

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF

FROM: SEAN COSTELLO
DEPUTY ATTORNEY GENERAL

DATE: JULY 16, 2018

SUBJECT: AVISTA'S APPLICATION TO IMPLEMENT FCA RATES FOR
NATURAL GAS SERVICE FROM NOVEMBER 1, 2018 THROUGH
OCTOBER 31, 2019; CASE NO. AVU-G-18-03.

On July 2, 2018, Avista Corporation applied to the Commission for authorization 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 Schedule 175, "Fixed Cost Adjustment Mechanism – Natural Gas." Application at 1. Avista also asks that the Commission approve the level of natural gas FCA revenue deferred during calendar year 2017. The Company separately applied to implement FCA rates for electric service, in Case No. AVU-E-18-06. The Company proposes per therm FCA rebate rates for both residential and non-residential groups in this case. Avista asks that its Application be processed by Modified Procedure, and requests an effective date of November 1, 2018. *Id.* at 2.

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. *See* Case Nos. AVU-E-15-05; AVU-G-15-01; Application at 3; and Order No. 33437 at 10. In the Order approving the FCA program, the

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.

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 Stipulation in those cases and Tariff Sheet 175 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.

On June 15, 2018, the Commission approved an addendum to the settlement stipulation approved in AVE-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 also proposes changes to its Tariff Sheet 175 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. Application at 4.

PROPOSED 2018-2019 FCA RATE ADJUSTMENT

In its natural gas FCA filing, Avista proposes to decrease rates for each rate group based on the amount of deferred revenue recorded for January through December 2017. The Company mostly attributes these proposed changes to drivers such as abnormally cold weather in 2017, and FCA revenue shortfall associated with energy efficiency programmatic savings. *Id.* at 7-8. Other drivers are not easily quantifiable but include, among other things, the effects of non-programmatic energy efficiency and changes in business cycles. *Id.* at 8.

Avista recorded \$1,636,265 in the rebate direction in deferred revenue for its natural gas residential customer group in 2017. *Id.* at 9 (table includes carry over balance, interest and revenue-related expenses). After taking into account the 2016 carry over balance of approximately \$1.2 million, the Company proposes to rebate \$465,043, at a proposed rate of -0.766 cents per therm, to the Company's residential natural gas customers served under rate Schedule 101. *Id.*; Application Exhibit B. If approved by the Commission, the Company would 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.

For its non-residential group, Avista recorded \$377,623 in the rebate direction in deferred revenue in 2017. *Id.* (table includes carry over balance, interest and revenue-related expenses). After taking into account the 2016 carry over balance of approximately \$108,778, the Company proposes to rebate \$274,617, at a proposed rate of -1.067 cents per therm, to the Company's commercial and industrial natural gas customers served under rate Schedules 111

and 112. *Id.*; Application Exhibit B. If approved by the Commission, the Company would 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 11.

With its Application, Avista submitted its residential and non-residential rate calculation, support for the Company's deferrals, and its proposed FCA tariff Sheet 175.

STAFF RECOMMENDATION

Staff recommends that the case be processed by Modified Procedure with a comment deadline of September 20, 2018, and reply deadline of September 27, 2018.

COMMISSION DECISION

Does the Commission wish to process this case under Modified Procedure with a comment deadline of September 20, 2018, and reply deadline of September 27, 2018?



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