Comments at 10.

Although energy efficiency was an important justification for the FCA, energy savings estimates are not a component of the FCA calculation. Therefore, the Company's claims regarding its energy efficiency program savings does not directly affect Staff's recommendations to approve the Company's Application in this case. However, Staff will closely scrutinize the Company's energy savings when it next files for prudency of its DSM expenses.

Risk Reduction Attributable to the FCA

As stated above, the FCA helps stabilize revenue and lower risk to the Company, thus potentially lowering its cost of capital. However, it is less clear how customers benefit from FCA rate adjustments. Avista, Staff, and other interested parties should determine how the value of risk reduction realized by the Company should be shared with customers. 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. Staff believes these issues should be addressed by interested parties during the program review following the end of the third full-year, as approved by Order No. 34085.

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application on July 2, 2018. Staff reviewed the documents and determined both meet the requirements of Rule 125 of the Commission's Rules of Procedure. IDAPA 31.01.01.125. The notice was included with bills mailed to customers beginning July 12, 2018 and ending August 10, 2018, providing customers with a reasonable opportunity to file timely comments with the Commission by the September 13, 2018 deadline. As of September 11, 2018, no comments had been filed.

STAFF RECOMMENDATIONS

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

1. The deferral balance of $2,816,256 for the electric residential customer group in 2017. This results in a 2018 FCA residential rate of -0.176 cents per kWh.
2. The deferral balance of $610,929 for the non-residential electric customer group in 2017. This results in a 2018 FCA non-residential rate of 0.056 cents per kWh.

Staff believes these rates provide adequate opportunity for the Company to collect its deferred authorized level of fixed costs.

Respectfully submitted this 13th day of September 2018.

Sean Costello
Deputy Attorney General

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 13th DAY OF SEPTEMBER 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-18-06, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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