ITEM NO. CA4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
SPECIAL PUBLIC MEETING DATE: October 26, 2023

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __November 1, 2023__

DATE: October 16, 2023

TO: Public Utility Commission

FROM: Michelle Scala

THROUGH: Bryan Conway, Marc Hellman, Anna Kim, and Rawleigh White **SIGNED**

SUBJECT: AVISTA CORPORATION:
(Docket No. UG 471/Advice No. 23-06-G)
Amortization of Schedule 493, Low-Income Rate Assistance Program.

STAFF RECOMMENDATION:

Staff recommends that the Oregon Public Utility Commission (Commission) approve Avista Corporation dba Avista Utilities' (Avista or the Company) request to modify its Schedule 493, Residential Low-Income Rate Assistance Program-Oregon, with rates effective for service on or after November 1, 2023.

DISCUSSION:

Issue

Whether the Commission should approve Avista's request to modify its Schedule 493, Residential Low-Income Rate Assistance Program -Oregon to reflect actual and forecasted expenditures and collections of the Program and incorporate the amortization of deferred costs associated with House Bill (HB) 2475, the Energy Affordability Act.

Applicable Law

ORS 757.205(1) states that a public utility must file schedules showing all rates, tolls, and charges for service that have been established and are in force at the time. The Commission reviews tariffs filed under ORS 757.205 and 757.210 to determine whether they are fair, just, and reasonable.

ORS 757.220 requires that filings that make any change in rates, tolls, charges, rules, or regulations be filed with the Commission at least 30 days before the effective date of the change.

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.[1]

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.[2]

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.[3]

OAR 860-022-0030 requires that tariff filings which result in increased rates include statements showing the number of customers affected, the annual revenue under existing schedules, the annual revenue under proposed schedules, the average monthly bills under existing and proposed schedules, and the reasons supporting the proposed tariff.[4]

Commission Order No. 08-263,[5] modified by Order No. 10-279,[6] sets out the interest rate to use for deferral accounts and the interest rate to use when such amounts are amortized.

ORS 757.230, as amended by House Bill (HB) 2475, provides the Commission

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[1] ORS 757.259(5).
[2] *Id.*
[3] OAR 860-022-0025(2).
[4] OAR 860-022-0030(1).
[5] Commission Order No. 08-263, Docket No. UM 1147, *In the Matter of Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred Accounting,* May 22, 2008, accessed at https://apps.puc.state.or.us/orders/2008ords/08-263.pdf.
[6] Commission Order No. 10-279, Docket No. UM 1147, *In the Matter of Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred Accounting,* July 23, 2010, accessed at https://apps.puc.state.or.us/orders/2010ords/10-279.pdf.

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.[7]

ORS 757.695, codifying HB 2475's Section (7)(1), provides that the Commission may address the mitigation of energy burdens through bill reduction measures or programs that may include, but need not be limited to, demand response or weatherization.[8] Further, the costs of tariff schedules, rates, bill credits or program discounts allowed pursuant to subsection (1) of Section (7) must be collected in the rates of an electric company through charges paid by all retail electricity consumers, such that retail electricity consumers that purchase electricity from electricity service suppliers pay the same amount to address the mitigation of energy burdens as retail electricity consumers that are not served by electricity service suppliers.[9]

Analysis

Summary

- Avista proposes to consolidate all Low-Income Rate Assistance Program (LIRAP) costs, including the Bill Discount, Arrearage Management and Forgiveness, and administrative expenses under Schedule 493.
    - This proposal will resolve a previous bifurcation of Bill Discount administrative and direct assistance costs into a deferral,[10] originally intended to track and monitor year one program costs.
- The consolidation of LIRAP costs includes an amortization component for deferred costs associated with HB 2475 implementation.
- As of June 30, 2023, total cost associated with LIRAP (Schedule 493 and deferred via UM 2232) was just over $1.4 million.
- The average Avista residential customer bill would increase by $1.35 as a result of this filing. However, these amounts will be fully offset by a reduction in Avista's Purchased Gas Adjustment filings as a whole.

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[7] ORS 757.230(1).
[8] ORS 757.695(1).
[9] ORS 757.695(2).
[10] *See* Docket No. UM 2232.

- The Company's proposal is consistent with Staff's expectations regarding cost recovery for HB 2475 interim bill discount programs

- Staff supports approval of this filing.

Background

Avista's LIRAP program, was initially approved by the Commission in 2002, and offered financial grants to low-income households within its service territory to reduce the cost of utility services for income eligible households and mitigate non-payment based service disconnections. Revenue for this grant-based program has been collected through natural gas surcharges on Schedule 493 from residential customers.

With the enactment of HB 2475 on January 1, 2022, ORS 757.230 was expanded to permit the Commission to consider various factors when determining rate classifications, including energy burdens on low-income customers and other equity and environmental justice considerations. In response to this and stakeholder engagement on energy affordability, Avista revised its grant-based LIRAP into an income-based monthly bill discount model with arrearage assistance options (AMP and Forgiveness).

This transition resulted in the bifurcation of LIRAP revenues. Traditional Community Action Agency (CAA)-driven costs and AMP funding remained supported through Schedule 493. However, with support and guidance from Staff, incremental expenses prompted by HB 2475, such as Avista-administered LIRAP enrollments and Agency-enrolled Bill Discounts, were deferred under Docket No. UM 2232 and approved in Order No. 22-099. This delineation was, in part, a means of more easily tracking and monitoring the costs associated with the administration of the revised LIRAP model and monthly discounts from other elements.

The tables below summarize Avista's current LIRAP model.

Table 1. Monthly Percentage of Bill Discount Structure

Affordability	Zero to 60% SMI Bill Discount			
	Zero to 5% SMI 90% discount	6 to 20% SMI 60% discount	21 to 40% SMI 25% discount	41 to 60% SMI 15% discount
Past Due Balances	Zero to 20% SMI Arrearage Forgiveness		21 to 60% SMI Arrearage Management Program	
Hardship/ Emergency	Customers experiencing hardship or energy emergency Project Share			

Table 2. Arrearage Management and Forgiveness Plan Structure

Income Range	Discount	Arrearage Assistance
Zero to 5% SMI	90%	Forgiveness
6 to 20% SMI	60%	
21 to 40% SMI	25%	Arrearage Management Program
41 to 60% SMI	15%	

As of June 30, 2023, total cost recorded with LIRAP expense was approximately $1.4 million. Associated with these amounts, Avista and its partner Agencies report providing a bill discount to approximately 5,840 households, complemented by an AMP for 640 of these households and Forgiveness for 674.

Reason for Advice No. 23-06-G

Through this filing, Avista is requesting to consolidate the accounting for LIRAP by directing all LIRAP costs through Schedule 493 using the existing deferral mechanism in place for LIRAP, Docket No. UM 1978. This approach will include an annual true-up of Schedule 493 balances and will expand the LIRAP rate adjustment to all retail natural gas customers in alignment with HB 2475's requirement for electric companies, which mandates that program costs are distributed among all retail electric customers.

On September 28, 2023, in cooperation with a Staff request, Avista revised its initial filing to accrue interest on its LIRAP deferral account at the Modified Blended Treasury (MBT) rate rather than its currently authorized rate of return. The use of the MBT rate is consistent with that applied across other Oregon regulated utilities' deferred balances associated with HB 2475.

Schedule 493 Rate Design

As part of the filing, Avista intends to revise Schedule 493 to expand collections across all customer classes. The Company is proposing to allocate these costs based on the percentage of base revenue of the individual rate schedules for all residential, commercial, and industrial class sales customers.[11] The Company proposes to surcharge or rebate the proposed revenue allocation on a uniform cent per therm basis by rate schedule as opposed to a fixed charge for residential customers which can be seen in HB 2475 program cost recovery implemented by other utilities. Avista believes that per-therm recovery provides the proper recovery structure for LIRAP.

[11] Schedule 493 to be applied to Avista service Schedules 410, 420, 424, 425, 439, 440, and 444.

Current Deferral Activity

Docket No. UM 1978: As of June 30, 2023, the total unspent balance in the account, subject to deferral, was an overfunding of approximately $204,848. These revenues were collected solely from Schedule 410 customers; therefore, this overfunded balance will be returned to this same residential customer class. This rebate will temporarily offset the revenues to be collected from the residential class through the requested amortization of the UM 2232 deferral, such that the latter is to be spread across all retail sales customer classes (residential, commercial, and industrial). For illustrative purposes, the Company provided a summary of LIRAP funds collected and spent since 2021 is as follows.

Avista's LIRAP Summary Transactions Recorded in Balancing Account (FERC Account No. 242.7) For December 31, 2021 through June 30, 2023		
Balance at December 31, 2021	$	(87,810)
2022 Tariff Collections	$	(234,700)
2022 LIRAP Costs		247,568
Interest		(5,682)
Balance at December 31, 2022	$	(80,624)
2023 Tariff Collections	$	(162,505)
2023 LIRAP Costs		38,281
Interest		-
Balance at June 30, 2023	$	(204,848)

Staff finds the LIRAP balance and collection activity to be reasonable, particularly given that to date, Avista has not adjusted the LIRAP rate since its 2002 inception. Further, regarding the rate revision included in this proposal, while carry over balances and rebates to LIRAP have been observed historically, the recent changes to LIRAP driven by HB 2475 are expected to improve the reach and effectiveness of the program, and thus increase the associated spend.

Docket No. UM 2232: As of June 30, 2023, the deferred ending balance for HB 2475 associated LIRAP costs was approximately $1.26 million. Rather than interest accruing at the Company's currently authorized rate of return, however, this deferral account accrues interest at the MBT rate, pursuant to Order No. 22-099 in Docket No. UM 2232.

Staff has reviewed the costs identified in this filing, including the administrative expense associated with LIRAP from both community action agency partners and Avista as well as the direct benefit payments from monthly discounts and arrearage plans. Over 90 percent of these costs are attributable to direct benefits to customer accounts. The remaining 10 percent categorized as administrative expense is largely spread between professional services associated with the Company's Low-Income Needs Assessment and various outreach and program support outlays. Staff finds that both actual and forecasted amounts appear reasonable across the categories listed[12] and amounts provided.

Amortization and Interest Rate Applied to Accounts

The deferred balances associated with Schedule 493 accrues interest at the agreed upon MBT rate of 5.13 percent.[13] The HB 2475 associated amortized balance will also accrue interest at the rate of 5.13 percent.

The Company has proposed a 12-month amortization for UM 2232 balances and indicated that amortizing the deferral through the LIRAP tariff will positively impact the need for future LIRAP rate adjustments, as once the 12-month amortization of these funds has been completed, the LIRAP rates approved within this filing will mitigate the need for any additional rate increases in the 2024-2025 program year, regardless of increasing participation rates.

The revenue collected from Schedule 493 and the associated costs are tracked and deferred on a dollar-for-dollar basis, and therefore have no impact on earnings. Consistent with Staff's position in the UM 2232 deferral, given the nature and purpose of this deferral to provide low-income rate assistance programs in the public interest, Staff does not recommend applying an earnings test to recovery of funds at this time.

Staff further maintains its position from the UM 2232 deferral authorization that one hundred percent of the deferred costs associated with the program's direct assistance is subject to utility recovery. This approach is standard for HB 2475 energy burden mitigation efforts until Staff and/or the Commission determines such circumstances that may warrant a change. Staff is also supportive of full recovery for the currently forecasted level of administrative expense associated with LIRAP at approximately 10 percent or less of the total amounts recovered, as filed in the Company's work papers, until such circumstances may warrant a change.

Total amortizations resulting from this filing is approximately $1.10 million compared to Avista's total gross revenue for calendar year 2022, which was approximately $177.9 million. Thus, the resulting annual average rate impact from the LIRAP amortization is 0.8 percent and within the threshold of a 3 percent test, pursuant to ORS 757.259 and OAR 860-027-0300.

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[12] *See* Avista's response to UG 471 OPUC Staff DR 02 and 19 Attachment A.
[13] *See* Avista's UG 471 Replacement Sheets, filed September 28, 2023.

Rate Impacts

If approved, a residential customer using an average of 47 therms a month could expect their bill to increase by $1.35, or 1.76 percent, for a revised monthly bill of $78.35 effective November 1, 2023. However, these amounts are fully offset by other regulatory filings from the Company in this year's Purchased Gas Adjustment, where Avista has forecasted an expected net reduction to average residential customer bills.

Pursuant to OAR 860-022-0025 and OAR 860-022-0030, Avista provided the total number of customers affected by the filing in Table 3 on the following page.

Table 3. Count of Affected Customers by Schedule

Rate Schedule	Number of Customers
Schedule 410	95,451
Schedule 420	12,013
Schedule 424	100
Schedule 425	0
Schedule 439	0
Schedule 440	42
Schedule 444	3

Table 4 (below) represents the revenue changes across service schedules, as affected by this filing.

Table 4. Revenue Impacts by Customer Schedule

Rate Schedule	Present Revenue	Change	Proposed Revenue	% Change
Schedule 410	$ 88,443,720	$ 1,554,260	$ 89,997,980	1.8%
Schedule 420	$ 41,724,939	$ 877,829	$ 42,602,768	2.1%
Schedule 424/425	$ 3,919,829	$ 29,032	$ 3,948,861	0.7%
Schedule 439/440	$ 8,892,374	$ 72,849	$ 8,965,223	0.8%
Schedule 444	$ 175,406	$ 1,536	$ 176,942	0.9%
Schedule 456	$ 2,701,247	$ -	$ 2,701,247	0.0%
	$ 145,857,515	**$ 2,535,506**	**$ 148,393,021**	**1.7%**

Conclusion

Based on the review of Avista's filing, Staff believes that it is reasonable to move forward with the proposed Schedule 493 revisions, including the amortization of deferred balances associated with Docket No. UM 2232. Staff finds the Company's request has been sufficiently described and justified in the filing and associated work papers and acknowledges that the proposal represents a practical transition from the bifurcated LIRAP accounting into a consolidated tariff following the conclusion of the first program year of the bill assistance and arrearage management and forgiveness offerings. To this end, Staff recommends the Commission approve the Company's filing, as filed on July 31, 2023, and revised on September 28, 2023, in Advice No. 23-06-G.

Avista has reviewed this memo and agrees with its content.

PROPOSED COMMISSION MOTION:

Approve Avista Corporation dba Avista Utilities' request to modify its Schedule 493, Residential Low-Income Rate Assistance Program-Oregon, with rates effective for service on or after November 1, 2023.