

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF AVISTA )  
CORPORATION’S APPLICATION TO ) CASE NO. AVU-G-19-04  
IMPLEMENT FIXED COST ADJUSTMENT )  
RATES FOR NATURAL GAS SERVICE )  
FROM NOVEMBER 1, 2019 THROUGH ) ORDER NO. 34468  
OCTOBER 31, 2020 )**

On July 1, 2019, Avista Corporation (“Company”) applied to the Commission for authorization to implement Fixed Cost Adjustment (“FCA”) rates for natural gas service from November 1, 2019 through October 31, 2020, and to approve its corresponding modifications to Schedule 175, “Fixed Cost Adjustment Mechanism – Natural Gas.” Application at 1. The Company also asked that the Commission approve the level of natural gas FCA revenue deferred during calendar year 2018. *Id.* The Company proposed per therm FCA surcharge rates for residential customers and rebate rates for non-residential customers. The Company’s Application, if approved, would increase the Company’s overall natural gas revenues by \$1.2 million. *Id.* at 12. The monthly bill of an average residential gas customer would increase by about \$1.05, or 2.3%. *Id.* at 11. The Company asked that its Application be processed by Modified Procedure, and requested an effective date of November 1, 2019. *Id.* at 2.

On August 5, 2019, the Commission issued a Notice of Application and Notice of Modified Procedure setting deadlines for interested persons to submit comments. Order No. 34393. Staff filed comments recommending the Commission approve the Application. One public comment was received. The Company did not file a reply.

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

**BACKGROUND**

The FCA is a rate adjustment mechanism designed to break the link between the energy a utility sells and the revenue it collects to recover fixed costs<sup>1</sup> 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

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<sup>1</sup> “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.

profits, and encourages energy conservation. *Id.* at 3-4. The Commission approved the Company's FCA as a three-year pilot program, and part of the approved settlement of the Company'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 Commission noted that the parties to the Company's rate case agreed to review the program's effectiveness at the end of its second full year, to ensure it was functioning as intended. Application at 3-4. The settlement 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 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. The Company, Commission Staff, and interested parties reviewed the FCA mechanisms on March 27, 2019. Application at 4 n.2. The Company has separately applied to extend the electric and natural gas FCA mechanisms through March 31, 2025 in Case Nos. AVU-E-19-06 and AVU-G-19-03.

#### **APPLICATION**

In its natural gas FCA filing, the Company proposed a rate surcharge for its residential customers and a rate rebate for its non-residential customers based on the amount of deferred revenue recorded for each group in January through December 2018. The Company mostly attributed the proposed changes to drivers such as warm weather in January, May, and December 2018, and FCA revenue shortfall associated with energy efficiency programmatic savings. *Id.* at 6-7. According to the Company, other drivers were not easily quantifiable but included the effects of non-programmatic energy efficiency and changes in business cycles. *Id.* at 7.

The Company recorded \$557,464 in the surcharge direction in deferred revenue for its residential natural gas customers in 2018. *Id.* After incorporating the 2017 carry over balance of \$26,725, accrued interest of \$13,304, and revenue-related expense adjustments of \$3,813, the Company proposed to recover \$601,306, at a surcharge rate of 0.951 cents per therm, from the Company's customers served under rate Schedule 101. *Id.* at 7-8; Exhibit B. If approved by the Commission, the Company will record this amount in a regulatory asset balancing account and reduce the account balance each month by the surcharge received from customers under the tariff. *Id.* at 8.

For its non-residential natural gas customers, the Company recorded \$137,897 in the rebate direction in deferred revenue in 2018. *Id.* After considering the 2017 carry over balance of (\$853), accrued interest of (\$3,409), and revenue-related expense adjustments of (\$790) the Company proposed to refund \$142,949, at a rate of -0.554 cents per therm, to the Company's commercial and industrial natural gas customers served under rate Schedules 111 and 112. *Id.* at 8-9; Exhibit B. If approved by the Commission, the Company will record this amount in a regulatory liability balancing account and reduce the account balance each month by the amount rebated to customers under the tariffs. *Id.* at 9.

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

## **COMMENTS**

### ***A. Staff Comments***

Staff reviewed the Company's Application, supporting work papers, and production responses and believed, based upon its review, the Company properly 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 2019-20 FCA year, to collect \$601,306 from residential customers with a surcharge rate of 0.951 cents per therm cents, and refund \$142,949 to non-residential customers with a rebate rate of -0.554 cents per therm.

Staff agreed that the FCA helps to stabilize revenue and lowers risk to the Company, potentially lowering its cost of capital. However, Staff is unsure how customers benefit from the annual FCA rate adjustments. Although Staff has not recommended a lower cost of equity for the Company to memorialize its reduced risk, Staff may do so in future proceedings.

Staff noted that the Company included notices with customer bills between July 1, 2019 and August 16, 2019. Thus Staff was of the opinion that customers were sufficiently noticed of their opportunity to comment per Commission rules. *See* IDAPA 31.01.01.125.

### ***B. Public Comments***

The Commission received one public comment opposing the FCA rate increase.

## **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, 61-502, and 61-622. The Commission has reviewed the record, including the comments, and finds the Company's requested natural gas FCA

residential rate surcharge of 0.951 cents per therm, and FCA non-residential rebate rate of -0.554 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 the Company's proposed surcharge rates do not reach the cap for either residential or non-residential consumer groups. The Commission thus approves the Company's Application and Tariff Sheet 175, as filed, effective November 1, 2019.

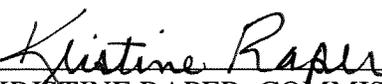
### ORDER

IT IS HEREBY ORDERED that the Company's Application is approved. The Company's filing for residential and non-residential FCA Natural Gas Service rates from November 1, 2019 through October 31, 2020, is granted, as requested, effective November 1, 2019. 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.*

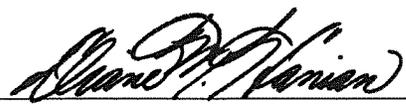
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this *29<sup>th</sup>* day of October 2019.

  
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PAUL KJELLANDER, PRESIDENT

  
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KRISTINE RAPER, COMMISSIONER

  
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ERIC ANDERSON, COMMISSIONER

ATTEST:

  
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Diane M. Hanian  
Commission Secretary

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