

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE FIXED COST) CASE NO. AVU-G-17-03
ADJUSTMENT MECHANISM (FCA))
ANNUAL RATE ADJUSTMENT FILING) ORDER NO. 33919
OF AVISTA CORPORATION FOR)
NATURAL GAS SERVICE FROM)
NOVEMBER 1, 2017 THROUGH)
OCTOBER 31, 2018)

Avista applied to the Commission for authority to implement Fixed Cost Adjustment (FCA) rates for natural gas service from November 1, 2017 through October 31, 2018, and to approve its corresponding modifications to Schedule 175, “Fixed Cost Adjustment Mechanism – Natural Gas.” The Company proposed per therm FCA surcharge rates for residential and non-residential groups, and requested an effective date of November 1, 2017.

The Commission issued a Notice of Application and Notice of Modified Procedure. Order No. 33816. 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 as set forth below.

BACKGROUND

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 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 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

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.

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 attributes the natural gas FCA surcharges to abnormally warm weather and savings from energy efficiency programs in 2016. *Id.* at 7-8.

Avista recorded \$2,626,654 in surcharge deferred revenue for its natural gas residential customer group in 2016, which is affected by the 3% rate increase cap. *Id.* at 9, 12-14. With interest through October 31, 2018 and revenue related expenses, the total amount is \$2,673,762. *Id.* at 9. The Company proposed to increase residential rates by 2.466 cents per therm, to recover \$1,440,064 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 \$1,233,698 would be carried over to be recovered or potentially offset in a future period. *Id.*

For its non-residential group, Avista recorded \$500,253 in surcharge deferred revenue in 2016, which is also affected by the 3% rate increase cap. *Id.* at 12-14. With interest through October 31, 2018 and revenue related expenses, the total amount is \$509,321. *Id.* at 11. The Company proposed to increase non-residential rates by 1.615 cents per therm, to recover \$383,369 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. The remaining deferral balance of \$125,952 would be carried over to be recovered or potentially offset in a future period. *Id.*

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 3. Staff recognized that the Company's FCA "removes financial disincentives for energy efficiency," but noted that the FCA also "removes the 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 175, 175A, 175B, and 175C 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 3, 2017, but did not file its customer notice until August 23, 2017, and did not file a press release until September 8, 2017. *Id.* The Company advised Staff that the press release, which covered this and another filing (Avista’s annual Purchased Gas Cost Adjustment, Case No. AVU-G-17-04), was intended to “minimize potential customer confusion.” *Id.* Staff noted that the Company included notices with customer bills between August 15 and September 13, and thus believed customers were sufficiently notified of their opportunity to comment in this case. *Id.* at 7.

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 believed the amount of the increase was 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. The Commission thus approves the Company’s proposed Tariff Sheets 175, 175A, 175B, and 175C as filed, effective November 1, 2017.

We acknowledge Staff’s concern about how 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 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. Avista is requesting recovery of costs specifically related to the FCA mechanism. Based on our review, we approve the FCA rate adjustment as just and reasonable.

ORDER

IT IS HEREBY ORDERED that the Company's FCA Filing for Natural Gas Service from November 1, 2017 through October 31, 2018 is granted as requested, effective November 1, 2017. The Commission approves the Company's Tariff Sheets 175, 175A, 175B, and 175C, 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 *24th*
day of October 2017.



PAUL KJELLANDER, PRESIDENT



KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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