

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 284

In the Matter of

AVISTA CORPORATION, dba
AVISTA UTILITIES,

ORDER

Request for a General Rate Revision.

**DISPOSITION: STIPULATION REJECTED; FURTHER
PROCEEDINGS ORDERED**

In this order we reject the all-party stipulation filed in this docket and order further proceedings. Our concerns relate to the stipulating parties' proposed early rate implementation credit, rate spread, and the customer count tracking mechanism.

I. INTRODUCTION

On September 2, 2014, Avista Corporation, dba Avista Utilities (Avista) filed Advice No. 14-07-G to effect a general rate increase for Oregon retail customers of \$9,140,000 (9.8 percent of its annual revenues).¹ We suspended Avista's filing until July 3, 2015 for investigation.

A public meeting to take public comment on the proposed rate increase was held in this matter on December 11, 2014. The meeting was held simultaneously in White City, Oregon and Grants Pass, Oregon, with the Commissioners participating via video-conference from Salem. In addition, the Commission received public comment via telephone, e-mail, and U.S. Mail.

Following settlement discussions, Avista, the Commission Staff, the Citizens' Utility Board of Oregon (CUB), and the Northwest Industrial Gas Users (NWIGU) filed an all-party stipulation on January 21, 2015, to resolve all issues in this docket.

On January 28, 2015, the parties filed joint testimony in support of their stipulation. Included in their testimony is a statement by each party affirming its support for the settlement. On January 29, 2015, Staff filed its own testimony in support of the stipulation, together with witness affidavits. The stipulation, joint testimony, and Staff's testimony are received in evidence.

¹ The 9.8 percent increase is taken from the direct testimony of Scott L. Miller, Avista's President and CEO. In their testimony in support of the stipulation the parties show 9.1 percent.

II. AVISTA'S APPLICATION

According to Avista's application, the company's rate increase request is attributable to a combination of increasing rate base and increases in general business expenses.²

Over 74 percent of the increase (about \$6.7 million) relates to the increase in rate base, including replacement and maintenance of Avista's aging system and technology to sustain reliability and safety. The remaining 26 percent (about \$2.4 million) relates to increases in operating and maintenance (O&M) costs and administrative and general (A&G) expenses and a net change in retail revenues since the company's last rate case.³

The request is based on a proposed rate of return of 7.77 percent, with a capital structure common equity component of 51 percent and a 9.9 percent return on equity. The filing is based on a calendar year 2015 test year. The company used a log-run incremental cost study as a starting point for its proposed rate spread.⁴

Assuming an average usage of 47 therms per month, the average residential bill would increase under Avista's request by \$5.78 per month, or about 10.3 percent, from \$55.97 to \$61.75.⁵ That calculation includes the cost of gas. Expressed in terms of the customer charge and base rate, Avista's proposed residential rate increase was 19.2 percent.

III. THE STIPULATION

A. Revenue Requirement

The stipulating parties agree to adjustments to Avista's requested revenue requirement that reduce the requested increase from \$9.140 million to \$6.112 million. Included in the \$6.112 million base revenue increase is the revenue requirement of \$0.262 million related to the Aldyl A Pipe Replacement, currently being recovered via a surcharge through tariff Schedule 497. Including those costs in base rates obviates the need for the surcharge and the Schedule 497 rate will be set to \$0.00 per therm on the effective date of the tariffs filed in compliance with this order. Thus, the net increase in the revenue requirement is \$5.85 million.

Because the parties' proposed March 1, 2015, effective date is prior to the end of the statutory suspension period (July 3, 2015), the parties agree that Avista would provide an early rate implementation credit of \$850,000 (annualized) to its customers.⁶ The credit would be provided to customers until new rates go into effect from the company's next general rate case.

² Avista/100, Morris, at 6.

³ *Id.* at 7.

⁴ *Id.* at 6.

⁵ *Id.* at 7.

⁶ In response to a directive from the Administrative Law Judge (ALJ), in the stipulation Avista states that it values the early implementation of the rate increase at \$1,550,000. The parties state that the early implementation credit is intended to recognize that Avista will begin to recover increased revenues earlier than if the case were litigated and is a "negotiated amount * * * interrelated with the overall negotiated revenue increase." (Stipulation at 3, fn 1.)

The summary of revenue adjustments is as follows:

Base Revenue Increase	\$6,112,000
Cancellation of Schedule 497	(262,000)
Early Rate Implementation Credit	<u>(850,000)</u>
Net Revenue Increase	\$5,000,000

B. Rate Spread

Without agreeing to any particular general proposition in regard to rate spread, the stipulating parties agree to the following rate spread for the overall revenue increase.

	<u>Base Rate Increase</u>	<u>Net Overall Increase</u>
Residential Service Sch. 410	6.72%	5.3%
General Service Sch. 420	8.20%	6.9%
Large General Service Sch. 424	-1.38%	-1.6%
Interruptible Service Sch. 440	-1.58%	-1.8%
Seasonal Service Sch. 444	-1.52%	-1.8%
Special Contract Sch. 447	0.0%	0.0%
Transportation Service Sch. 456	-7.00%	-8.1%

C. Customer Count Tracking Mechanism

The stipulating parties agree that Avista will implement a customer count tracking mechanism beginning March 1, 2015. Under this mechanism, Avista will compare, on a monthly basis, the actual number of its Oregon customers at the end of each month, by rate schedule, to the base number of customers as set by the stipulation. If the actual number of customers in the month is higher than the base level, the margin associated with the number of customers above the base level will be deferred, by rate schedule and returned on an equal percent of margin basis across all customers. If the actual number of customers in the month is less than the base number of customers, there is no margin deferred for that month. The mechanism is the subject of a separate application filed by Avista in docket UM 1715. The parties request that the application be granted to become effective at the same time as the rates filed under this order.

IV. TESTIMONY IN SUPPORT OF THE STIPULATION

A. Joint Testimony

The joint testimony is sponsored by a single witness from each party. In their joint testimony the parties summarize the terms of the stipulation and explain the basis for each adjustment.

With respect to the rate increase proposed for March 1, 2015, the parties note that they agree to a base revenue increase of \$6.112 million, including the \$0.262 million annual revenue associated with the Aldyl A Pipe Replacement currently being recovered as a

surcharge under Schedule 497. With the early rate implementation credit of \$0.850 million, the net revenue increase is \$5 million.⁷

Regarding rate spread, the stipulating parties agree that there is no precedent being established by the agreed-upon, one-time rate spread. They further agree that no party has agreed with the general proposition that when costs are generally increasing, some customer classes should receive price signals suggesting that costs are decreasing, or that rates currently charged to some customers are inequitably too high from a cost-of-service standpoint.

B. Staff Testimony

In addition to its statement of support for the stipulation included in the joint testimony, Staff submitted separate testimony summarizing its findings with respect to its witnesses' individual areas of responsibility.

Regarding rate of return, Staff witness Muldoon describes his analysis and compares the result with the rate of return previously authorized for Avista and with the return requested by the company in this case. He explains his use of discounted cash flow models to determine a reasonable return on equity and describes the factors to determine the cost of debt. Based on his analysis he concludes that "the stipulated ROE and ROR are within the top of the range supported by Staff's modeling."⁸

Staff witness Gardner summarizes Staff's work that resulted in the various other adjustments to revenue requirement, the proposed rate spread and rate design, and the basis for the proposed customer count tracking mechanism, which is offered as "a creative resolution [that] was developed that essentially allowed for the issue to be settled without requiring the Commission to make a finding on whose forecast is best."⁹

V. DISCUSSION

Although we agree with many provisions contained in the stipulation, we reject it due to concerns related to the proposed early rate implementation credit, rate spread, and the customer count tracking mechanism. We address each of these issues below.

A. Early Implementation Credit

As noted above, we originally suspended Avista's filing until July 3, 2015. In their stipulation the parties propose that the rate increase go into effect on March 1, 2015, more than four months prior to the date any rate increase would have gone into effect under the full suspension schedule.

⁷ Stipulation at 2-3.

⁸ Staff/102, Gardner and Muldoon at 8.

⁹ *Id.* at 31.

An early implementation of a rate increase benefits Avista. Avista estimates the amount of the additional revenue it would receive at \$1,550,000. Apparently as an offset to that benefit the parties agreed to the early implementation credit of \$850,000.

There is no evidence—or even discussion—in the record that explains the derivation of the early implementation credit, or why the implementation could not have been deferred and the credit avoided. The parties also fail to explain why the credit would be applied to the rates of all customers. Considering that adoption of their proposed rate spread would result in rate increases for residential and general service customers and rate decreases for larger customers, the larger customers already would receive a substantial benefit from early implementation.

B. Rate Spread

In its application, Avista proposed to allocate its entire rate increase to residential and general service customers. In their stipulation, the parties agree to increase the residential and general service rates beyond what the company had proposed, but reduce the rates for the larger customers.

We appreciate that rates may be misaligned relative to cost-of-service and that rate cases provide opportunities to make adjustments that more closely align rates with costs. Absent compelling evidence that warrants more immediate action, however, we are not inclined to raise some rates while reducing others. In this case there is no evidence that suggests that Avista's rates for its larger customers are so high and need to be reduced at this time.¹⁰

C. Customer Count Tracking Mechanism

Neither in their stipulation nor in their joint testimony do the parties offer any rationale to support the adoption of the proposed customer count tracking mechanism. The only explanation is provided in Staff's separate testimony, where it explains that the proposed mechanism is intended to resolve an impasse between Avista and Staff regarding forecasting of customer growth.

We appreciate the parties' reluctance to litigate a relatively minor issue that can be resolved through the adoption of a mechanism but are uncomfortable with the parties turning a factual issue into a policy decision. The customer count tracking mechanism is contrary to standard ratemaking where the utility is expected to live with the results of the rate case between cases, and nothing in the record persuades us that this mechanism should be adopted. Additionally, whether the Commission should adopt a customer

¹⁰ We note that the parties express the effect of their proposed rate change in terms of the percentage increase (or reduction) in the "base rate." The term "base rate" is a term of art in Avista's tariff, referring to a rate component that is not the customer charge and does not include gas costs. Nevertheless, in calculating the rate change percentages the parties included the customer charges and imputed a gas cost. The effect of their methodology is to significantly understate the amount of the rate increase for the smaller customers and the amount of the rate reduction for the larger customers. In the reopened proceedings parties should be more precise in their use of the term base rate when discussing any rate changes.

count tracking mechanism for Avista raises the questions whether the mechanism is intended to become permanent and whether it is intended to be generic and applied to other utilities.

VI. CONCLUSION

For these reasons, we reject the all-party stipulation in this proceeding. We order further proceedings and instruct the ALJ to convene a prehearing conference to set a schedule that will allow for the timely completion of this case.

In rejecting this stipulation, we clarify that we accept the parties' proposed resolution of other issues presented. We recognize, however, that the parties' agreement to those terms is part of an overall outcome that we have disturbed by rejecting the stipulation. Although the scope of the further proceedings will encompass Avista's entire filing, we encourage the parties to come back with a partial stipulation that encompasses these non-controversial issues.

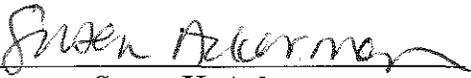
We also do not preclude the parties reaching a global settlement of all issues. However, if the parties continue to support the early implementation credit, proposed rate spread, or customer count tracking mechanism, they must provide evidence that explicitly supports their adoption and addresses concerns we have identified in this order.

VII. ORDER

IT IS ORDERED that:

1. The stipulation between Avista Corporation, dba Avista Utilities; the Staff of the Public Utility Commission of Oregon; the Citizens' Utility Board of Oregon; and the Northwest Industrial Gas Users is rejected.
2. The Administrative Law Judge is directed to convene a prehearing conference to set a schedule for further proceedings.

Made, entered, and effective FEB 23 2015


Susan K. Ackerman
 Chair


John Savage
 Commissioner


Stephen M. Bloom
 Commissioner

