ORDER NO. 22-382

ENTERED Oct 20 2022

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1753(6)

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 October 18, 2022, 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. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 18, 2022

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ____January 1, 2022____

DATE: October 10, 2022

TO: Public Utility Commission

FROM: Steve Storm

THROUGH: Bryan Conway and Marc Hellman **SIGNED**

SUBJECT: AVISTA CORPORATION:
(Docket No. UM 1753(6))
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 dba Avista Utilities' (Avista, AVA, or Company) application for reauthorization to defer revenue differences associated with the decoupling mechanism for the 12-month period beginning January 1, 2022.

DISCUSSION:

Issue

Whether the Commission should approve Avista's application for reauthorization to defer revenue differences associated with the Company's decoupling mechanism for the 12-month period beginning January 1, 2022.

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).

The Commission set forth in OAR 860-027-0300(3) the requirements for 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).

Amounts deferred are allowed in rates to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates at the time of application to amortize the deferral. ORS 757.259(4); OAR 860-027-0300(9). 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. ORS 757.259(5). An earnings review may be conducted. With some exceptions, a utility'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), (7).

The Commission may authorize Avista, under the decoupling mechanism and pursuant to ORS 757.259(4), to defer the difference between actual decoupled revenues by rate group and the allowed decoupled revenues for a 12-month period.

Analysis

Background
Due to fluctuation in customers' natural gas consumption and to minimize volatility in the Company's revenues and the frequency of rate changes, the Commission approved Avista's Natural Gas Decoupling Mechanism 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; January 2020, in Order No. 20-017; and August 2021, in Order No. 21-268.

Description of Expense
The amount subject to deferral is the difference between revenue associated with the actual, after-the-fact, therm sales and that associated with allowed therm sales, as established in base rates from the most recent rate case, Docket No. UG 433. This difference in therm sales may arise due to multiple factors including energy efficiency or conservation measures, weather conditions, and economic factors. On or before

August 1 of each year, Avista submits a request to amortize the accumulated deferred revenue, to be effective November 1.

The rate increase resulting from the decoupling adjustment is subject to an annual incremental limit of three 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 the utility's revenues and allows Avista to defer the difference between gas revenues allowed for collection (as determined in the Company's Docket No. 433 general rate case proceeding) and gas revenues actually collected from customers. This difference between estimated revenues based on estimates of use per customer and the number of customers in the general rate case and revenues based on actual values of these parameters[1] results in a surcharge or rebate to customers through tariff Schedule 475 in the following year.

Proposed Accounting
Avista's application 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 or rebate would be transferred to a regulatory asset account (FERC Account 182 or 254) for amortization. Both the deferred revenue and 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 2022 Modified Blended Treasury Rate (MBTR).[2]

Estimated Deferrals in Authorization Period
The actual amount subject to deferral depends on the difference between actual therm sales compared with therm sales levels used in the rate case to establish base rates. These differences can arise due to fluctuations in weather, conservation efforts by customers, and changes in the economy. As the resulting dollar amount subject to deferral is unknown, Avista's application does not include an estimate for the proposed reauthorization period.

[1] See footnote 2 of Avista's application for discussion of adjustments associated with customer numbers.
[2] The interest rate applied to decoupling deferral balances changed from the Company's Authorized Rate of Return (AROR) to a Modified Blended Treasury Rate (MBTR) basis as a result of Avista's general rate case Docket No. UG 366. This change went into effect January 15, 2020, as approved by the Commission in Order No. 19-331. See page 13 of Appendix B to Order No. 19-331.

As points of reference, Page 6 of Avista's application includes the outstanding balances for the Company's Natural Gas Decoupling deferral account. The Company's filing shows the total decoupling mechanism deferral balances, as of June 30, 2021, as a positive $467,812, representing a charge to customers. This amount is comprised of:

- A Residential group balance sub-total of positive $1,098,429 and
- A Commercial group balance sub-total of negative $630,617.

Information Related to Future Amortization

- Earnings Review – An earnings test is not applied to this deferral as it is a decoupling-related deferral.
- Prudence Review – Prior to amortization, a prudence review will be conducted. The review should include 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. Additionally, the Company's application meets the requirements related to the establishment of the decoupling mechanism.

Avista has reviewed this memorandum and concurs with its contents.

PROPOSED COMMISSION MOTION:

Approve Avista's application for reauthorization to defer revenue differences associated with the decoupling mechanism for the 12-month period beginning January 1, 2022.

AVA UM 1753(6) Decoupling Deferral