ITEM NO. CA2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 14, 2020

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __**January 1, 2020**__

DATE: January 6, 2020

TO: Public Utility Commission

FROM: Sabrinna Soldavini

THROUGH: Michael Dougherty, John Crider, and Marianne Gardner

SUBJECT: AVISTA UTILITIES:
(Docket No. UM 1753(4))
Application for the 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's (Avista or Company) application for the reauthorization to defer decoupled revenue differences, for the 12-month period beginning January 1, 2020.

DISCUSSION:

Issue

Whether the Commission should approve Avista's application for the reauthorization of deferred accounting of decoupled revenue differences for later adjustment to the price of gas supplied to ratepayers, in accordance with its natural gas decoupling mechanism.

Applicable Law

ORS 757.259 allows the Commission to authorize deferred accounting for later incorporation into rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include "[i]dentifiable 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).

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 a description and explanation of the entries in the deferred account, up to the date of the application for reauthorization, as well as 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).

Under the decoupling mechanism and pursuant to ORS 757.259(4), the Commission may authorize Avista to defer the difference between actual decoupled revenues by rate group and the allowed decoupled revenues for a twelve-month period.

Analysis

Background
Due to fluctuation in customers' natural gas consumption, and in order to minimize the volatility of the Company's revenues and the frequency of rate changes, Avista's Natural Gas Decoupling Mechanism was approved by the Commission in Order No. 16-109.

The Commission previously reauthorized this deferral in December 2016, in Order No. 16-489, November 2017, in Order No. 17-450, and December 2018, in Order No. 18-474.

Description of Expense
The amount subject to deferral is the difference between the actual, after-the-fact, therm sales and allowed therm sales, as established in the base rates from the most recent rate case, UG 366. This difference in therm sales may arise from a variety of factors including energy efficiency or conservation measures, weather conditions, and economic factors. On or before August 1 of each year, the Company submits a request to amortize the accumulated deferred revenue, effective November 1.

The rate increase resulting from the decoupling adjustment is subject to an annual incremental limit of 3 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 utilities' revenues, and allows the Company to defer the difference between gas revenues allowed for collection (as determined in its last general rate case, UG 366) and gas revenues actually collected from customers. This difference between revenues based on sales and revenues based on the number of customers, results in either a surcharge or rebate to customers through tariff Schedule 475 in the following year.

Proposed Accounting
In its application, the Company proposes to continue using two deferral accounts: one for residential customers (Schedule 410), and one for commercial customers (Schedules 420, 424, 440, and 444). The deferred amounts would continue to be recorded in FERC account 186 - Miscellaneous Deferred Debits. The amount that is approved for recovery/rebate would be transferred to a Regulatory Asset account (FERC Account 182 or 254) for amortization. Both the deferred revenue and the amortization of the deferred revenue will be recorded through FERC Account 495 on the Company's income statement. Interest on the deferred balances will be accrued at the 2020 Modified Blended Treasury Rate (MBTR).[1] Upon approval for recovery and amortization, interest will accrue at the 2021 Modified Blended Treasury Rate.

Estimated Deferrals in Authorization Period
The actual amount subject to deferral is dependent on the difference between actual therm sales compared with the therm sales used in the rate case to establish base rates. As the amount subject to deferral is unknown, the company does not provide an estimate for the proposed reauthorization period. These differences can arise due to fluctuations in weather, conservation efforts by customers, and changes in the economy.

For reference, the outstanding balances for the Company's Natural Gas Decoupling deferral account are displayed on pages 6 and 7 of the Company's application. The Company's application shows the total decoupling mechanism balances as of June 30, 2019, as $287,407.67. This total is comprised of a Sub-total Residential Group Balance of $1,639,628.77, offset by the Sub-total Commercial Group Balance of ($1,352,221.10).

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[1] Staff notes this is a change from prior years, when the deferred balances accrued interest at the Company's Authorized Rated of Return (AROR) prior to Commission approval for recovery. This change was proposed in the Company's most recent rate case, UG 366, and will become effective January 15, 2020, as approved by the Commission in Order No. 19-331. From January 1, 2020, to January 14, 2020, interest will accrue at the company's AROR from Docket No. UG 325 of 7.35 percent.

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 – 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.
- 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 that the proposal represents an appropriate use of deferred accounting under ORS 757.259. Further, the Company's application meets the requirements related to the establishment of the decoupling mechanism.

PROPOSED COMMISSION MOTION:

Approve Avista's application, reauthorizing the deferred accounting for revenue differences associated with the decoupling mechanism for the 12-month period beginning January 1, 2020.