

ORDER NO. 12 200

ENTERED JUN 05 2012

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1165(8)

In the Matter of

AVISTA CORPORATION dba AVISTA  
UTILITIES

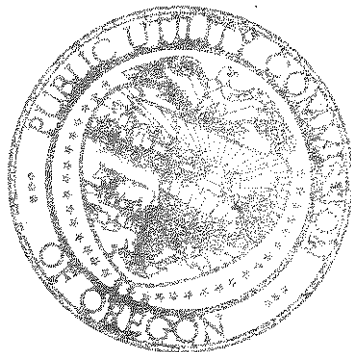
Application for the Reauthorization of Certain  
Deferral Accounts related to Avista's Demand  
Side Management programs.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Public Meeting on June 5, 2012, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter, attached as Appendix A.

BY THE COMMISSION:



*Becky L. Beier*  
Becky L. Beier  
Commission Secretary

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: June 5, 2012

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE July 1, 2012

DATE: May 31, 2012

TO: Public Utility Commission

FROM: Deborah Garcia *DA*

THROUGH: Jason Eisdorfer *JE*, Maury Galbraith *MG* and Judy Johnson *JJ*

SUBJECT: AVISTA UTILITIES: (Docket No. UM 1165(8)) Requests reauthorization to defer costs associated with demand side management programs.

**STAFF RECOMMENDATION:**

I recommend that the Commission approve Avista Utilities' (Avista or Company) request for reauthorization to defer costs related to demand side management (DSM) for a twelve-month period beginning July 1, 2012.

**DISCUSSION:**

Avista makes this filing under ORS 757.259 and OAR 860-027-0300(4).

Reason for Deferral

Deferral of DSM program investment costs and associated net lost margins is consistent with the Commission's policy to remove the significant disincentives to acquiring DSM relative to supply-side resources. ORS 757.262 allows the Commission to "...adopt policies designed to encourage the acquisition of cost-effective conservation resources." Without deferral and recovery of these direct and indirect costs of DSM, Avista would have a disincentive to acquire cost-effective conservation.

By Order No. 93-1881 the Commission authorized Avista to begin deferral of the revenue requirements and estimated revenue margin losses associated with its DSM investment, and to establish an annual rate adjustment mechanism to reflect the deferred costs in rates on a timely basis. Subsequently, the DSM-related deferral accounts have been reauthorized each year. Current authorization for the deferrals extends through June 30, 2012, pursuant to Order No. 11-254.

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Authority to approve this deferred account is provided by ORS 757.259(2)(e) in order to minimize the frequency of rate changes or fluctuation of rate levels.

#### Description of Expense

Avista's DSM program costs include the installation and acquisition of DSM measures, approved advertising expenses, and any applicable taxes. Further, because margin revenue is reduced as customers use less natural gas due to improved energy efficiency, this lost margin revenue is calculated and included in the deferral. Finally, interest is calculated on the account balances.

#### Proposed Accounting

The proposed deferrals would continue to be recorded in subaccounts of FERC Account 186 along with the amortization of previously approved DSM costs currently being collected from customers. Absent reauthorization of deferred accounting, standard accounting practices would be utilized for recording these costs. The costs would be expensed until such time as they could be incorporated into rates.

#### Previous Deferral Activity

<b>Various DSM Programs Account Balances as of March 31, 2012</b>	
(These balances do not take into account amounts previously approved for recovery effective November 1, 2011 in Docket UG 212 per Order No. 11-457.)	
Program Description	Balance
Commercial State Mandated	58,410
Residential State Mandated	240,051
Commercial Energy Efficiency Program Costs	89,682
Residential Water Heating	8,553
Residential Space Heating	99,376
Residential Homes	0
Manufactured Homes	0
Residential Washing Machines	0
Tankless Water Heaters	24,443
Chimney Dampers	1,632
Programmable Thermostats	16,301
Space Heating	2,829
Total	\$541,277

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#### Estimated Deferrals in Authorization Period

Avista estimates the deferral for conservation costs will be about \$1,500,000 and \$50,000 for lost margin revenues for the period July 1, 2012, through June 30, 2013.

#### Information Related to Future Amortization

- Earnings review – Historically, an earnings review has not applied to amortization of prudently incurred DSM expense associated with Commission-approved programs.
- Prudence Review – A prudence review is required to establish that the costs were prudently incurred and should include the verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Staff presumes that customers would bear the responsibility for all prudently incurred costs.
- Rate Spread/Design – Amortization should be spread on an equal cents per therm basis for Schedules 410, 420, 424, and 444, as specified in Schedule 478.
- 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 (exceptions at ORS 757.259(7) and (8)) 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. Amortization of the expense associated with this deferral is subject to the three percent test.

#### Staff Analysis

Avista has met the requirements of ORS 757.259 and OAR 860-027-0300 in its filing. As the inherent disincentive associated with the Company's acquisition of demand-side resources is still applicable, Staff recommends the Commission approve Avista's application as filed on May 16, 2012. Approval is for accounting purposes only. Staff will conduct a prudence review of all costs prior to a Commission ratemaking decision.

#### **PROPOSED COMMISSION MOTION:**

Avista's application for deferral of DSM costs be approved, effective July 1, 2012.