Oregon

Kate Brown, Governor

**Public Utility Commission**
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October 25, 2022

BY EMAIL
Avista Corporation, dba Avista Utilities
dockets@avistacorp.com

RE: Advice No. 22-02-G

At the public meeting on October 25, 2022, the Commission adopted Staff's recommendation in this matter docketed as ADV 1392. The Staff Report, LSN, and a receipted copy of the sheets in your advice filing are attached.

Nolan Moser
Chief Administrative Law Judge
Public Utility Commission of Oregon
(503) 378-3098

**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 14, 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 Corporation, dba Avista Utilities' ADV No. 1392, Advice No. 22-02-G filing, including the Company's less than statutory notice application, 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

ORS 757.205 requires public utilities to file all rates, rules and charges with the Commission. ORS 757.210 provides that the Commission may approve tariff changes if they are fair, just, and reasonable. Filings that make any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the changes.

ORS 757.259(5) states that unless subject to an automatic adjustment clause, amounts deferred under ORS 757.259 shall be allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral. The Commission may require that amortization of deferred amounts be subject to refund. 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(6) states that the overall average rate impact of the amortizations authorized under this section in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year.

OAR 860-022-0025 requires that revised tariff filings include statements showing the change in rates, the number of customers affected and resulting change in annual revenue, and the reasons for the tariff revision.

In Docket UM 2114, the Commission issued Order No. 20-401, approving a Stipulated Agreement supporting deferral of specific costs and fees related to the COVID-19 pandemic. Avista's deferral has been approved for the relevant time periods here under Docket UM 2069. Per Order No. 20-401, the timing and amortization period of this deferral would be determined in a prudence review proceeding.

In Avista's last general rate case, Docket UG 433, the Commission approved stipulations resolving the filing in Order No. 22-291. The order provides that Avista was to make a tariff filing no later than April 30, 2022, with an effective date of November 1, 2022, related to the COVID-19 deferral balances and the proposed recovery of net deferred costs of $778,000, reflected as of December 31, 2021.

## 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 Stipulated Agreement 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 a statement that "Late fee revenues have decreased $538,413 (Oregon share) from March 1, 2020, through December 31, 2021, as compared to 2019."

Staff 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.

| 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 April 29, 2022, 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 and $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 includes 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's initial filing proposed 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

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

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 proposed 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]

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 thousand in this proceeding, represent more than 100 percent of the net costs and benefits deferred. Staff believes customers in all customer classes receive some indirect benefit of arrearage management programs and provided testimony in prior proceedings supporting an allocation derived in part by incorporating the effects of a fiscal multiplier.[3]

Representatives of Avista and Staff, in an October 11, 2022, conference call, discussed these two alternatives to rate spread as well as a third alternative. While Staff believes use of its fiscal multiplier approach for pertinent costs and benefits generally yields more equitable results, Staff does not advocate using this approach here for two related reasons specific to Avista. The first, and primary reason, is the beneficial impact of the CARES Act tax benefit received by the Company: the resulting tax benefit serves to offset almost 55 percent of the other COVID-19 deferrals' total, mitigating the impact of the pandemic on customers. The second reason is materiality. While differences between the two approaches exceed $100 thousand for residential and small commercial/industrial customers, these amounts are relatively small. Differences between the two approaches for the remaining rate schedules are each considerably less than $100 thousand.

The table below includes the percent rate increase by customer group for each of the three rate spread alternatives discussed: that initially proposed by Avista, a Staff alternative that incorporates the fiscal multiplier effect[4] for the deferred costs of Avista's COVID-19 Debt Relief Program, and the alternative that the Company and Staff arrived

[2] Page 4 of Avista's Advice No. 22-02-G filing in Docket No. ADV 1392.
[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, such as to 0.99 (or 99 percent), serves to *reduce* the amount allocated to residential customers.

at as the consensus alternative, given the unique circumstances discussed above. The consensus alternative holds non-residential rate schedules to no change, while residential customers have a 1.0 percent rate increase.

Avista submitted an Advice No. 22-02-G Supplemental filing in Docket No. ADV 1392, including a less than statutory notice (LSN) application, on October 12, 2022. This supplemental filing documented the consensus rate spread arrived at in the October 11, 2022, conference call as well as the associated rate per therm.

| **Rate Schedule** | **Percent Rate Increase** | | | **Dollar Differences** |
|---|---|---|---|---|
| | **Avista** | **Staff Alternative** | **Consensus Alternative** | **Consensus less Avista ($1,000)** |
| **410 (RES)** | 1.1% | 0.8% | 1.0% | ($76.3) |
| **420** | -0.2% | 0.3% | 0.0% | $56.9 |
| **424/425** | -0.2% | 0.3% | 0.0% | $4.9 |
| **439/440** | -0.2% | 0.3% | 0.0% | $9.7 |
| **444** | -0.2% | 0.3% | 0.0% | $0.2 |
| **456** | -0.2% | 0.3% | 0.0% | $4.6 |
| | | | | |
| **Total** | 0.6% | 0.6% | 0.6% | $0.0 |

Avista submitted an Advice No. 22-02-G Supplemental filing in Docket No. ADV 1392, including a less than statutory notice (LSN) application, on October 12, 2022. This supplemental filing documented the consensus rate spread arrived at in the October 11, 2022, conference call as well as the associated rate per therm.

Schedule 467, as updated with Avista's supplemental filing, reflects the rate per therm to be recovered from Oregon residential 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,[5] representing a rate increase of 0.6 percent, to be effective November 1, 2022.

[5] The approximate $800 thousand in revenue differs from the $777.7 thousand in the previous table by the inclusion of amounts for revenue-sensitive items.

Conclusion

After review, Staff concludes that the rates proposed in the supplemental filing with a less than statutory notice application, are just and reasonable. Staff also 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 No. 1392, Advice No. 22-02-G filing, including the Company's less than statutory notice application, 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.

ADV 1302 / Advice No. 22-02-G

# LESS THAN STATUTORY NOTICE APPLICATION

This document may be electronically filed by sending it as an attachment to an electronic mail message addressed to the Commission's Filing Center at puc.filingcenter@puc.oregon.gov.

Received
Filing Center
OCT 12 2022

## BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

ADV 1392
22-02-G

| | | |
|---|---|---|
| IN THE MATTER OF THE APPLICATION OF | ) | UTILITY L.S.N. APPLICATION |
| Avista Corporation dba Avista Utilities | ) | NO. 2297 |
| (UTILITY COMPANY) | ) | (LEAVE BLANK) |
| TO WAIVE STATUTORY NOTICE. | ) | |

**NOTE:** ATTACH EXHIBIT IF SPACE IS INSUFFICIENT.

1. GENERAL DESCRIPTION OF THE PROPOSED SCHEDULE(S) ADDITION, DELETION, OR CHANGE. (SCHEDULE INCLUDES ALL RATES, TOLLS AND CHARGES FOR SERVICE AND ALL RULES AND REGULATIONS AFFECTING THE SAME)

Sheet 467 represents the amount to be recovered from Oregon customers for the deferred costs associated with the Company's COVID deferral as of December 31, 2021. The Company is requesting an increase in overall retail revenues of approximately $800,000, or 0.6%, effective November 1, 2022.

2. APPLICANT DESIRES TO CHANGE THE SCHEDULE(S) NOW ON FILE KNOWN AND DESIGNATED AS: (INSERT SCHEDULE REFERENCE BY NUMBER, PAGE, AND ITEM)

3. THE PROPOSED SCHEDULE(S) SHALL BE AS FOLLOWS: (INSERT SCHEDULE REFERENCE BY NUMBER, PAGE AND ITEM)

P.U.C. OR No. 5, Supplemental Original Sheet 467

4. REASONS FOR REQUESTING A WAIVER OF STATUTORY NOTICE:

After further review and discussion with Commission Staff the Company has modified its revenue allocation proposal so that no one rate schedule receives a revenue decrease from this filing.

5. REQUESTED EFFECTIVE DATE OF THE NEW SCHEDULE(S) OR CHANGE(S): November 1, 2022

| AUTHORIZED SIGNATURE | TITLE | DATE |
|---|---|---|
| [signature] | Sr. Mananger of Rates and Tariffs | October 12, 2022 |
| PUC USE ONLY | | |
| ☒ APPROVED ☐ DENIED | EFFECTIVE DATE OF APPROVED SCHEDULE(S) OR CHANGE 11-1-2022 | |
| AUTHORIZED SIGNATURE [signature] | | DATE 10-25-2022 |

PUC FORM FM260 (2-2015)

Received
Filing Center
OCT 12 2022

# SCHEDULE 467

(N)

## COVID DEFERRED COSTS - OREGON

APPLICABLE:

Adjustments under this schedule are applicable to all bills calculated under all schedules of this Tariff.

PURPOSE:

The purpose of this schedule is to recover funds related to the deferred costs associated with the Company's COVID deferral as of December 31, 2021.

MONTHLY RATE:

The Commodity Rate per therm of the individual rate schedules are as follows:

| Rate Schedule | Rate |
|---|---|
| Schedule 410 | $0.01435 per Therm |
| Schedule 420 | $0.00000 per Therm |
| Schedule 424/425 | $0.00000 per Therm |
| Schedule 439/440 | $0.00000 per Therm |
| Schedule 444 | $0.00000 per Therm |
| Schedule 456 | $0.00000 per Therm |

TERM

The COVID Deferred Costs tariff will be in effect through October 31, 2023. Any residual balance at the end of the one-year term will be transferred to the Company's residual balancing account at the end of the final amortization period or handled in a future general rate case or other proceeding.

SPECIAL TERMS AND CONDITIONS:

This schedule is subject to the General Rules and Regulations contained in this tariff and to those prescribed by regulatory authorities.

(N)