ORDER NO. 20-378

ENTERED Oct 27 2020

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 2069

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES, Application for Deferral of Costs Associated with the COVID-19 Emergency.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on October 20, 2020, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Nolan Moser
Chief Administrative Law Judge

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 Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. CA10

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 20, 2020

REGULAR ____ CONSENT _X_ EFFECTIVE DATE _____March 25, 2020_____

DATE: October 6, 2020

TO: Public Utility Commission

FROM: Sabrinna Soldavini, Marc Hellman, and Moya Enright

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

SUBJECT: AVISTA UTILITIES:
(Docket No. UM 2069)
Application for the authorization of deferred accounting of costs associated with the COVID-19 Emergency.

STAFF RECOMMENDATION:

Staff recommends that the Public Utility Commission of Oregon (Commission) approve Avista Corporation dba Avista Utilities' (Avista, AVA, or Company) application for deferred accounting of COVID-19 related costs for the 12-month period beginning March 25, 2020.

DISCUSSION:

Issue

Whether the Commission should approve Avista's application for the authorization of deferred accounting of costs from the COVID-19 Emergency for the 12-month period beginning March 25, 2020.

Applicable Law

ORS 757.259 allows the Commission to authorize deferred accounting for later incorporation into rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include, "[i]dentifiable utility expenses or revenues, the recovery or refund of which the Commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuations of rate levels or to match appropriately the costs borne by and benefits received by ratepayers." ORS 757.259(2)(e).

In OAR 860-027-0300(3), the Commission has set the requirements for the contents of deferred accounting applications. Applications for reauthorization 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. OAR 860-027-0300(4). Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings. With some exceptions, a company's amortization of amounts deferred under ORS 757.259(5) cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. ORS 757.259(6).

Analysis

Background

On March 8, 2020, Oregon Governor Kate Brown declared a statewide state of emergency due to the public health threat posed by the novel infectious coronavirus, COVID-19.[1] Several extensions of that order have been issued, and the state of emergency is currently extended to November 3, 2020.[2]

On March 25, 2020, Avista filed UM 2069, requesting the Commission authorize the Company to defer for later ratemaking treatment costs from the COVID-19 public health emergency.

On June 9 2020, the Commission held a Special Public Meeting on the impacts of COVID-19. As a result of the Special Public Meeting, the Commission opened an investigation into the effects of COVID-19, which would later be docketed as UM 2114. The purpose of the investigation was to:

a. Develop and share relevant information concerning actions taken by utilities concerning COVID-19;
b. Ensure the PUC takes an integrated, timely approach to COVID-19 related issue, and that all relevant aspects of the challenge are considered;

[1] EO 20-03 (March 8, 2020).
[2] EO 20-24 (May 1, 2020); EO 20-30 (June 30, 2020); EO 20-28 (September 1, 2020).

c. Ensure stakeholder engagement, input, and awareness; and
d. Provide information that will inform other, related dockets and Commission process.

Staff, all six Commission jurisdictional energy utilities, and interested stakeholders participated in a series of workshops and meetings, leading to the creation of an Energy Term Sheet representing agreement in principle by AVA, Cascade Natural Gas (Cascade or CNG), Idaho Power Company (Idaho Power or IPC), NW Natural Gas (Northwest Natural or NWN), PacifiCorp (PAC), Portland General Electric (PGE), Staff, Oregon Citizens' Utility Board (CUB), Community Action Partnership of Oregon (CAPO), Multnomah County Office of Sustainability (MCo), Northwest Energy Coalition (NWEC), and Verde (collectively, the Parties).

On September 24, 2020, the Commission held a Special Public Meeting, at which Staff requested the Commission's approval to execute stipulations incorporating the Energy Term Sheet developed during the Commission's investigation. At the Public Meeting, the Commission authorized the Parties to execute a stipulation incorporating the Energy Term Sheet.[3]

Among the items addressed in the Energy Term Sheet is the affected utilities' applications for deferred accounting related to COVID-19 costs and benefits.

Energy Term Sheet - Deferrals
All six energy utilities have filed applications for deferred accounting of costs and benefits resulting from the COVID-19 health epidemic. As such, the utilities' deferral applications are referenced in the Energy Term Sheet. The following terms summarize the Parties' agreement in principle on the deferral applications.

- The Parties agree that the Utilities' applications for deferred accounting of COVID-19 related costs and benefits should be submitted with an approval recommendation to the Commission, and recovery of those amounts deferred will be subject to a future Commission prudence review. The prudence review proceeding will ensure deferrals are either directly related to this Term Sheet or are related to other increased costs due to COVID-19. These COVID-19 related deferrals shall consist of the following:[4]

---

[3] Docket No. UM 2114, Order No. 20-324.
[4] Docket No. UM 2114, Staff Report for September 24th, 2020, Appendix A: Non-Binding Term Sheet – Energy Utilities. https://edocs.puc.state.or.us/efdocs/HAU/um2114hau174535.pdf.

- Direct costs for reasonable measures taken by the Utility in response to the COVID-19 pandemic, including, but not limited to: incremental personal protective equipment, cleaning supplies and services, contact tracing, medical testing, financing costs to secure liquidity including carrying costs associated with time payment agreements, information technology updates and administration needed to enact the stipulation, and equipment needed for remote work options.

- Direct costs are net of credits, payments, direct cost savings, or other benefits received by the Utility from a federal, state, or local government that are directly related to a COVID-19 direct cost, including federal, state, or local tax credits or benefits. Due to the unprecedented nature of the COVID-19 pandemic, not all costs may be known at this time. Utilities are not limited to deferring costs that are expressly enumerated above; provided, that all such costs are subject to a future Commission prudence review proceeding.

- The amount of late payment fees not assessed to customers under this Term Sheet. The amount of deferred late fees recorded in any year, including any late payment fees that were assessed prior to any suspension in that year, if applicable, shall not exceed the amount of late payment fees included in the Commission's final order from the utility's last general rate case.

- For bad debt expense, the amount that is currently being collected from customers for bad debt, as determined in its last general rate proceeding, would be the baseline. Any amount of bad debt expense incurred above this baseline, including arrearage amounts waived and associated program costs, in 2020, 2021, and 2022 would be deferred for later recovery.

- For reconnections and field visits that occur between April 1, 2021, and October 1, 2022, the amount of forgone reconnection charges and field visits that do not result in disconnection and field connection charges not assessed to customers.

- The amount of forgone reconnection charges incurred through November 15, 2020, related to customers that may have been disconnected prior to the March 13, 2020, suspension of disconnects. Forgone reconnection fees shall not exceed the amount equal to one reconnection fee per customer who was reconnected to service without charge. The reconnection fee shall be calculated using the applicable reconnection fee available in the utility's tariff for reconnection during regular working hours for the reconnected customer.

  - All costs to fund a COVID-19 bill payment assistance program, if funding is authorized.

  - The Parties agree that the deferral balance will be reviewed for prudence on an annual basis. The specific timing of the annual prudency review will be established in each utility's docket requesting deferred accounting. The timing of the amortization and the amortization period will be determined as part of the prudency review process.

  - The deferral balance, whether being accrued (pre-prudence), found to be prudent in an annual prudence review (pre-amortization), or being amortized, shall accrue the same interest rate, equal to the blended Treasury rate plus 100 basis points. To the extent the amortization of the deferral is more than two years for a utility, that utility may request that the Commission authorize a larger basis point spread. For regulatory and ratemaking purposes, the financing of the deferral will not be included in the capital structure of the utility.

- Each utility shall provide the Commission with reports that itemize the utility costs, savings, and benefits resulting from COVID-19. The first report will be for the period between March 1, 2020, and September 30, 2020, and shall be filed by November 1, 2020. Thereafter, reports will be due 30 days after the close of each quarter and shall include information from previous quarter. Each utility shall file a Report for every quarter until the quarter ending December 31, 2023, unless waived by the Commission.

Description of Expense
As described above, the amount subject to deferral are the direct costs for reasonable measures taken by the utility in response to the COVID-19 pandemic, net of credits, payments, direct cost savings or other benefits received by the utility from a federal, state, or local government that are directly related to a COVID-19 direct cost, including federal state, or local tax credits or benefits.

Reason for Deferral
Avista's application notes that it requests authorization of this deferral in order to appropriately match the costs borne by and benefits received by customers. The

Company also notes that the deferral is being sought as the associated risks of the COVID-19 public health emergency are outside of reasonable business risk.[5]

Proposed Accounting
Avista is proposing to record the deferral as a regulatory asset in FERC Account 182.3 (Other Regulatory Assets), crediting FERC account 407.4 (Regulatory Credits).

Estimated Deferrals in Authorization Period
The actual amount subject to deferral is dependent on the outcomes of the COVID-19 pandemic. As it is unknown what the full ramifications of the COVID-19 pandemic will be in Avista's service area, including the duration and scale of the impact, the Company notes that the estimated deferral balance is at this time unknown.

Information Related to Future Amortization

- Earnings Review – Prior to amortization, an annual earnings review will be conducted pursuant to ORS 757.259(5).

- Prudence Review – Prior to amortization, a prudence review will be conducted. The prudence review will include the verification of the accounting methodology used to determine the final amortization balance, as well as a review of all costs proposed for amortization (including any offsetting cost savings). For this deferral, prudence reviews will be conducted annually.

- Interest Rate - The deferral balance, whether being accrued (pre-prudence), found to be prudent in an annual prudence review (pre-amortization), or being amortized, shall accrue the same interest rate, equal to the Blended Treasury rate plus 100 basis points.[6] To the extent the amortization of the deferral is more than two years for a utility, that utility may request that the Commission authorize a larger basis point spread. For regulatory and ratemaking purposes, the financing of the deferral will not be included in the capital structure of the utility.

- Sharing - This deferral is not subject to a sharing mechanism. However, as described above, Avista has agreed to accrue interest on this deferral equal to <u>the blended treasury rate plus 100 basis points</u>.[7] This is a departure from the standard established by the Commission to use the Company's

[5] Docket No. UM 2069, Avista Initial Application, page 3.
[6] The Modified Blended Treasury rate is updated annually by the Commission as authorized by Order Nos. 08-263, and 09-065. For 2020, the Modified Blended Treasury rate is equal to 2.63 percent.
[7] Docket No. UM 2114, Order No. 20-324.

authorized rate of return for deferral balances not yet reviewed for prudence.[8] This is a substantive interest differential and materially benefits customers by reducing the amounts recoverable by the utilities.

- 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 (with exceptions) 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

Based on Staff's review of Avista's application, Staff concludes that the proposal represents an appropriate use of deferred accounting under ORS 757.259. Further, Staff believes that the Company's application, in light of the provisions of the Energy Term Sheet currently being incorporated into a stipulation to be executed by the Parties, supports Staff's goals of ensuring that both customers and the Company are sufficiently protected from the impacts of the COVID-19 pandemic.

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 deferred accounting of COVID-19 related costs for the 12-month period beginning March 25, 2020.

AVA UM 2069 Deferral of COVID-19 Pandemic Related Expenses

[8] Avista's authorized rate of return for 2020 is 7.24 percent. Subject to approval by the Commission, as a result of a Stipulation in the Company's pending General Rate Case, this rate is likely to remain unchanged throughout the deferral period.