ORDER NO. 21-268

ENTERED Aug 26 2021

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1753(5)

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES, Application for Reauthorization to Defer Expenses or Revenues Related to the Natural Gas Decoupling Mechanism.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on August 24, 2021, 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. CA4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 24, 2021

REGULAR ____ CONSENT _X_ EFFECTIVE DATE _____January 1, 2021_____

DATE: August 9, 2021

TO: Public Utility Commission

FROM: Brian Fjeldheim

THROUGH: Bryan Conway and John Crider **SIGNED**

SUBJECT: AVISTA UTILITIES:
(Docket No. UM 1753(5))
Application for reauthorization of deferred accounting related to the natural gas decoupling mechanism.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Avista Corporation's (Avista or Company) application for the reauthorization to defer decoupled revenue differences, for the 12-month period beginning January 1, 2021.

DISCUSSION:

Issue

Whether the Commission should approve Avista's application for the reauthorization of deferred accounting of decoupled revenue differences for later adjustment to the price of gas supplied to ratepayers, in accordance with its natural gas decoupling mechanism.

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 fluctuation 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 forth 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. See ORS 757.259(6).

Under the decoupling mechanism and pursuant to ORS 757.259(4), the Commission may authorize Avista to defer the difference between actual decoupled revenues by rate group and the allowed decoupled revenues for a twelve-month period.

Analysis

Background

Due to fluctuation in customers' natural gas consumption, and in order to minimize the volatility of the Company's revenues and the frequency of rate changes, Avista's Natural Gas Decoupling Mechanism was approved by the Commission in Order No. 16-109.

The Commission previously reauthorized this deferral in December 2016, in Order No. 16-489, November 2017, in Order No. 17-450, December 2018, in Order No. 18-474, and January 2020, in Order No. 20-017.

Description of Expense

The amount subject to deferral is the difference between the actual, after-the-fact, therm sales and allowed therm sales, as established in the base rates from the most recent rate case, Docket No. UG 389. This difference in therm sales may arise from a variety of factors including energy efficiency or conservation measures, weather conditions, and economic factors. On or before August 1 of each year, the Company submits a request to amortize the accumulated deferred revenue, effective November 1.

The rate increase resulting from the decoupling adjustment is subject to an annual incremental limit of 3 percent, with balances in excess being carried forward to future years for recovery.

Reason for Deferral

The decoupling mechanism is designed to weaken the relationship between customers' energy usage and utilities' revenues, and allows the Company to defer the difference between gas revenues allowed for collection (as determined in its last general rate case, Docket No. UG 389) and gas revenues actually collected from customers. This difference between revenues based on sales and revenues based on the number of customers, results in either a surcharge or rebate to customers through tariff Schedule 475 in the following year.

Proposed Accounting

In its application, the Company proposes to continue using two deferral accounts: one for residential customers (Schedule 410), and one for commercial customers (Schedules 420, 424, 440, and 444). The deferred amounts would continue to be recorded in FERC account 186 - Miscellaneous Deferred Debits. The amount that is approved for recovery/rebate would be transferred to a Regulatory Asset account (FERC Account 182 or 254) for amortization. Both the deferred revenue and the amortization of the deferred revenue will be recorded through FERC Account 495 on the Company's income statement. Interest on the deferred balances will be accrued at the 2021 Modified Blended Treasury Rate (MBTR).[1] Upon approval for recovery and amortization, interest will accrue at the 2021 Modified Blended Treasury Rate.

Estimated Deferrals in Authorization Period

The actual amount subject to deferral is dependent on the difference between actual therm sales compared with the therm sales used in the rate case to establish base rates. As the amount subject to deferral is unknown, the Company does not provide an estimate for the proposed reauthorization period. These differences can arise due to fluctuations in weather, conservation efforts by customers, and changes in the economy.

For reference, the outstanding balances for the Company's Natural Gas Decoupling deferral account are displayed on page 6 of the Company's application. The Company’s filing shows the total decoupling mechanism deferral balances, as of June 30, 2020, were negative $2,243,783. The negative dollar amount represents a rebate to customers and is comprised of:

- A Residential Group Balance sub-total of negative $231,082 and
- A Commercial Group Balance sub-total of negative $2,012,701.

[1] During the course of the Company’s previous general rate case, Docket No. UG 366, the interest rate applied to decoupling deferral balances changed from the Company’s Authorized Rate of Return (AROR) to a MBTR basis. This change went into effect January 15, 2020, as approved by the Commission in Order No. 19-331.

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, and it should include the verification of the accounting methodology used to determine the final amortization balance.
- Sharing – This deferral is not subject to a sharing mechanism.
- Rate Spread/Design - The difference between actual and allowed decoupled revenues should be recovered through rates on an equal cents-per-therm basis for each rate group.
- 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.
- This deferral may be subject to the exception at ORS 757.259(7) that allows the Commission to consider an overall average rate impact greater than that specified in subsection (6) for natural gas commodity and pipeline transportation costs incurred by a natural gas utility, if the commission finds that allowing a higher amortization rate is reasonable under the circumstances.

Conclusion

Based on Staff's review of Avista's application, Staff concludes the proposed reauthorization represents an appropriate use of deferred accounting under ORS 757.259. Further, the Company's application meets the requirements related to the establishment of the decoupling mechanism.

PROPOSED COMMISSION MOTION:

Approve Avista's application, reauthorizing the deferred accounting for revenue differences associated with the decoupling mechanism for the 12-month period beginning January 1, 2021.