ITEM NO. CA5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 4, 2023

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ______N/A______

DATE: March 16, 2023

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: AVISTA:
(Docket No. UM 1753(7))
Reauthorization of deferred accounting related to the natural gas decoupling mechanism.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Avista Corporation dba Avista Utilities' (Avista, AVA, or Company) application for reauthorization to defer revenue differences associated with the decoupling mechanism for the 12-month period beginning January 1, 2023.

DISCUSSION:

Issue

Whether the Commission should approve Avista's application for reauthorization to defer revenue differences associated with the Company's decoupling mechanism for the 12-month period beginning January 1, 2023

Applicable Rule or 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.

OAR 860-027-0300 specifies the required contents of an application for deferred accounting, including a description of the expense or revenue for which deferral is requested, the basis for the request, the accounts proposed for recording the amounts to be deferred, an estimate of the amounts to be recorded in the deferred account, and a copy of the notice of the application for deferred accounting.

Amounts may be deferred up to twelve months, and are allowed in rates to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates at the time of application to amortize the deferral. ORS 757.259(4); OAR 860-027-0300(9). The Commission's final determination on the amount of deferrals allowable in the rates of the utility is subject to a finding by the Commission that the amount was prudently incurred by the utility. ORS 757.259(5). An earnings review may be conducted. With some exceptions, a utility'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) and (7).

<u>Analysis</u>

Background
Due to fluctuation in customers' natural gas consumption and to minimize volatility in the Company's revenues and the frequency of rate changes, the Commission approved Avista's Natural Gas Decoupling Mechanism in Order No. 16-109. Deferral of the revenue or expenses related to the Company's Natural Gas Decoupling Mechanism was most recently authorized on October 18, 2022, by Order No. 22-414 in Docket No. UM 1753(6).

Description of Expense
The amount subject to deferral is the difference between revenue associated with the actual, after-the-fact, therm sales and that associated with allowed therm sales, as established in base rates from the most recent rate case, Docket No. UG 433. This difference in therm sales may arise due to multiple factors including energy efficiency or conservation measures, weather conditions, and economic factors. On or before August 1 of each year, Avista submits a request to amortize the accumulated deferred

revenue, to be effective November 1. The rate increase resulting from the decoupling adjustment is subject to an annual incremental limit of three percent, with balances in excess being carried forward to future years for recovery.

Reason for Deferral
The decoupling mechanism is designed to weaken the relationship between customers' energy usage and the utility's revenues and allows Avista to defer the difference between gas revenues allowed for collection (as determined in the Company's Docket No. UG 433 general rate case proceeding) and gas revenues actually collected from customers. This difference between estimated revenues based on estimates of use per customer and the number of customers in the general rate case and revenues based on actual values of these parameters results in a surcharge or rebate to customers through tariff Schedule 475 in the following year.

Proposed Accounting
The Company records the deferrals in account 186 – Miscellaneous Deferred Debits with separate accounts for residential customers and commercial customers. The amount approved for recovery or rebate would then be transferred into a Regulatory Asset account (FERC Account 182 – Other Regulatory Asset) or Regulatory Liability account (FERC Account 254 – Other Regulatory Liability) for amortization. On the income statement, the Company will record both the deferred revenue and the amortization of the deferred revenue through Account 495 (Other Gas Revenue), in separate sub-accounts. Interest on deferred balances will accrue at the modified Blended Treasury Rate.[1]

Estimated Deferrals in Authorization Period
The actual amount of deferral is dependent upon the difference between actual therm sales compared to therm sales levels in the rate case to establish base rates. As the resulting dollar amount subject to deferral is unknown, Avista does not provide an estimate, but provides other data as a point of reference.

The Company recorded until June 30, 2022, the outstanding balances for the company's natural gas Decoupling and the Mechanism balancing account are:

[1] *In the Matter of Avista, Request for General Rate Revision*, Docket No. UG 366, Order No. 19-331, Appendix B at 13.

Account 186328, Regulatory Asset Decoupling Deferral (Residential Group)	2022 Deferrals	($927,049.53)
Account 182329, Regulatory Asset Decoupling Deferral Prior Year (Residential Group)	2021 Deferrals	$2,080,825.14
Account 254328, Regulatory Liability Decoupling Deferral Approved for Recovery (Residential Group)	2020 Deferrals	($ 4,223.17)
Sub-total Residential Group Balance 06/30/2022		$1,149,552.44
Account 186338, Regulatory Asset Decoupling Deferral (Commercial Group)	2022 Deferrals	($1,967,367.70)
Account 182339, Regulatory Asset Decoupling Deferral Prior Year (Commercial Group)	2021 Deferrals	$1,003,593.79
Account 254338, Regulatory Liability Decoupling Deferral Approved for Recovery (Commercial Group)	2020 Deferrals	$196,251.81
Sub-total Commercial Group Balance 06/30/2022		($767,552.44)
Total Decoupling Mechanism Balances at 06/30/2022		$382,030.34

Information Related to Future Amortization

- Earnings Review – An earnings test is not applied to this deferral as it is a decoupling-related deferral.

- Prudence Review – Prior to amortization, a prudence review will be conducted. The review should include verification of the accounting methodology used to determine the final amortization balance.

- Sharing – This deferral is not subject to 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.

Note: 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

Conclusion

Based on Staff's review of Avista's application, Staff concludes the proposed reauthorization represents an appropriate use of deferred accounting under ORS 757.259. Additionally, the Company's application meets the requirements related to the establishment of the decoupling mechanism.

Avista has reviewed this memorandum and agrees with its contents.

PROPOSED COMMISSION MOTION:

Approve Avista's application for reauthorization to defer revenue differences associated with the decoupling mechanism for the 12-month period beginning January 1, 2023.