

- A. In OAR 860-027-0300(1)(b), “Deferred Accounting” means recording the following in a balance sheet account, with Commission authorization for later reflection in rate: Electric companies, gas utilities, and steam heat utilities: current expense or revenue associated with current service, as allowed by ORS 757.259; or
- B. Large telecommunications utilities: an amount allowed by ORS 759.200.

If a deferral under ORS 757.259 or ORS 759.200 is reauthorized, the authorization expires 12 months from the date the authorization become effective. In OAR 860-027-0300(3) and (4), the Commission has set the requirements for the contents of deferred accounting applications. Applications for authorization 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.

Analysis

Background

On December 16, 2021, the Oregon Department of Environmental Quality (ODEQ) adopted the CPP, which are administrative rules that set greenhouse gas (GHG) reduction targets.

The CPP sets a declining limit, or cap, on GHG emissions from fossil fuels used throughout the state of Oregon, including diesel, gasoline, natural gas, and propane, used in transportation, residential, commercial, and industrial settings (the program is not inclusive of fossil fuel used in electric generation).

The CPP also regulates site-specific GHG emissions at large stationary sources, such as emissions from industrial processes. The program baseline is set at average greenhouse gas emissions from covered entities from years 2017–2019. Reductions from this baseline are set at 50 percent by 2035 and 90 percent by 2050.

The Company is a “covered fuel supplier” under the CPP and is the point of regulation for the emissions associated with natural gas used by its sales and transport customers. Transport customers purchase the commodity they use directly from marketers and suppliers and have historically only paid Avista for delivery via the distribution system.

The Company can work to reduce natural gas usage through efficiency measures, introduce renewable and low carbon alternative fuels, trade for additional compliance instruments with other covered entities, or purchase a limited amount of Community Climate Investments (CCIs).

The Company requests approval authorizing the deferral for future ratemaking treatment of the costs and revenues of complying with the CPP, which are not currently included in rates. Avista must increase its planning activities to determine how it will comply with the CPP and based on those activities, take actions to lower its covered emissions.

The CPP is new and Avista reasonably did not include costs to comply with the program in its revenue requirement during its last GRC. Because the costs were not foreseeable, they represent a scenario risk for which the costs at issue must be “material” to satisfy the Commission’s discretionary criteria for deferral.¹

Avista’s results of operations report (ROO) for 2022 is not yet final, but based on its 2021 ROO, 100 basis points of Avista’s authorized ROE in 2021 was equal to approximately \$1.5 million. Based on this information, expenses significantly less than \$1 million dollars may satisfy the discretionary criteria. Avista states it cannot estimate the amount it will incur for planning to meet the CPP. Given Avista’s relatively low dollar benchmark for expenses that satisfy the “material” criteria, Staff recommends the Commission approve the request to preserve Avista’s ability to share costs with customers that are reasonably deferred and recovered under ORS 757.259.

Reason for Deferral

ORS 757.259(2)(e) allows the deferral of identifiable utility expenses in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne and benefits received by customers.

Proposed Accounting

The Company proposes to record the deferral as a regulatory asset in FERC Account 182.3 (Other Regulatory Assets), crediting FERC Account 407.4 (Regulatory Credits). In the absence of a deferred accounting order, Avista would record the costs to a variety of accounts.

Estimated Deferrals in Authorized Period

The Company cannot estimate the costs of compliance associated with the Climate Protection Plan this time.

Information Related to Future Amortization

- Earnings review – Cost recovery for costs associated with the costs of compliance with the Climate Protection Plan will be subject to an earnings review in accordance with ORS 757.259(5).

¹ *In the Matter of the Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred Accounting*, UM 1147, Order No. 05-1070, p. 7 (October 5, 2005).

- Prudence Review – A prudence review will be performed by the OPUC Staff no later than the proceeding to authorize amortization of the costs associated with the costs of compliance with the CPP.
- Sharing – No Sharing mechanism.
- Rate Spread/Design – The rate spread/rate design will be determined during the proceeding to authorize amortization of the costs associated with the deferral.
- Three Percent Test (ORS 757.259(6)) – Amortization of the deferred costs will be subject to a three percent test in accordance with ORS 757.259(7) or possible six percent test in accordance with ORS 757.259(8) and with Commission authorization. These tests limit aggregated deferral amortizations during a 12-month period to no more than three or six percent of the utility's gross revenues for the preceding year.

Conclusion

After Staff's review of Avista's application requesting authorization to defer, for future inclusion in customer rates and, because the application also meets the requirements of ORS 757.259 and OAR 860-027-0300, Staff recommends Avista's application be approved.

The Company has reviewed this memo and agrees with or expresses no objections to Staff's recommendation.

PROPOSED COMMISSION MOTION:

Approve Avista's application for authorization to use deferred accounting for Climate Protection Program (CPP) costs, for the 12-month period beginning on September 13, 2022, ending September 12, 2023.