ITEM NO. CA4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 10, 2014

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** **July 1, 2014**

DATE: May 15, 2014

TO: Public Utility Commission

FROM: Judy Johnson

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman

SUBJECT: AVISTA UTILITIES: (Docket No. UM 1165(10)) 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, 2014.

DISCUSSION:

Avista makes this filing under ORS 757.259 and OAR 860-027-0300(4).

Reason for Deferral

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 allows the Commission to "...adopt policies designed to encourage the acquisition of cost-effective conservation resources". No deferral and recovery of DSM-related direct and indirect costs would create a significant disincentive for Avista's acquisition of cost-effective conservation.

By Order No. 93-1881, 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. Subsequently, reauthorization of the DSM-related deferral accounts has occurred annually. Current authorization for the deferrals extends through June 30, 2014, pursuant to Order No. 13-251.

ORS 757.259(2)(e) provides authority to approve this deferral to minimize the frequency of rate changes, or fluctuation of rate levels.

Description of Expense
Avista's DSM program costs include the installation and acquisition of DSM measures, approved advertising expenses, and any applicable taxes. Further, due to improved energy efficiency, margin revenue is reduced and this lost margin revenue is included in the deferral. In Avista's last rate case (Docket No. UG 246), the Company's rates were set based upon forecasted 2014 billing determinants. Those billing determinants already included lost margin from the Company's DSM programs. If the Company deferred lost margin for July 2014 through December 2014, it would receive double lost margin recovery. Therefore, the Company states it will not defer lost margin resulting from its DSM programs until January 1, 2015. Finally, 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 as of March 31, 2014

Program Description	Balance
Commercial State Mandated	80,797
Residential State Mandated	353,238
Commercial Energy Efficiency Program Costs	126,807
Residential Water Heating	1,434
Residential Space Heating	110,971
Residential Homes	0
Manufactured Homes	0
Residential Washing Machines	0
Tankless Water Heaters	3,326
Chimney Dampers	299
Programmable Thermostats	17,329

Space Heating	546
Low Income Weatherization	384
Total	$695,131

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, an earnings review has not applied to amortization of prudently incurred DSM expense associated with Commission-approved programs.
- 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.
- Sharing –Staff presumes that customers would 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.

Staff Analysis

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 as filed on May 14, 2014. Approval is for accounting purposes only. Staff will conduct a prudence review of all costs prior to a Commission ratemaking decision.

PROPOSED COMMISSION MOTION:

Avista's application for deferral of DSM costs be approved, effective July 1, 2014.