

ORDER NO.

18 191

ENTERED

MAY 24 2018

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 395

In the Matter of

AVISTA CORPORATION, dba AVISTA
UTILITIES,

Application for an Affiliated Interest
Agreement with Trove Predictive Data
Science, LLC.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on May 22, 2018, 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:



A handwritten signature in blue ink, appearing to read "Michael Dougherty", is written over a horizontal line.

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. CA10

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT

PUBLIC MEETING DATE: May 22, 2018

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A

DATE: May 9, 2018

TO: Public Utility Commission

FROM: Scott Gibbens

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: AVISTA UTILITIES: (Docket No. UI 395) Requests Approval of an
Affiliated Interest Agreement with Trove Predictive Data Science, LLC.

STAFF RECOMMENDATION:

The Commission should approve the application of Avista Corporation, doing business as Avista Utilities (Avista or Company), requesting Approval of an Affiliate Interest Transaction with Trove Predictive Data Science, LLC (Trove), subject to the following conditions:

1. The Company shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to any transactions with Trove.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or alternative form of regulation.¹
3. Avista shall notify the Commission in advance of any substantive changes to the contract, including any material change in price. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

¹Staff has concerns that certain aspects of the transaction may require similar treatment to promotional advertising.

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DISCUSSION:

Issue

Whether the Commission should approve Avista's Application Requesting Approval of an Affiliate Interest Transaction with Trove Analytics.

Applicable Rule

"Affiliated interest," as defined in ORS 757.015, includes every corporation five percent or more of whose voting securities are owned by any corporation or person owning at least five percent of the voting securities of a public utility or by any person or corporation in any chain of successive ownership of at least five percent of voting securities of the utility. See ORS 757.015(3). ORS 757.495 requires a public utility to seek approval of contracts with affiliated interests within 90 days after execution of the contract. The required process for submitting an agreement for review by the Commission is set forth in ORS 757.015(2) and OAR 860-027-0040.

ORS 757.495(3) provides that the Commission may approve an affiliated interest agreement if the agreement is fair and reasonable and not contrary to the public interest. Under OAR 860-027-0048(4)(e), for cost allocation purposes, "[w]hen services or supplies (except for generation) are sold to an energy utility by an affiliate sales shall be recorded in the energy utility's accounts at the approved rate if an applicable rate is on file with the Commission or with FERC. If services or supplies (except for generation) are not sold pursuant to an approved rate, sales shall be recorded in the energy utility's accounts at the affiliate's cost or the market rate, whichever is lower." The Commission need not determine the reasonableness of all financial aspects of the contract for ratemaking purposes, but, rather, may reserve that issue for subsequent proceedings. See Commission Order No. 11-071.

Analysis

Avista has a 30.5 percent ownership stake in Trove and is an affiliated interest as defined in ORS 757.015. The ownership began when GridGlo, the predecessor to Trove, was unable to repay a loan to Avista Development in March 2014. Avista, GridGlo, and another secured lender entered into an agreement which led to the restructuring and renaming of GridGlo and the ownership stake by Avista.

Since that time, Trove has performed data analysis and software development for Avista in order to support the Company in its efforts to better serve its customers. The hallmark of the service is the application platform "TROVE Sunstone" (Platform), which

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is a predictive data science and analytics platform. The Platform has been utilized to identify particular customers who would be well suited for low-income, gas conversion, paperless billing, and weather alert programs among other things. Following the success of predictive data analysis, Avista is commissioning Trove to further the endeavor and provide greater operational efficiencies and benefits to customers. As a part of the proposed agreement, Trove will upgrade the Platform from v 2.2 to v 3.0 and provide training. This will also allow Avista to maintain its assets through predictive and higher order analysis of operating metrics. As well as perform more optimized supply chain management.

In addition to reviewing the Company's Application, including attachments, as well as Avista's responses to seven Staff information requests, Staff investigated the following issues in considering whether the agreement is fair, reasonable, and not contrary to the public interest:

1. Terms and Conditions of the Agreement;
2. Transfer Pricing and Historical Trends;
3. Public Interest Compliance; and
4. Records Availability, Audit Provisions, and Reporting Requirements.

Terms and Conditions of the Agreement

Staff reviewed the Master Software License and Services Agreement and Statement of Work between Avista and Trove and had no issues or concerns with the terms and conditions of the Agreement. Staff found the terms to be common and commensurate with other master service agreements. Staff would also note that Order Conditions 2 and 3 protect the Commission in approving affiliated interest agreements from unapproved changes to the contract and in Commission rate proceedings.

Transfer Pricing and Historical Trends

The majority of Staff's information requests were to determine the reasonableness of the pricing for the contract. Staff reviews the pricing in order to verify the "lower of cost or market" standard as set forth in OAR 860-027-0048(4)(e). Staff found Avista's responses to information requested complete and satisfactory. The process by which Avista entered into the agreement both prior to the acquisition of Trove and after showed that the Company had done its due diligence in determining a market price and cost for the requested services and products. Staff concludes that the price paid by Avista is well below market and equal to the cost to the affiliate.

Due to the aforementioned reasons, Staff finds the pricing terms of the Agreement to be fair and reasonable.

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Public Interest Compliance

Data science as a tool to improve business operations is an area which many industries have begun to realize the vast potential and the utility industry is no different. Avista states that it "continues to gain familiarity" and feels there is "vast opportunity beyond these initial use cases". Staff agrees that based on the preliminary results of the efforts so far, it makes sense to continue to look for ways to utilize data analytics to increase efficiencies, especially given the relatively small investment at lower than market pricing. Staff would urge Avista to continue to develop metrics by which they can clearly quantify the costs and benefits of future programs to ensure it continues to be a benefit to customers.

Records Availability, Audit Provisions and Reporting Requirements

Order Condition Number 1, listed above in the Staff recommendation; affords the necessary Commission examination of Avista's records concerning this Application.

Conclusion

Based on the review of the Application, Staff concludes:

1. The Application concerns an affiliated interest agreement that Staff concludes is fair and reasonable and not contrary to the public interest with inclusion of the proposed ordering conditions; and
2. Necessary records are available.

PROPOSED COMMISSION MOTION:

Approve Avista's Application for Approval of an Affiliated Interest Agreement with Trove, subject to the conditions recommended by Staff.

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