

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: October 12, 2017

REGULAR  CONSENT  EFFECTIVE DATE November 1, 2017

DATE: September 28, 2017

TO: Public Utility Commission

FROM: Max St. Brown<sup>MSB</sup>

THROUGH:  Jason Eisdorfer and  John Crider

SUBJECT: AVISTA UTILITIES: (Docket No. UG 342/Advice No. 17-05-G) Revises Schedule 475, Decoupling Mechanism.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Avista Utilities' (Avista or Company) proposed Schedule 475 tariff, as described in the filing of Advice No. 17-05-G, effective for service rendered on and after November 1, 2017.

**DISCUSSION:**

Issue

Whether the Commission should approve proposed Schedule 475 tariff for the purpose of amortizing decoupling revenue associated with the Avista decoupling mechanism from March 1, 2016 through December 31, 2016.

Applicable Law

- I. ORS 757.259(5) states that unless subject to an automatic adjustment clause, amounts deferred under ORS 757.259 shall be allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates, and upon review of the utility's earnings at the time of application to amortize the deferral. The Commission may require that amortization of deferred amounts be subject to refund. The Commission's final determination on the amount of deferrals allowable in the rates of the utility is subject to a finding by the Commission that the amount was prudently incurred by the utility.

- II. ORS 757.259(6) states that the overall average rate impact of the amortizations authorized under this section in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year.
- III. Commission Order No. 08-263, modified by Order No. 10-279, sets out the applicable interest rates to use for deferral accounts and to use when such amounts are amortized.
- IV. OAR 860-027-0300(9) states that amortization in rates of a deferred amount is allowed only as authorized by the Commission. The Commission may authorize amortization of such amounts only for utility expenses or revenues for which the Commission previously has authorized deferred accounting. Upon request for amortization of a deferred account, the energy or large telecommunications utility must provide the Commission with its financial results for a 12-month period or for multiple 12-month periods to allow the Commission to perform an earnings review. The period selected for the earnings review will encompass all or part of the period during which the deferral took place or must be reasonably representative of the deferral period. Unless authorized by the Commission to do otherwise: (a) An energy utility may request that amortizations of deferred accounts commence no later than one year from the date that deferrals cease for that particular account; (b) In the case of ongoing balancing accounts, the energy utility may request amortization at least annually, unless amortization of the balancing account is then in effect; or (c) A utility may request amortization as soon as practical but no later than its next rate case.

### Analysis

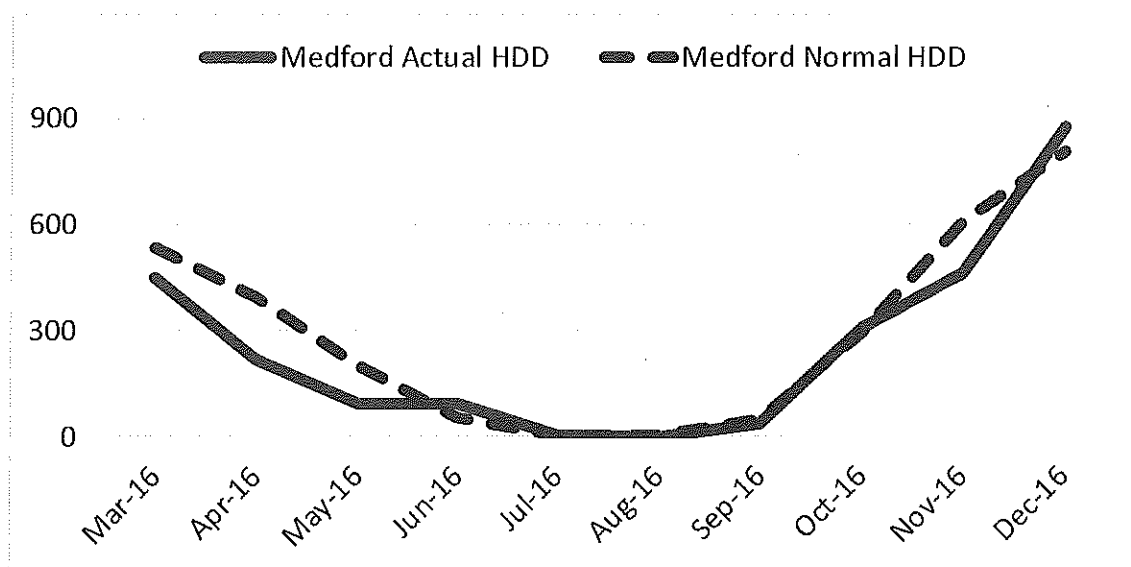
Avista's decoupling mechanism was established by the Commission in Order No. 16-076; and, Advice No. 17-05-G represents the first time Avista's Oregon natural gas rates will be affected by decoupling. Avista's decoupling mechanism is a full decoupling-type mechanism<sup>1</sup> and applies to residential and non-residential customers, but excludes some of its largest customers (those on Schedule 447 or 456). The Company has tracked monthly variances from forecasted usage due to weather and non-weather variations since March 1, 2016, and has deferred the revenue associated with those variations subject to interest as approved in Docket UM 1753, most recently in Order No. 16-489. The Company is proposing to amortize \$1,242,336 into residential rates and \$901,458 into non-residential decoupled schedules' rates. Additionally, the

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<sup>1</sup> Under full decoupling, "a utility recovers the allowed revenue no matter the reason (e.g., weather fluctuations, economic needs, or efficiency measures) for the variation in projected to actual sales." See page 4 of NREL, "Decoupling Policies: Options to Encourage Energy Efficiency Policies for Utilities," Accessed September 19, 2017 at: <https://www.nrel.gov/docs/fy10osti/46606.pdf>

Company will carry over \$103,035 for future deferral in non-residential rates, as that amount exceeds the ORS 757.259(6) three percent test.

Avista states that the surcharge is “driven primarily by a lower level of customer usage in 2016, due in part to warmer than normal weather in 2016.”<sup>2</sup> Traditionally, residential customers have the most weather-sensitive usage patterns and 61 percent of Avista’s residential customers last year were in Medford.<sup>3</sup> The plot below shows 2016 weather versus normal weather for Medford:



In the chart above, higher heating degree days (HDD) represent colder temperature. The greatest HDD shortfall from normal weather occurred in April and November. Accordingly, the largest weather-related surcharge deferrals occurred in April and November. Similarly, the largest weather-related rebate deferral occurred in December and December was the month that had the greatest cold weather in excess of normal weather.

The Company’s aggregate decoupling surcharge was computed by summing each monthly decoupling deferral from March to December 2016. Avista computed the monthly decoupling deferrals as outlined in its Schedule 475 tariff by subtracting basic charge revenue from the revenue approved in Avista’s rate case, Docket No. UG 288, by schedule, and then comparing this on a per customer basis to the actual revenue,

<sup>2</sup> Avista, “Avista Requests Natural Gas Rate Decrease for Oregon Customers in Annual Cost Adjustment Filings,” July 26, 2017 Draft Press Release. Attached to the initial filing in Advice No. 17-003.

<sup>3</sup> Where  $53,242 \div 87,595 = 61\%$ .

with an adjustment for new customers in excess of the forecasted number of new customers.

This process is identical for each month and rate schedule, so Staff will provide a detailed example only for Residential Schedule 410 for March 2016. The decoupled revenue per residential customer for March 2016 is \$36.50. Avista multiplies that amount by the lesser of actual or allowed number of Schedule 410 customers -87,708 - to arrive at \$3,201,606. Then Avista determines if an adjustment for new customers is needed. For this month an adjustment was needed because the actual number of new customers exceeded forecasts by 211 customers under Schedule 410.

The actual base rate revenue from new customers of \$27.81 is used for those 211 customers, which reduces the allowed decoupled revenue by \$1,831, which was computed based on the month each new customer joined the system. Next, the actual revenue of \$3,015,431 is subtracted to arrive at \$186,175. Finally, this amount is adjusted for uncollectibles, other fees, and interest at the Company's allowed rate of return to arrive at a decoupling deferral of \$180,982. Altogether, the decoupling surcharge to Schedule 410 customers of \$0.02465 per therm is the summed monthly values including cumulative interest of \$1,242,336 ÷ PGA 2018 forecasted usage of 50,583,726 therms.

This filing also modifies the tariff language of Schedule 475. The first language modification clarifies how the three percent rate increase test is applied. Avista describes that the clarification allows it to cease a decoupling rebate when there is no rebate balance in the deferral account. The modification adds language to comply with Order No. 17-344 in UG 325 requiring Avista to explicitly state how new customers are treated in the decoupling deferral computation. Staff supports all of the proposed tariff language modifications.

A big-picture item is worth noting: Avista is proposing a decoupling surcharge to customers, whereas Cascade Natural Gas is proposing a decoupling rebate. Staff hypothesizes that a leading cause is that the months included in the decoupling computation differ for the two utilities. Specifically, Cascade's decoupling mechanism covers January to July 2017 where, in many regions, actual weather was colder than average. Avista states that "for January to June 2017, the Company has deferred in the rebate direction approximately \$2.1 million for [customers]." Thus, while Cascade's customers receive a decoupling rebate during this year's PGA, the effect of January to June 2017 will be included in Avista's decoupling computation for next year's PGA. Also, the fact that Avista's decoupling mechanism encompasses industrial customers while Cascade's does not, might have some impact. Additionally, the quantity of energy efficiency conservation differs between the two utilities.

A noteworthy element of Avista's decoupling tariff is that the revenue per non-residential customer is constant regardless of rate Schedule. Thus, on average, a new Schedule 420 customer is more valuable to the Company than a new Schedule 424 customer because on average Schedule 420 customers have lower average usages per customer. Staff recommends that this topic be explored when Avista applies for renewal of its decoupling mechanism.

Staff asked three requests for information in order to confirm that new hookup customers are accounted for properly and to investigate the differences between Avista versus Cascade's decoupling filings. Staff confirmed that the monthly deferrals found in the Company's workpapers comply with its decoupling tariff. Staff confirmed the accuracy of the data sources in the Company's workpapers. The Company's proposed per-term rates are set properly to recover the incremental surcharge.

#### Conclusion

The filing satisfies the requirements of the law set forth above. ORS 757.259(5) and OAR 860-027-0300(9) authorize amortization of deferred utility expenses or revenues in rates to the extent authorized by the Commission. Staff finds that the deferral balances and amortization rate are properly calculated. Staff did not conduct an earnings test for the decoupling amounts, given that these amounts are subject to an annual earnings review with a sharing mechanism. Pursuant to ORS 757.259(6), this filing does not impose a rate increase greater than three percent of Avista's gross revenues.

The Company has reviewed this memo and it has no areas of disagreement.

#### **PROPOSED COMMISSION MOTION:**

Approve Avista's proposed Schedule 475 rates and tariff language, as described in the Advice filing 17-05-G, effective with service rendered on and after November 1, 2017.