ITEM NO. CA10

**PUBLIC UTILITY COMMISSION OF OREGON**
**STAFF REPORT**
**PUBLIC MEETING DATE: December 20, 2016**

**REGULAR** ____ **CONSENT** __X__ **EFFECTIVE DATE** ____**January 1, 2017**____

**DATE:** December 12, 2016

**TO:** Public Utility Commission

**FROM:** Abdoulaye Barry AB

**THROUGH:** Jason Eisdorfer and Marc Hellman

**SUBJECT:** AVISTA UTILITIES: (Docket No. UM 1753) 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, 2017.

## 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 Rules and Statutes

Due to the fluctuation in consumers' natural gas consumption arising from economic or weather conditions, the decoupling mechanism was approved by the Commission in its Order No. 16-109 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 difference between the allowed decoupled revenues and the actual decoupled revenues collected from ratepayers is subsequently amortized into rates, subject to sharing, if the utility's earnings are not excessive.

## Analysis

*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 rate case. 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 the Residential customers and the second for the 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 into FERC Account 182 (Other Regulatory Asset) from 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 – Staff believes that the Commission has not authorized sharing between Avista and its customers for the deferral.
- 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 is 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.

No data requests were necessary for this filing as the filing is an application for a reauthorization and it contained all the necessary workpapers and materials required for the review.

## Conclusion

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, 2017.

Avista UM 1753