

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF AVISTA)
CORPORATION’S APPLICATION TO) CASE NO. AVU-G-18-03
IMPLEMENT FIXED COST ADJUSTMENT)
RATES FOR NATURAL GAS SERVICE)
FROM NOVEMBER 1, 2018, THROUGH) ORDER NO. 34170
OCTOBER 31, 2019)
_____)**

On July 2, 2018, Avista Corporation (“Company”) applied to the Commission for authority to implement Fixed Cost Adjustment (“FCA”) rates for natural gas service from November 1, 2018, through October 31, 2019, and to approve its corresponding modifications to Tariff Sheet 175, “Fixed Cost Adjustment Mechanism – Natural Gas.” Along with this request, the Company sought approval of its FCA deferrals from January 1, 2017, through December 31, 2017. The Company also requested an FCA rebate rate of 0.766 cents per therm for its Residential Group and 1.067 cents per therm for its Non-Residential Group from November 1, 2018, through October 31, 2019. The Company requested an effective date of November 1, 2018.

The Commission issued a Notice of Application and Notice of Modified Procedure setting deadlines for interested persons to submit comments in the case. Order No. 34114. Staff filed the only comments, and recommended the Commission approve the Application. The Company did not reply.

Having reviewed the record, the Commission now approves the Company’s Application as set forth below.

BACKGROUND

The FCA rate adjustment mechanism breaks the link between the energy a utility sells and the revenue it collects to recover its fixed costs¹ to serve customers, thus decoupling the utility’s revenues from its customers’ energy usage. Order No. 33437 at 3. This decoupling encourages energy conservation by removing a utility’s incentive to sell more energy to increase revenue and profits. *Id.* at 3-4; Application at 4.

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.

The Commission approved the Company's FCA as a three-year pilot program as part of the approved settlement of Avista's 2015 rate case. *See* Case Nos. AVU-E-15-05 and AVU-G-15-01; Application at 3; and Order No. 33437 at 10. In Order No. 33437, the Commission ordered analysis of 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 of existing versus new customers, quarterly reporting, annual filings, interest, accounting, and 3% rate increase cap. *Id.* at 4-6.

On June 15, 2018, the Commission approved an addendum to the settlement stipulation approved in AVU-G-15-01, which extended the term of the Company's FCA pilot, and, therefore, the effectiveness review, for another year. *See* Order No. 34085.

APPLICATION

The Company proposed to decrease rates for its natural gas Residential and Non-Residential Groups based on the deferred revenue recorded for January through December 2017. Application at 1. The Company attributed the proposed changes to drivers such as abnormally cold weather during 2017 and an FCA revenue shortfall associated with energy efficiency programmatic savings. *Id.* at 7-8. The Company stated 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 recorded \$1,636,265 in the rebate direction in deferred revenue for its natural gas Residential Group in 2017, which includes an actual 2016 carry over balance of approximately \$1.2 million. *Id.* at 9. The Company's proposed rate of -0.766 cents per therm would rebate \$465,043 to the Company's Residential natural gas customers served under rate Schedule 101. *Id.*; Application Exhibit B. For its Non-residential Group, the Company recorded \$377,623 in the rebate direction in deferred revenue in 2017, which includes an actual 2016 carry over balance of approximately \$108,778. *Id.* at 10-11. The Company's proposed rate of -1.067 cents per therm would rebate \$274,617 to the Company's Commercial and Industrial natural gas customers served under rate Schedules 111 and 112. *Id.*; and Application Exhibit B.

Because the Commission approved the extended FCA pilot period, the Company also proposed changes to its Tariff Sheet 175 to reflect, among other changes: (1) an FCA mechanism term of four years; and (2) that interested parties will conduct an effectiveness review at the end of the third year. *Id.* at 4.

STAFF COMMENTS

Staff believes the Company calculated its proposed FCA deferral balances and rates using the methodology authorized in Order No. 33437. Thus, Staff recommended the Commission allow the Company, in the 2018 FCA year, to rebate \$465,043 to the Residential Group with a rate of -0.766 cents per therm, and rebate \$274,617 for the Non-Residential Group with a rate of -1.067 cents per therm. Staff Comments at 3. Staff also supported the updates the Company requested to make to its Tariff Sheet 175. *Id.*

While Staff agreed with the Company's reported energy efficiency savings numbers, it also noted that per-customer consumption has been increasing since introduction of the FCA, reiterating that it will conduct a full assessment of the FCA mechanism for effectiveness during the Commission ordered third full-year program review, including analysis of a lower cost of equity to recognize lower risk to the Company as a result of the FCA. *Id.* 3-5.

Staff noted that the Company included notices with customer bills between July 12, 2018, and August 10, 2018. Staff thus believed customers were sufficiently notified of their opportunity to comment. *See* IDAPA 31.01.01.125; and Staff Comments at 5-6.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over the Company and this matter 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 natural gas FCA residential rate of -0.766 cents per therm, and FCA non-residential rate of -1.067 cents per therm to be fair, just, and reasonable. The Commission finds that the Company correctly calculated its deferral balances. The 3% annual rate adjustment cap is not operative because there is no proposed carryover for either class. The Commission thus approves the Company's Application and Tariff Sheet 175, as filed, effective November 1, 2018.

We encourage interested persons and parties to examine issues related to the effectiveness of the FCA in the end of third-year programmatic review in 2019, including, among other issues, the effect of the FCA on customer and Company risk and the benefits accruing therefrom. *See* Order Nos. 33437 and 34085.

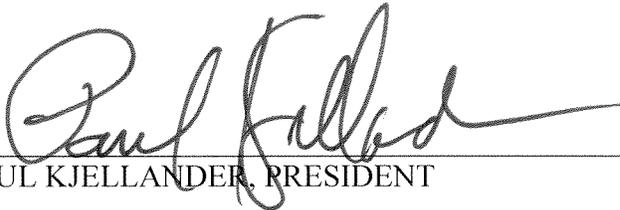
ORDER

IT IS HEREBY ORDERED that the Company's Application is approved. The Company's FCA Filing for Natural Gas Service from November 1, 2018, through October 31,

2019, is granted as requested, effective November 1, 2018. The Commission approves the Company's Tariff Sheet 175 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 15th day of October 2018.


PAUL KJELLANDER, PRESIDENT


KRISTINE RAPER, COMMISSIONER


ERIC ANDERSON, COMMISSIONER

ATTEST:


Diane M. Hanian
Commission Secretary

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