

ORDER NO. 24-225

ENTERED Jul 10 2024

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1753(8)

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 July 9, 2024, 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:



Alison Lackey

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. CA9

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 9, 2024**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: June 27, 2024

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway and Russell Beitzel **SIGNED**

SUBJECT: AVISTA:
(Docket No. UM 1753(8))
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 or Company) application for reauthorization to defer revenue differences associated with the decoupling mechanism for the 12-month period beginning January 1, 2024.

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, 2024.

Applicable Law

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include:

Identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the

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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).

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates.

OAR 860-027-0300 specifies the required contents of an application for deferred accounting, including a description of the expense or revenue for which deferral is requested, the basis for the request, the accounts proposed for recording the amounts to be deferred, an estimate of the amounts to be recorded in the deferred account, and a copy of the notice of the application for deferred accounting.

Amounts may be deferred up to twelve months and 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) and (7).

Analysis

Background

Deferral of the revenue or expenses related to the Company's Natural Gas Decoupling Mechanism was most recently authorized on April 5, 2023, by Order No. 23-127 in Docket No. UM 1753.

The authorization for deferred accounting treatment as described above can be authorized pursuant to ORS 757.259(2)(e). Under the Company's Natural Gas Decoupling Mechanism, decoupled revenue above or below the base level established in the General Rate Case (GRC) associated with concurrent effective rates. will be tracked over a 12-month period, and later rebated or surcharged to customers.

The Commission approved a Revenue-Per-Customer decoupling mechanism for the Company's natural gas operations. The mechanism compares actual decoupled

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revenues, by rate group, to allowed decoupled revenues determined on a per-customer basis, with any differences deferred for later rebate or surcharge.

The current form of the decoupling mechanism became effective March 1, 2016, and was modified, in part, in Avista's 2019 GRC, Docket No. UG 366, as well as in UG 433 that established two residential decoupling targets, one for existing and another for new customers.

Reason for Deferral

The decoupling mechanism is designed to weaken the relationship between customers' energy usage and the utility's revenues and allows the Company to defer the difference between gas revenues allowed for collection (as determined in the Company's Docket No. UG 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 results in a surcharge or rebate to customers through tariff Schedule 475 in the following year.

Proposed Accounting

The Company would continue to record the deferrals in Account 186 – Miscellaneous Deferred Debits.

The amount approved for recovery or rebate would then be transferred into a Regulatory Asset account (FERC Account 182 – Other Regulatory Asset) or Regulatory Liability account (FERC Account 254 – Other Regulatory Liability) for amortization.

On the income statement, the Company will record both the deferred revenue and the amortization of the deferred revenue through Account 495 (Other Gas Revenue), in separate sub-accounts.

Description of Expense

The amount subject to deferral for the Natural Gas Decoupling Mechanism will be dependent upon the difference between the actual, after-the-fact, per customer therm sales, compared with the per customer therm sales used in the rate case to establish base rates.

This difference in therm sales can be caused by conservation, weather, and changes in the economy. The amount of the rate increase resulting from the decoupling adjustment will be subject to an annual incremental limit of three percent, i.e., the annual increase

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in the surcharge cannot exceed three percent of billed revenues for each rate group, each year, with unrecovered balances carried forward to future years for recovery.

The incremental surcharge (percentage) increase is determined by subtracting the annual revenue amount recovered by the present surcharge rate from deferred revenue to be recovered through the proposed surcharge rate and dividing that net amount by the total "normalized" revenue by Rate Group for the most recent January through December period.

The normalized revenue is determined by multiplying the weather-corrected usage for the period by the present billing rates in effect. If the incremental surcharge exceeds a three percent rate increase, only a three percent increase is implemented and any additional deferred revenue will remain in the deferred revenue account, and could be recovered the following year, subject to the three percent limitation.

Current Deferral and Amortization Balances

As of June 30, 2023,¹ the outstanding balances for the Company's Natural Gas Decoupling Mechanism balancing accounts are as follows.

Account 186328, Regulatory Liability Decoupling Deferral (Residential Group)	2023 Deferrals	(\$2,031,661.03)
Account 182329, Regulatory Asset Decoupling Deferral Prior Year (Residential Group)	2022 Deferrals	\$644,884.96
Account 182328, Regulatory Asset Decoupling Deferral Approved for Recovery (Residential Group)	2021 Deferrals	<u>\$215,760.41</u>
Sub-total Residential Group Balance 06/30/2023		<u>(\$1,171,015.66)</u>
Account 186338, Regulatory Liability Decoupling Deferral (Commercial Group)	2023 Deferrals	(\$3,341,451.28)
Account 182339, Regulatory Liability Decoupling Deferral Prior Year (Commercial Group)	2022 Deferrals	(\$222,760.18)
Account 182338, Regulatory Asset Decoupling Deferral Approved for Recovery (Commercial Group)	2021 Deferrals	<u>\$196,181.83</u>
Sub-total Commercial Group Balance 06/30/2023		<u>(\$3,368,029.63)</u>
Total Decoupling Mechanism Balances at 06/30/2023		<u>(\$4,539,045.29)</u>

¹ See, Page 3 of the Q2 2023 Natural Gas Decoupling Mechanism Quarterly Report (Docket No. RG 78(23)).

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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.

Note: 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.

The Company has reviewed this memorandum and agrees 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, 2024.