ITEM NO. CA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
SPECIAL PUBLIC MEETING DATE: October 25, 2022

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ____**November 1, 2022**____

DATE: October 10, 2022

TO: Public Utility Commission

FROM: Kathy Zarate and Steve Storm

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

SUBJECT: AVISTA UTILITIES:
(Docket No. ADV 1392/Advice No 22-02-G)
Schedule 467 – COVID-19 deferred costs.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Avista Utilities' (Avista or Company) ADV 1392, Advice No. 22-02-G filing, revising Schedule 467 in compliance with the Settlement Stipulation adopted by the Commission in Order No. 20-401, Docket No. UM 2114, effective for service on or after November 1, 2022.

DISCUSSION:

Issue

Whether the Commission should approve Avista's proposed revision to its Schedule 467 tariff sheet for amortization of the Company's 2020 and 2021 COVID-19 deferral balances.

Applicable Law

Under ORS 757.259 (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 appropriately match the costs borne by and benefits received by ratepayers.

Upon request of the utility, the Commission by order shall allow deferral of amounts provided as financial assistance under an agreement entered into under ORS 757.072 (agreements for financial assistance to organizations representing customer interests) for later incorporation in rates.

Under OAR 860-027-0300 (electric companies, gas utilities, and steam heat utilities): a current expense or revenue associated with current service, as allowed by ORS 757.259 (amounts includable in rate schedule); or large telecommunications utilities: an amount allowed by ORS 759.200 (Inclusion of amortizations in rates).

Analysis

Oregon Governor Kate Brown declared a state of emergency over the COVID-19 outbreak on March 8, 2020. Since that time, Avista has incurred extraordinary costs in its response to the public health emergency, including increased bad debt expense resulting from higher-than-average levels of write-offs of uncollectible accounts associated with the suspension of disconnects and late payment fees in order to assist customers facing unprecedented economic pressures. The Company also experienced increased costs associated with providing equipment required for employees to work remotely and expenses to maintain the health and safety of those employees whose jobs do not allow for remote work.

In addition to the extraordinary costs, Avista experienced a reduction in employee travel and training expenses and a reduction in costs associated with lower usage of Company vehicles. The benefits experienced to date have been applied as an offset to Avista's deferred COVID-19 expenses. These items and others, including the COVID-19 arrearage management program, are described in the Settlement Stipulation adopted by the Commission in Order No. 20-401, Docket No. UM 2114.

Avista entered into a $100 million short-term credit agreement in April of 2020 to provide additional liquidity to the Company during the pandemic. Staff analyzed the incremental interest expense and loan fees associated with obtaining the short-term facility. For Oregon, as short-term debt is excluded from the authorized capital structure and debt costs, actual costs of the term loan, net of interest income, was $59,991 as of December 31, 2021, which has been deferred to Account 182.3, Regulatory Assets.

Avista's application included that "Late fee revenues have decreased $538,413 (Oregon share) from March 1, 2020, through December 31, 2021, as compared to 2019."

Staff has submitted an information request about the statement regarding the mechanism that Avista uses for late fees, and the interest rate that is applied to these collections. The Company's response was that Avista applies late fees to customer accounts on a monthly basis.

As provided in Avista's approved natural gas tariff schedule PUC OR No. 5, Rule No. 9, Sec. G:

- Payments not received by the next month's bill date will be considered late.

- The late payment charge will not be applied to time-payment or equal-payment accounts that are current.

- For balances less than $50, no late payment charge will be assessed.

- For balances between $50 and $200, a $3 minimum late payment charge may be assessed.

- For balances over $200, if charged, the late payment charge will be based on a monthly late-payment rate applied to overdue account balances at the time of preparing the subsequent month's bill. The Commission determines the late-payment rate annually based on a survey of prevailing market rates for late-payment charges of commercial enterprises and advises all utilities by November 15 of each year what rate to use for late-payment charges on overdue customer accounts during the following calendar year. The current late-payment rate and the conditions for its application to customer accounts are specified on the utility bill.[1]

Additionally, as of December 31, 2021, the Company has identified and/or deferred the following direct costs and benefits associated with the COVID-19 pandemic, resulting in an Oregon net asset balance of $777,658. The table below provides a summary of costs and benefits as of December 31, 2021.

[1] OPUC UM ADV 1392 Information Request No.1.

Oregon COVID Deferral Summary as of 12/31/2021		
Deferral Type		**Amount**
Bad Debt Expense	$	546,034
COVID Debt Relief Program		970,429
Term Loan Interest/Fees		59,991
Other Direct COVID Costs		47,805
Late Fees		538,413
Total 182.3		2,162,672
Other Direct COVID Benefits		(436,311)
CARES Act Tax Benefit		(948,703)
Total 254		(1,385,014)
Total Ending Balance at 12.31.2021	**$**	**777,658**

Avista's application asserts that the Company will receive a federal income tax benefit from carrying back its 2019 Net Operating Loss (NOL) to the five prior tax years. The Company estimates the benefit at approximately $7.9 million on a system basis or $948,703 on an Oregon-allocated basis. Avista filed the carry back during Q4 2020 and recorded this benefit as an offset to COVID-19 deferral costs.

Avista's application includes that the Company filed several accounting method changes for tax purposes with its 2019 federal tax return and filed the associated IRS Tax Form 3115, Application for a Change in Accounting Method, with the Commission on October 19, 2020. Avista states that these method changes provided a significant amount of deductions that resulted in a 2019 net operating loss.

Rate Spread
Avista proposes to allocate each incremental cost or benefit itemized in the table above based on the percentage of billed revenue of the individual rate schedules who shared in those costs or benefits. Costs and benefits associated with bad debt expense, term loan interest and fees, other direct COVID-19 costs, late fees, other direct COVID-19 benefits, and the Coronavirus Aid, Relied, and Economic Security (CARES) Act tax benefit would be allocated to Schedules 410, 420, 424, 425, 439, 440, 444, and 456. The Company asserts that all of these costs or benefits are attributable to all customers.

Avista proposes to allocate costs of the COVID Debt Relief Program to Residential (Schedule 410) customers only, asserting that these costs "were solely attributable to residential customers…"[2]

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[2] Page 4 of Avista's Advice No. 22-02-G filing in Docket No. ADV 1392.

Staff has, in certain recent proceedings, advocated for allocating costs associated with COVID-19 arrearage management programs on a basis of perceived benefits received. These expenses, at $970,000 in this proceeding, represent more than 100 percent of the net costs and benefits deferred. Staff believes benefits of arrearage management programs are received by customers in all customer classes and provided testimony in prior proceedings supporting an allocation derived in part by incorporating the effects of a fiscal multiplier.[3]

The table below includes the percent rate increase for two rate spread alternatives in this proceeding: that proposed by Avista and a Staff alternative that incorporates the fiscal multiplier effect[4] for the deferred costs of Avista's COVID-19 Debt Relief Program.

Percent Rate Increase			
Rate Schedule	**Avista**	**Staff Alternative**	**Dollar Difference ($Thousands)**
410 (RES)	1.1%	0.8%	(244.0)
420	-0.2%	0.3%	182.0
424/425	-0.2%	0.3%	15.7
439/440	-0.2%	0.3%	31.1
444	-0.2%	0.3%	.0.7
456	-0.2%	0.3%	14.6
Total	0.6%	0.6%	0.0

While Staff believes use of its fiscal multiplier approach for pertinent costs and benefits yields more equitable results, Staff does not recommend using this approach here for two related reasons. The first is the beneficial impact of the CARES Act: the resulting tax benefit serves to offset almost 55 percent of the other COVID-19 deferrals' total. The second reason is materiality. While differences between the two approaches exceed $100,000 for residential and small commercial/industrial customers, these are relatively small. Differences between the two approaches for the remaining rate schedules are each considerably less than $100,000.

Avista, with regards to rate design, proposes to surcharge or rebate the proposed revenue allocation on a uniform cent per therm basis by rate schedule.

[3] See, e.g., Staff/1500, Dlouhy – Fox – Storm/24 - Dlouhy – Fox – Storm/41.
[4] The assumed marginal propensity to consume in the Staff Alternative here is 0.9 (or 90 percent), equaling the value for this parameter Staff used in some other recent proceedings. An increase of this parameter to 0.99 (or 99 percent) serves to *reduce* the amount allocated to residential customers.

Schedule 467, as updated with Avista's filing, reflects the rate per therm to be recovered from Oregon customers for the deferred costs and benefits associated with the net amount of Avista's COVID-19 deferrals as of December 31, 2021. Avista's application requests an increase in overall retail revenues of approximately $800,000, representing a rate increase of 0.6 percent, to be effective November 1, 2022.

Conclusion

After review, Staff concludes that the requests filed by Avista are appropriate. Additionally, Staff reviewed information it received from the Company. Staff reviewed the Settlement Stipulation adopted by the Commission in Order No. 20-401, Docket No. UM 2114 and Avista's proposed revisions to Schedule 467. Based on its review, Staff determined that the public is not harmed by this rate change.

PROPOSED COMMISSION MOTION:

Approve Avista Utilities' ADV 1392, Advice No 22-02-G, revising Schedule 476 in compliance with the Settlement Stipulation adopted by the Commission in Order No. 20-401, Docket No. UM 2114, effective for service on or after November 1, 2022.