ORDER NO. 17 242

ENTERED JUL 11 2017

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 903

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES, 2017 Spring Earnings Review.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on July 11, 2017, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Michael Dougherty
Chief Operating Officer

PUBLIC UTILITY COMMISSION OF OREGON

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ORDER NO. 17 242

ITEM NO. CA11

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 11, 2017

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** N/A

DATE: June 27, 2017

TO: Public Utility Commission

FROM: Marianne Gardner MG

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: AVISTA UTILITIES: (Docket No. UM 903) 2017 Spring Earnings Review.

STAFF RECOMMENDATION:

Staff recommends the Commission accept Staff's finding that Avista Utility Company's (Avista or Company) earnings for the 12 months ended December 31, 2016, are below the earnings threshold established in UM 903, and that no Earnings Sharing applies to the 2016 Fiscal Year.

DISCUSSION:

Issue

Whether the Commission should approve Staff's finding that Avista's earnings for the 12 months ended December 31, 2016, are below the earnings threshold established in UM 903, and, that no Earnings Sharing applies to the 2016 Fiscal Year.

Applicable Law

Avista and the other two Oregon-regulated natural gas distribution companies recover gas costs under an automatic adjustment clause known as the Purchased Gas Adjustment (PGA). The purpose of the PGA is to permit each natural gas utility to adjust revenue annually to reflect actual increases or decreases in gas costs.

The PGA has two components.[1] The first component is prospective and resets base gas costs each year to reflect changes in the utility's cost of purchased gas.[2] The

[1] *See e.g.,* Order No. 03-198 at 1 (Docket No. AR 449).
[2] Order No. 03-198 at 1.

second component is retroactive and allows the utility to defer for later inclusion in rates differences between actual fixed costs and the base level in rates as well as a portion of the differences between actual commodity-related costs and the base level in rates.[3]

To ensure that earnings of a natural gas utility are not excessive prior to passing through prudently incurred base gas costs, Commission rule (OAR 860-022-0070) requires that an earnings review be conducted on an annual basis.[4] The Commission adopted the PGAs in 1998 and the implementing rules in 1999.[5] The Commission has modified the PGAs and rules through the years.[6] Components of the PGAs are as follows:

Annual Election
Each Local Distribution Company (LDC) shall make an annual election to determine how the cost variance between the weighted average cost of gas (WACOG) that will be included in rates and the actual WACOG experienced during the upcoming gas year (WACOG Variance) should be allocated between the LDC and its customers (WACOG Sharing). This election must be made by August 1 and the LDC may choose either 90/10 or 80/20.[7]

Spring Earnings Review
An earnings review will be performed each spring (pursuant to OAR 860-022-0070) based on the most recent fiscal year's results of operations. The earnings review will apply to the WACOG Sharing election previously made by the Company (e.g., the 2015 election will apply to the 2016 Fiscal Year results of operations that are the subject of the 2017 Spring Earnings Review). If earnings are found to be above a specified return on equity (ROE) level (Earnings Threshold), a portion of those revenues will be booked to a deferred account.

The Earnings Threshold
A LDC that elects 90/10 WACOG Sharing will be subject to an Earnings Threshold 100 basis points above its ROE, adjusted to reflect changes in conditions in capital markets.[8] An LDC that elects 80/20 WACOG sharing is subject to an Earnings Threshold 150 basis points above its ROE, adjusted in the same manner.

[3] Order No. 03-198 at 1.
[4] Order No. 03-198 at 1.
[5] Order Nos. 98-503 and 99-284 (Dockets UM 903 and AR 357).
[6] *See e.g.*, Order Nos. 07-019, 08-504 (Docket Nos. AR 512 and UM 1286).
[7] 90/10 or 80/20 WACOG Sharing means that 90 or 80 percent of the variance will be deferred for subsequent charge or credit to customers, and 10 or 20 percent will be absorbed or retained by the LDC.
[8] The Earnings Threshold is adjusted each year by 20 percent of any change in the risk free rate for the twelve-month calendar year preceding the annual earnings review (See Order No. 04-203 at 3-4 and OAR 860-022-0070(5)(c)).

Structure of Earnings Reviews
By May 1 of each year, the LDC will file results of operations for the 12 months ended the prior December 31. Staff will complete its review and distribute summary conclusions by June 10 to all parties. At the first regular public meeting in July, Staff will present the results of the earnings review. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1 and the Commission would issue its decision on unresolved issues by August 15. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.[9]

Earnings Adjustments
Recorded results of operations will include retained WACOG Variance earnings and will be adjusted for Type 1 adjustments as set forth in Order No. 99-272, Appendix B. Avista made a one-time election not to include a weather normalization adjustment in its spring 1999 earnings review filing and each subsequent annual filing.

Earnings Performance
If adjusted earnings (including any retained WACOG Variance) are below the Earnings Threshold, there will be no rate adjustment.[10] If adjusted earnings are above the Earnings Threshold, the amount of revenue in the test year representing 33 percent of the earnings exceeding the threshold will be shared with customers (Earnings Sharing).

Effective Date of Rate Adjustment and Applicable Interest
Upon completion of the earnings review, any amount of earnings over the sharing dead band determined to be returned to customers will be booked to a deferred account. Interest shall apply beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.[11]

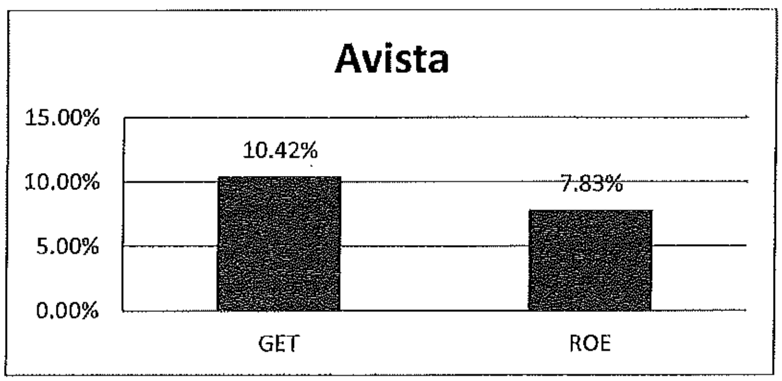
Analysis of Avista's Earnings
The Earnings Threshold for Avista for this 2017 Spring Earnings review (review of the 2016 results of operations) is 10.42 percent.[12] Avista elected a 90/10 WACOG Sharing for the 2016 Fiscal Year. Accordingly, calculation of Avista's Earnings Threshold began with its authorized ROE for 2016,[13] the addition of 100 basis points (based on a 90/10 WACOG Sharing election), further adjusted by 20 percent of the change to the

[9] OAR 860-022-0070(6).
[10] OAR 860-022-0070(5)(c).
[11] OAR 860-022-0070(5)(e).
[12] Gas Earning Thresholds and supporting calculations are posted on the Commission's website at the following address: http://www.puc.state.or.us/Pages/electric_gas/Natural_Gas.aspx.
[13] The authorized ROE for Avista was changed from 9.50 percent to 9.40 percent on March 15, 2016, by Order No. 16-109 (UG 288). Avista's 2016 authorized ROE was prorated accordingly to 9.42 percent.

risk free rate for the twelve-month period preceding the annual earnings review. For the 2016 Fiscal Year, there was no change in the risk free rate.

Pursuant to the rules, Avista submitted its 2016 Results of Operations (ROO) report for the 12 months ended December 31, 2016.[14] Avista calculates its ROE as 7.83 percent after the application of its Type I adjustments, excluding weather normalization.

Staff reviewed the Company's ROO report and the supporting workpapers, and concludes that Avista's reported ROE has been calculated correctly. Because Avista's adjusted ROE is below the Earnings Threshold of 10.42 percent, no Earnings Sharing is required.



Staff is required by OAR 860-022-0070(6), to submit summary conclusions to the parties in Docket No. UM 903 on June 10, 2017. However, Staff submitted its findings to the parties on June 27, 2017.

<u>Conclusion</u>

In this public meeting memorandum, Staff reports its calculations of: (1) Avista's adjusted return on equity ("Earnings Threshold"), and (2) adjusted revenues for the 2016 fiscal year, both of which are used to determine whether Avista must share a portion of its 2016 fiscal year earnings with customers under Avista's Purchased Gas Adjustment mechanism. Based on these calculations, Staff concludes that Avista should not be required to share its 2016 earnings with customers in connection with its PGA.

[14] UM 903 Results of Operations, Docket RG 34, submitted April 28, 2017

PROPOSED COMMISSION MOTION:

Accept Staff's finding that Avista's 2016 earnings are below the Earnings Threshold designated in UM 903, and that no Earnings Sharing applies to the 2016 Fiscal Year.