ORDER NO. 17 450

ENTERED NOV 07 2017

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1753(2)

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES, Application for Reauthorization to Defer Expenses or Revenues Related to the Natural Gas Decoupling Mechanism.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on November 7, 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

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.

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ITEM NO. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 7, 2017

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **January 1, 2018**

DATE: October 31, 2017

TO: Public Utility Commission

FROM: Mitchell Moore MM

THROUGH: Jason Eisdorfer and John Crider JE JC

SUBJECT: AVISTA UTILITIES: (Docket No. UM 1753(2)) Application for the reauthorization of deferred accounting for the decoupling mechanism authorized in Order No. 16-109.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Avista Corporation's (Avista or Company) application for the reauthorization to defer decoupled revenue differences for the 12-month period beginning January 1, 2018.

DISCUSSION:

Issue

Whether the Commission should reauthorize Avista to defer decoupled revenue differences for later adjustment to the price of gas supplied to ratepayers in accordance with the decoupling mechanism approved by the Commission Order No. 16-109.

Applicable Law

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include:

> 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.

ORS 757.259(2)(e).

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. In OAR 860-027-0300(3) the Commission has set forth the requirements for the contents of deferred accounting applications. Applications for reauthorization must include that information along with a description and explanation of the entries in the deferred account to the date of the application for reauthorization and the reason for continuation of deferred accounting. OAR 860-027-0300(4). Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings. With some exceptions, a company's amortization of amounts deferred under ORS 757.259(5) cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. See ORS 757.259(6).

Due to the fluctuation in consumers' natural gas consumption arising from economic or weather conditions, the decoupling mechanism was established by the Commission in its Order No. 16-076 to enable Avista to pass on to customers actual gas costs while minimizing the frequency of rate changes and the fluctuation of rate levels in accordance with ORS 757.259(2)(e). Under the decoupling mechanism and pursuant to ORS 757.259(4), the Commission may authorize utilities to defer the difference between actual decoupled revenues by rate group and the allowed decoupled revenues for a twelve-month period.

The Commission previously approved this deferral in Order No. 16-489.

In Docket UM 1147, the Commission determined that interest may accrue on deferred accounts at the authorized rate of return until amortization. Subsequent orders establish the rate during amortization. See Order Nos. 05-1070, 08-263, 10-279.

<u>Analysis</u>

Description of Expense
The amount subject to deferral is the difference between the actual, after-the-fact, therm sales and the allowed therm sales as established in the base rates from the most recent rate case, UG 325. This difference can be caused by conservation measures, weather

and economic conditions. A request to amortize the accumulated deferral is made annually, effective January 1.

Reason for Deferral
Due to the fluctuation in customers' natural gas consumption and in order to minimize the volatility of utilities' revenues and the frequency of rate changes, the decoupling mechanism was established by the Commission's Order No. 16-109 to break the relationship between customers' energy usage and utilities' revenues. The decoupling mechanisms enable utilities to defer the difference between gas revenues allowed for collection from customers and gas revenues actually collected. This difference between revenues based on sales and revenues based on the number of customers will result in either surcharges or rebates to customers in the following year.

Proposed Accounting
The Company proposes to continue using two deferral accounts: one for Residential customers and the second for Commercial customers. Avista will record the deferred amounts into account 186 (Miscellaneous Deferred Debits). Once the deferrals are approved for amortization into rates, the amounts will be transferred to FERC Account 182 (Other Regulatory Asset) for collection from customers, or to FERC Account 254 (Other Regulatory Liability) for refund to customers consistent with the decoupling mechanism approved by the Commission.

Estimated Deferrals in Authorization Period
The amount subject to deferral for the Natural Gas Decoupling Mechanism will be dependent upon the difference between the actual, after-the-fact, therm sales per customer, compared with the therm sales used in the rate case to establish base rates, again including impacts for number of customers. This difference in therm sales caused by conservation, weather, and changes in the economy cannot be estimated in advance.

Information Related to Future Amortization

- Earnings Review – Prior to amortization, an annual earnings review will be conducted pursuant to ORS 757.259(5).
- Prudence Review – Prior to amortization, a prudence review will be conducted, and it should include the verification of the accounting methodology used to determine the final amortization balance.
- Sharing – The annual earnings review includes a sharing mechanism.

- Rate Spread/Design – The difference between actual and allowed decoupled revenues should be recovered through rates on an equal cents-per-therm basis for each rate group.

- 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.

- This deferral may be subject to the exception at ORS 757.259(7) that allows the Commission to consider an overall average rate impact greater than that specified in subsection (6) for natural gas commodity and pipeline transportation costs incurred by a natural gas utility, if the commission finds that allowing a higher amortization rate is reasonable under the circumstances.

<u>Conclusion</u>

Based on the review of Avista's application, Staff concludes that the proposal represents an appropriate use of deferred accounting under ORS 757.259. Further, the Company's application for reauthorization of deferred accounting meets the requirements related to the establishment of the decoupling mechanism, as well as the requirements of ORS 757.259 and OARS 860-027-0300.

PROPOSED COMMISSION MOTION:

Approve Avista's application for reauthorization of deferral accounting for revenue differences associated with the decoupling mechanism for the 12-month period beginning January 1, 2018.