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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
AVISTA CORPORATION TO INITIATE ) CASE NO. AVU-E-14-05  
DISCUSSIONS WITH INTERESTED PARTIES ) AVU-G-14-01  
ON AN EXTENSION OF THE EXISTING RATE )  
PLAN AND AVOID A GENERAL RATE CASE. ) COMMENTS OF THE  
 ) COMMISSION STAFF  
 )  
\_\_\_\_\_ )**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Donald L. Howell II, Deputy Attorney General, submits the following comments in the above referenced case.

**BACKGROUND**

On May 30, 2014, Avista Corporation dba Avista Utilities filed an Application requesting that the Commission open a case to allow interested parties to participate in settlement discussions regarding alternatives to the utility filing a general rate case this year. In its Application, Avista expressed an interest in extending its existing settlement rate plan adopted in Order No. 32769 for another year as an alternative to filing a general rate case. The Company indicated it had informal discussions with several customers and interest groups (the parties<sup>1</sup>).

<sup>1</sup> The parties include: Clearwater Paper; Idaho Forest Group; Community Action Partnership of Idaho (CAPAI); Idaho Conservation League (ICL); Snake River Alliance (SRA); and Commission Staff.

On June 11, 2014, the Commission issued Order No. 33051 opening a case and scheduled a settlement conference for June 25, 2014. The Order granted intervention to the listed parties<sup>2</sup> and otherwise set a deadline for intervention of June 20, 2014. All the parties attended the settlement conference.

On July 15, 2014, Avista (on behalf of all the parties) submitted a Joint Motion requesting that the Commission accept a proposed “Stipulation and Settlement” (the “Settlement”) in lieu of Avista filing a general rate case to increase its rates for electric and natural gas services in Idaho. The parties requested that the Commission process the proposed Settlement under Modified Procedure. Rule 201, *et seq.*

#### **A. The Current Rate Plan**

In March 2013, the Commission issued Order No. 32769 approving a settlement in Avista’s last general rate case in AVU-E-12-08/AVU-G-12-07. The approved settlement in the prior rate case contained the following elements:

- A. Rate Freeze – No new electric or natural gas base rate increases to become effective prior to January 1, 2015.
- B. BPA Credit – Avista’s electric customers currently receive a rate rebate totaling \$3.865 million related to a prior settlement with the Bonneville Power Administration (BPA). The 15-month rate credit expires January 1, 2015. All other things being equal, expiration of the BPA credit would result in an increase in retail electric rates of 1.3% effective January 1, 2015.
- C. PGA Deferral Credit – Avista’s natural gas customers are currently receiving a rebate of \$1.55 million related to its purchased gas cost adjustment (PGA) scheduled to expire on December 31, 2014. All other things being equal, expiration of the PGA deferral credit would result in a 1.7% increase in retail natural gas rates effective January 1, 2015.
- D. 2013 Earnings Test – If Avista’s earnings exceed a 9.8% return on equity (ROE) on a consolidated basis, then the Company refunds one half of the excess to customers. For the 2013 earning test, Avista deferred a benefit of \$3.914 million for electric customers and \$444,000 for natural gas customers.
- E. Natural Gas Energy Efficiency Balance – Avista currently has a balance of \$653,000 in its Schedule 191 Natural Gas Energy Efficiency account. This balance represents a benefit to customers.

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<sup>2</sup> See Footnote No. 1.

## NOTICE OF PROPOSED SETTLEMENT

The parties in this case agreed to continue the “freeze” on base rates for electric and natural gas service. On July 14, 2014, the parties agreed to fully resolve this case by entering into a Stipulation and Settlement. The proposed Settlement contains the following terms:

- A. Rate Freeze Continuation – Avista would not increase its electric or natural gas base rates prior to January 1, 2016. The Company could file a rate case after May 31, 2015, but the effective date for any change to base rates would not be earlier than January 1, 2016.
- B. The BPA Credit and PGA Deferral Credit would be replaced with other deferral balances so that customers would not experience base rate increases in January 1, 2015.
  1. The \$653,000 balance in the natural gas Energy Efficiency account plus the \$444,000 deferral from the 2013 natural gas earnings test would be used to replace the projected 1.7% increase in retail natural gas rates that would otherwise be effective January 1, 2015.
  2. A portion of the 2013 electric Earnings Test deferral (\$3.201 million) would be used to replace the 1.3% increase in retail electric rates to be effective January 1, 2015. The remaining \$713,000 of the 2013 electric Earnings Test deferral would be credited to customers over 12 months through the Company’s next PCA case beginning October 1, 2014.
  3. Any difference between the estimated 2015 electric and natural gas credits and the actual amount rebated to customers through December 31, 2015, would be added or subtracted to the PCA and PGA deferral balances, respectively.
- C. Project Compass – Project Compass is the replacement of Avista’s outdated customer information system. Eighty percent of the revenue requirement associated with Project Compass during 2015 would be deferred for recovery in a future proceeding. The deferral is due in part to the uncertainty of the timing of the in-service date for Project Compass.
- D. Coyote Springs II/Colstrip O&M – The three-year amortization of the 2013 Coyote Springs II and Colstrip O&M deferral balance of \$1.253 million (\$418,000 per year) would begin January 1, 2016, instead of January 1, 2015.
- E. 2014 Earnings Test – Any earnings test deferral for 2014 would be used to support the one-year extension of the existing rate plan as set out below:
  1. An ROE “deadband” would be established for 2015 between the authorized ROE of 9.8% and 9.5%.

2. During calendar year 2015, if Avista earns less than 9.5% ROE (on an actual consolidated basis for electric and natural gas), any earnings test deferral balance from 2014 would be used to move Avista's earnings up to 9.5% ROE on an actual consolidated basis.
  3. Any 2014 earnings test balance not needed to achieve a 9.5% ROE for 2015 (i.e., Avista earns more than 9.5% ROE during 2015), would continue to be held as a deferral for future credit to customers.
  4. During calendar year 2015, if Avista earns more than a 9.8% ROE (on an actual consolidated basis), Avista would defer for future credit to customers half of any earnings above 9.8%.
- F. Low-income Issues – On or before October 1, 2014, the parties will meet to review the following issues:
1. The cost-effectiveness and appropriate funding of natural gas and electric demand-side management (DSM) programs for low-income residential customers. Avista will provide the parties with data and its analysis of when and under what conditions natural gas DSM programs will become cost-effective and funding for these programs may resume.
  2. Electric and natural gas usage by low-income customers in the Idaho service territory. Avista will provide usage data and consult with parties to identify their specific data requirements.
  3. No later than December 1, 2014, the parties will determine if a formal filing with the Commission is warranted based upon review of the information set out above.

The parties assert that the terms of the settlement are in the public interest and they urge the Commission to adopt the Settlement. The parties recognize that the Settlement is subject to the Commission's approval. Rule 276. As set out in the parties' Joint Motion, they request that the proposed settlement be processed under Modified Procedure and that written comments in support or opposition to the proposed settlement be filed no later than August 15, 2014.

#### **STAFF ANALYSIS**

Staff's evaluation of the proposed rate Settlement was based upon a customer rate impact assessment through December 31, 2015 comparing the rate impact of the agreement versus the rate impact that might otherwise occur without the agreement. In simple terms, under the

Settlement proposal, customers will see no base rate increase prior to January 1, 2016. Electric and natural gas rate credits scheduled to expire on January 1, 2015 will continue for an additional year and a portion of the 2013 sharing revenue under the existing rate plan will be used to offset potential increases in 2014 power supply expenses.

In exchange for base rate stability, the Company will benefit in three primary ways: (1) the Company will be allowed to defer 80% of the 2015 revenue requirement associated with its new customer information system (Project Compass) and request rate treatment in a subsequent rate case; (2) the Company will be allowed to delay amortization of deferred 2013 Colstrip/Coyote Springs II maintenance expenses until January 1, 2016; and (3) the Company will be allowed to use any 2014 customer sharing revenue to bolster ROE in 2015.

Staff believes it likely that Avista could justify electric and natural gas base rate increases in 2015 with a general rate case filing in 2014. Staff also believes that the tradeoffs for obtaining rate stability in this case still allows the Commission to evaluate Company expenditures in future rate cases. Consequently, Staff supports the proposed Settlement and recommends that it be approved by the Commission.

### **Rate Stability**

Specific Settlement terms were negotiated by all parties at a workshop held on June 25, 2014. The Participating parties generally agreed that the rate settlement approved by the Commission in Case No. AVU-E-13-01/AVU-G-13-01 had benefited customers through revenue sharing and thus justified consideration of an extended rate plan. The Staff objectives in negotiations were to achieve base rate stability while minimizing additional Company expense recovery outside a general rate case review.

The Settlement terms extending the base rate freeze through January 1, 2016 call for using available customer credits to offset existing credits as they expire. For example, the Company currently maintains several accounts where the account balances are to be refunded to customers. They are: (1) \$3.9 million in electric customer revenue sharing from the 2013 electric Earnings Test; (2) \$444,000 in gas customer revenue sharing from the 2013 natural gas Earnings Test; and (3) \$653,000 in a natural gas energy efficiency account. Customers are entitled to receive the money in these three accounts regardless of the Settlement in this case. The Settlement simply specifies the timing of the refunds to offset, for an additional year, a \$3.2 million BPA electric credit and a \$1.5 million gas PGA credit both scheduled to expire on January 1, 2015. Excess

electric credits totaling approximately \$713,000 will be available to help offset any Power Cost Adjustment (PCA) increase in October 2014. Staff believes timing the return of these refund credits to coincide with expiration of existing customer credits provides valuable base rate stability for both electric and natural gas customers.

Beyond the timing of customer refunds to provide rate stability, the Settlement provides that no base rate increases can occur prior to January 1, 2016. This assures that the Company will not file a general rate case in 2014 and any proposed increases from a filing in 2015 cannot become effective until 2016. The Settlement also provides for continued customer revenue sharing through 2015 if the Company's earnings exceed a 9.8% return on equity. While some 2013 electric revenue sharing credits will be available to offset a portion of any 2014 PCA increase, overall gas and electric rates can increase during the term of the agreement due to the annual PCA/PGA tracker mechanisms.

### **Stability Tradeoffs**

The Company's willingness to provide base rate stability through 2015 required agreement by the parties to allow it the opportunity to recovery costs that would otherwise be unrecoverable without a rate case. The Company also desired the opportunity to use customer sharing revenue from 2013 and 2014 to bolster earnings deficiency in 2015.

Settlement terms originally proposed by the Company and discussed at the workshop included: (1) 100% treatment of the Palouse Wind project costs in the PCA (currently at 90%); (2) retain \$713,000 in 2013 customer sharing revenue to bolster ROE in 2015 up to 9.8%; (3) retain any 2014 customer revenue sharing to further bolster 2015 returns up to 9.8% ROE and; (4) allow deferral of Project Compass depreciation and debt in 2015, \$1.916 million electric and \$459,000 gas, for recovery with a demonstration of prudence in a subsequent rate case.

At the workshop, the parties agreed that costs associated with the Palouse Wind project would continue to be treated in the PCA at 90%. As an alternative, the Company proposed that amortization of deferred Coyote Springs II/Colstrip O&M cost would begin on January 1, 2016 rather than January 1, 2015 as currently scheduled. The parties also discussed returning all 2013 customer revenue sharing to customers rather than used by the Company to bolster 2015 earnings. As an alternative, the Company would only use customer sharing revenue from 2014 to bolster 2015 earnings. Although the Company had originally proposed boosting earnings in 2015 up to the currently authorized ROE of 9.8%, the parties agreed to limit earnings augmentation up to a

9.5% ROE. No earnings augmentation or revenue sharing would occur if earnings fell within the 9.5% to 9.8% dead band. Earnings above 9.8% would be shared equally between customers and the Company.

In negotiations, the Company proposed and the parties accepted a modification to the deferral of project Compass depreciation and debt expense. The Settlement specifies that 80% of Project Compass 2015 revenue requirement, including debt, depreciation and return on equity, will be deferred for recovery in a subsequent rate case with a demonstration of prudence.

The cost to customers and the value of these settlement terms to the Company is difficult to determine because the level of 2014 customer revenue sharing, if any, is not known at this time. In addition, the 2015 revenue requirement associated with Project Compass that is subject to deferral will ultimately depend on the project's actual cost and when it comes online sometime in 2015. While these costs will be subject to deferral, they cannot be included in base rates until they are found to be prudently incurred as part of a general rate case. The cost/value of delaying amortization of the Coyote Springs II/Colstrip O&M deferral balance has a one-time value of \$413,000. Deferral of these expenses was previously approved by the Commission and will be subject to prudence review if and when they are requested for cost recovery. Again, base rates cannot increase prior to January 1, 2016. On that date, the temporary credits for gas and electric customers are scheduled to expire and base rates may be subject to change.

### **The Rate Case Alternative**

Avista provided its 60-day notice of intent to file a general rate case in April 2014. As part of its settlement evaluation, Staff analyzed the Company's 2013 result of operations that Avista planned to use in its Idaho rate filing. The results showed that the Company would likely propose an electric base rate increase of \$17.8 million (7.5%), and a natural gas base rate increase of \$1.4 million (1.9%) to become effective on January 1, 2015.

Staff determined that approximately half of the potential electric increase (\$8.9 million) was due to increased power supply expense. This increase in power supply variable cost is largely outside the control of the Company and will normally be recovered through the PCA at 90% until it is included in base rates. Staff then adjusted the remaining \$8.9 million to reflect a 9.8% ROE, a 50/50 capital structure, removal of "Average of Monthly Average" proforma rate base for 2015 and adjustments in proforma employee salaries. Few other significant adjustments were identified. Based on the analysis, Staff believes the Company could probably justify an

incremental electric revenue requirement increase in the \$3.5 million range and a natural gas revenue requirement in the \$200,000 range.

While it is difficult to specifically compare the effect on customers of the two alternative base rate approaches (rate case filings or the base rate Settlement) over time, Staff believes the base rate Settlement is superior for both electric and gas customers in the near term. Simply moving increased power supply costs from recovery at 90% in the PCA to recovery at 100% in base rates as a result of a rate case filing would increase overall customer electric rates by \$890,000.

### **Low-Income Issues**

Although supportive of the rate aspects of the Settlement, several of the parties expressed concern regarding the lack of opportunity to address low-income weatherization and rate design issues in the context of a general rate case. Consequently, the Settlement includes a provision whereby Commission Staff and Avista representatives will meet with interested parties on or before October 1, 2014 to discuss cost-effectiveness and appropriate funding of natural gas and electric demand-side management (DSM) programs for low-income residential customers. The discussion will include when and under what conditions natural gas DSM programs will become cost effective for low-income customers and when funding for these programs may resume.

Other areas of discussion will include collection and dissemination of electric consumption data for Idaho low-income customers in Avista's Idaho service territory. At the conclusion of discussions and no later than December 1, 2014, the parties will determine if a formal filing with the Commission is warranted.

Staff welcomes a discussion of these issues to gather information on the status of low-income DSM programs and energy consumption in Avista's Idaho service territory and then determine the next steps to better serve this customer segment. While Staff was hesitant to commit to a formal case filing at the conclusion of discussions, Staff fully supports a date-certain schedule for parties to determine how best to proceed on these low-income issues based on data review.

### **Summary**

Since April of 2014 when Avista submitted its 60-day notice of intent to file a general rate case, the Company has been working with Staff and other interested parties on a way to avoid the

rate filing. Staff's objective throughout the discussion was to obtain the most reasonable outcome for customers by effectively processing the general rate filing (if necessary) or reaching a Settlement that provides base rate stability through 2015 with limited additional expense recovery. Staff believes the Settlement achieves that objective.

The Settlement terms dealing with Project Compass revenue requirement and amortizing delay of deferred O&M expenses associated with Coyote Springs II/Colstrip still requires the Company to show prudence in a subsequent rate case before these expenses are included in rates. The only other concession required to freeze base rates through 2015 is use by the Company of 2014 customer revenue sharing if it is available to bolster 2015 earnings. Even then, the use of that revenue is tightly constrained depending upon 2015 earned ROE.

### **STAFF RECOMMENDATION**

Staff believes the proposed Settlement agreed to by all parties is a fair and reasonable alternative to a general rate case and recommends that it be approved by the Commission without change.

Respectfully submitted this 15<sup>th</sup> day of August 2014.



Donald L. Howell, II  
Deputy Attorney General

Technical Staff: Randy Lobb

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15<sup>TH</sup> DAY OF AUGUST 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NOS. AVU-E-14-05/AVU-G-14-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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