

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 9, 2021**

REGULAR CONSENT EFFECTIVE DATE January 1, 2021

DATE: March 1, 2021

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

SUBJECT: AVISTA UTILITIES:
(Docket No. UM 2053(1))
Requests reauthorization of deferred accounting related to a change in annual regulatory fees.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Avista Utilities' (Avista or Company) request to defer costs associated with the incremental difference in the current annual regulatory fee of 0.35 of gross operating revenues, and the costs associated with the recent increase in the annual regulatory fee, for the 12-month period beginning January 1, 2021.

DISCUSSION:

Issue

Whether the Commission should approve Avista's request for authorization to defer costs associated with the variance in the annual regulatory fee and the amount collected in rates.

Applicable Rule and Law

In accordance with ORS 757.259, the Commission has the authority to authorize the deferral of utility revenues and expenses for later inclusion in rates. Utilities may seek approval to defer amounts for later inclusion in rates to minimize the frequency of rate changes or to appropriately match customer benefits and costs.

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred are allowed in rates 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.

OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities and requires the utility to provide certain information in an application to defer, such as the reason for the deferral, estimated amount of the deferral.

Analysis

Background

OAR 860-021-0033 requires electric utilities to pay regulatory fees to the Commission each year by April 1. The fee payable by the electric utility is an annual fee rate multiplied by the utility's gross operating revenues derived within Oregon for the previous calendar year. The annual fee rate is set by Commission order entered on or after March 1 of each year.

On February 26, 2020, the Commission issued Order No. 20-052, setting the annual fee rate at 0.35 percent of the gross operating revenues for electric, natural gas, and water utilities.

The Commission most recently set the annual fee at 0.375 percent in its Order No. 21-066.

Senate Bill (SB) 68, enacted in May 2019, allows the Commission to increase the annual fee from 0.3 percent of utilities' gross operating revenue to a percentage not to exceed 0.45 percent gross operating revenue.

Description of Deferral

The Company seeks to defer for later amortization into rates any incremental difference between amounts currently collected in rates for the Commission-imposed fee, which is based on a fee of 0.35 percent of gross operating revenues, and the amounts potentially owed as a result of a Commission authorized increase.

Proposed Accounting

Avista will record deferred costs related to the increase by in FERC Account 182.3 – Other Regulatory Assets, with a credit to FERC account 456 – Other Revenues.

Estimated Deferrals in Authorization Period

The Company estimates that the amount to be deferred, above what is included in customer rates at the current 0.35 percent, would be approximately \$150,000 assuming the Commission increased its regulatory fee to the maximum allowed of 0.45 percent. However, the fee for 2021 has been set at 0.375 percent so presumably the deferred amount will be lower.

Information Related to Future Amortization:

- Earnings Review – ORS 757.259(5) requires the Commission to review the utility's earnings at the time of application to amortize the deferral for amounts deferred pursuant to ORS 757.259(2)(e).
- Prudence Review – For amortization, the prudence review should be limited to verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Avista proposes no sharing because the annual fees are collected from customers and directly passed through to the Commission.
- Rate Spread/Design – Account balances are to be allocated among all Avista's Oregon customers on an equal cents per therm basis.
- 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 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

Staff concludes that the Company's application to authorize deferral of a potential increase in the annual regulatory fee is consistent with ORS 757.259.

While an earnings review is required prior to amortization of this deferral pursuant to ORS 757.259(5), the Commission may allow the utility to fully recover assessed PUC fees even where the Company's earnings are above its authorized rate of return. Staff recommends that any deferred amounts over the authorized rate of return be recovered by the Company for two reasons. First, the PUC fee is collected from customers and directly passed-through to the Commission. Second, the proposal to not subject the deferred amounts to over-earnings absorption is generally consistent with the treatment allowed by the Commission in Order No. 10-083, wherein the Commission lowered the

annual PUC rate and ordered electric and natural gas utilities to defer the difference between the previous rate and the revised rates. In Docket No. UM 1488, the utilities put forth proposals for amortization of deferred PUC fee credits to customers, which were not subject to the results of an earnings review.¹

PROPOSED COMMISSION MOTION:

Approve Avista's request to defer costs associated with the incremental difference in the current annual regulatory fee of 0.35 of gross operating revenues, and the costs associated with the recent increase in the annual regulatory fee, for the 12-month period beginning January 1, 2021.

Avista UM 2053(1) Reg. Fee Incr. Deferral

¹ See *In re Amortization Proposals Related to PUC Fee Deferral Ordered in UM 1012*, OPUC Docket No. UM 1488, Order Nos. 10-443 (NW Natural), 10-437 (Cascade), 10-436 (Avista), 10-373 (Idaho Power), 10-372 (PGE), and 10-307 (PacifiCorp) (2010).