ITEM NO. CA 6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 16, 2016

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **July 1, 2015**

DATE: July 20, 2016

TO: Public Utility Commission

FROM: Judy Johnson JJ

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: AVISTA UTILITIES: (Docket No. UM 1165(11)) Requests reauthorization to defer costs associated with demand side management programs.

STAFF RECOMMENDATION:

I recommend that the Commission approve Avista Utilities' (Avista or Company) request for reauthorization to defer costs related to demand side management (DSM) for a twelve-month period beginning July 1, 2015.

DISCUSSION:

Issue

Whether the Commission should approve Avista's request for reauthorization to defer costs related to DSM for a twelve-month period beginning July 1, 2015.

Applicable Law

Avista makes this filing under ORS 757.259 and OAR 860-027-0300.

Under ORS 757.259(2)(e), the commission may authorize a utility to defer "identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers." Under ORS 757.259(2)(d), the Commission may authorize deferral of "amounts accruing under a plan for the protection of short term earnings under ORS 757.262(2).

A deferral may be authorized under ORS 757.259(2) for a period not to exceed 12 months beginning on or after the date of application.

ORS 757.262(1) authorizes the Commission to adopt policies to encourage the acquisition of cost-effective conservation resources. Under ORS 757.262(2) the Commission may adjust utility rates "for the purpose of providing some protection to a utility from reduction on short-term earnings that may result from implementation of policies adopted under ORS 757.262(1).

OAR 860-027-0300 specifies the required contents of an application for deferred accounting, including a description of the expense or revenue for which deferral is requested, the basis for the request, the accounts proposed for recording the amounts to be deferred, an estimate of the amounts to be recorded in the deferred account, and a copy of the notice of the application for deferred accounting.

Discussion and Analysis

Background
The filing was made on May 12, 2015, and Avista requests reauthorization to defer certain costs associated with the Company's DSM programs as well as lost margin revenue. The costs at issue include the installation and acquisition of DSM measures, approved advertising expenses, and applicable taxes incurred between July 1, 2015, and June 30, 2016. The lost margin revenue at issue is for the months of January, February, and March 2015.

In 1993 the Commission authorized Avista to begin deferral of the revenue requirements and estimated revenue margin losses associated with its DSM investment, and to establish an annual rate adjustment mechanism to reflect the deferred costs in rates on a timely basis.[1] Subsequently, reauthorization of the DSM-related deferral accounts has occurred annually. The most recently approved authorization for deferral of these types of costs extended through June 30, 2015, pursuant to Order No. 14-206.

Reason for Deferral
Avista states that deferral of DSM program investment costs and associated net lost margins is consistent with the Commission's policy to remove the significant disincentives to acquiring DSM relative to supply-side resources. ORS 757.262(1) allows the Commission to "...adopt policies designed to encourage the acquisition of cost-effective conservation resources". Avista states that not allowing the Company to

[1] Order No. 93-1881.

defer and recover DSM-related direct and indirect costs would create a significant disincentive for Avista's acquisition of cost-effective conservation.

Avista explains that it does not seek to defer lost margin from its DSM programs for the months of July-December 2014 because in 2014, the Company's rates were set based upon forecasted 2014 billing determinants, which included lost margin from the Company's DSM programs. Avista does not ask to defer lost margin for April-June of 2015 because rates from its most recent rate case (UG 284) became effective on August 16, 2015, and include the effect of the Company's DSM programs.

Finally, Avista notes that interest is calculated on the account balances, net of margin revenue.

Proposed Accounting
Following current practice, the proposed deferrals will be recorded in subaccounts of FERC Account 186, along with the amortization of previously approved DSM costs that are currently being collected from customers. Absent reauthorization of deferred accounting, these costs would be expensed per standard accounting practices until they could be incorporated into rates.

Previous Deferral Activity

Various DSM Programs Account Balances
November 1, 2014 through March 31, 2015

Program Description	Balance
Commercial State Mandated	50,449
Residential State Mandated	172,068
Commercial Energy Efficiency Program Costs	119,268
Residential Space Heating	105,481
Programmable Thermostats	14,587
Oregon Regional Transformation	18,968
Low Income Weatherization	174,859
Total	$655,680

Estimated Deferrals in Authorization Period
Avista estimates the deferral for conservation costs will be approximately $1,300,000 for the period July 1, 2014, through June 30, 2015.

Information Related to Future Amortization

- Earnings review – Historically, the Commission has not declined to authorize amortization of prudently-incurred DSM expense associated with Commission approved programs based on the earnings review required under ORS

- 757.259(5). Prudence Review – A prudence review is required to establish that costs were prudently incurred, and should include verification of the accounting methodology used to determine the final amortization balance.[2]

- Sharing –Customers will bear the responsibility for all prudently incurred costs.

- Rate Spread/Design – Amortization should be spread on an equal cents per therm basis for Schedules 410, 420, 424, and 444, as specified in Schedule 478.

- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year. Amortization of the expense associated with this deferral is subject to the three percent test.

Conclusion

Avista has met the requirements of ORS 757.259 and OAR 860-027-0300 in its filing. As the inherent disincentive associated with the Company's acquisition of demand-side resources is still applicable, Staff recommends the Commission approve Avista's application. Approval is for accounting purposes only. Staff will conduct a prudence review of all costs prior to a Commission ratemaking decision.

PROPOSED COMMISSION MOTION:

Approve Avista's application for deferral of DSM costs, effective July 1, 2015.

[2] Lost margin revenue deferred under ORS 757.259(2)(d) is not subject to the statutory limitations of ORS 575.259(5), but are "subject to such limitations and requirements that the commission may prescribe and that are consistent with the provisions of [ORS 757.259].