

ITEM NO. CA13

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 22, 2022**

REGULAR CONSENT EFFECTIVE DATE February 10, 2022

DATE: March 9, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: AVISTA UTILITIES:
(Docket No. ADV. UM 2232)
Application for Authorization to Defer Costs Associated with
House Bill 2475.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve the application of Avista Utilities, dba Avista Corporation (Avista, AVA, or Company) for authorization to defer costs associated with House Bill 2475 (HB 2475) the Energy Affordability Act, for the 12-month period beginning on February 10, 2022, and require recorded costs under this authorization accrue at the Modified Blended Treasury rate (MBT) until otherwise changed by Commission Order at a later date.

DISCUSSION:

Issue

Whether the Commission should approve the Company's request for authorization to defer accounting of costs associated with House Bill 2475.

Applicable Law

Under Oregon Revised Statute (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. Notice of the application must be provided pursuant to OAR 860-027-0300(6).

In Order No. 05-1070, Docket No. UM 1147, the Commission determined that interest may accrue interest on deferred accounts at the authorized rate of return until amortization. Subsequent orders in Docket No. UM 1147 establish the rate during amortization. See Order Nos. 08-263 and 10-279.

ORS 757.230 provides the Commission authority to take certain considerations into account when determining a comprehensive classification of service for each public utility; including, the quantity used, the time when used, the purpose for which used, the existence of price competition or a service alternative, the services being provided, the conditions of service, differential energy burdens on low-income customers and other economic, social equity or environmental justice factors that affect affordability for certain classes of utility customers.

Analysis

Background

In May 2021, the Governor of Oregon signed into law HB 2475, the Energy Affordability Act. Among other provisions, this bill amends ORS 757.230(1) to provide that the Commission's service classifications may take into account the "differential energy burdens on low-income customers and other economic, social equity or environmental justice factors that affect affordability for certain classes of utility customers". Under Section 2 of the bill, the Commission may address the mitigation of energy burdens through measures including customer classifications, tariff schedules, rates, and bill credits.

Description of Expense

With this application, Avista requests an order authorizing deferred accounting treatment for all costs associated with offering differential rates to qualifying customers pursuant to HB 2475, the Energy Affordability Act. The proposed deferral includes

administrative and operating costs associated with the Company's planned income-eligible bill discount program, expected to be filed in Quarter 2, 2022.

Description of deferral application

On February 10, 2022, Avista Utilities requested that the Commission authorize the Company to defer for later ratemaking treatment any costs associated with HB 2475 for the 12-month period, February 10, 2022 through February 9, 2023.

Additionally, the Company is not proposing an adjustment to customers' retail rates through this Application, but will seek recovery of the deferral and a proposed level of revenues to support the bill discount program in a future proceeding.

Proposed Accounting

Costs to operate and administer the bill discount program will be recorded in FERC Account 908 (Customer Assistance Expenses). Avista's proposal would record and track the deferred amounts to Account 182.3 (Other Regulatory Asset). In the initial application, the Company requested that the deferral account accrue interest at the Commission-authorized rate of return. However, after further discussions with Staff on February 22, 2022, Avista agreed to defer costs related to HB 2475 at the current MBT even without contemporaneous cost recovery.

In addition, Docket No. UM 2232 is materially tied to the outcomes of the broader HB 2475 implementation effort, Docket No. 2211. Staff has issued guidance under the latter docket, which is intended to inform and scope subsequent filings for near and long-term differential rates and programs. Avista's planned income-qualified bill discount is intended to align with this effort while the current request would provide for the preferred accounting of related expense. Staff understands the Company's timeline for implementation meets Staff expectations articulated in Docket No. UM 2211.

Specifically, gas utilities are expected to target a Quarter 4, 2022 program offering for differential rates. In Docket No. UM 2211, Staff also recommended that costs associated with relief programs be tracked and recorded in a deferral and reported to Staff quarterly, which Staff notes is consistent with Avista's current request in Docket No. UM 2232. As described earlier in the memo, Staff met with the utilities to request that HB 2475 costs subject to deferred accounting accrue interest at the MBT. This is part of Staff's strategy in coordinating HB 2475 implementation across utilities, providing flexibility with regard to preferred accounting, and minimizing rate impacts for customers. Staff notes that interest accrual at the MBT absent contemporaneous cost recovery is not intended to establish a new precedent apart from the traditional authorized rate of return accrual under similar conditions. Staff expects to revisit cost

recovery and interest accruals for ongoing deferrals between Quarter 3 and Quarter 4, 2022, in conjunction with differential rate filings from the three gas utilities.

Estimated Amounts

The Company is currently working on the design of its income-eligible bill discount program and developing the associated administrative budget; therefore, an estimate of the total expected deferral is not known at this time.

Information Related to Future Amortization

- Earnings review
Staff finds that an earnings review is required prior to amortization, pursuant to ORS 757.259(5).

- Prudence Review
A prudence review is also required prior to amortization and should include the verification of the accounting methodology used to determine the final amortization balance. The prudence review will be held after Avista files for amortization.

- Sharing
One hundred percent (100%) of the deferred costs are subject to utility recovery, pending an earnings and prudence review.

- Interest Rate
As agreed to by the Company, the deferred balance will accrue interest at the current MBT at all times until revised by a subsequent Commission order based on discussions described earlier in this memo.

- 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.

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(2)(e) and OAR 860-027-0300. Thus, Staff recommends the Commission authorize deferral of costs associated with HB 2475 Energy Affordability Act for the 12-month period

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beginning February 10, 2022, with the modification that deferred costs accrue interest at the MBT until cost recovery is addressed in the upcoming differential rate filing. Avista has reviewed and agrees with this memo.

PROPOSED COMMISSION MOTION:

Approve Avista's application request to defer costs associated with the HB 2475 Energy Affordability Act for the 12-month period beginning February 10, 2022, and require recorded costs under this authorization to accrue at the MBT until otherwise changed by Commission Order at a later date.

AVA UM 2232 HB 2475 Cost Deferral