ORDER NO. 24-435

ENTERED Dec 10 2024

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1753(9)

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 December 10, 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. CA8

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 10, 2024

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** ____N/A____

DATE: November 25, 2024

TO: Public Utility Commission

FROM: Bret Stevens

THROUGH: Caroline Moore, Scott Gibbens, and Michelle Scala **SIGNED**

SUBJECT: AVISTA UTILITIES:
(Docket No. UM 1753(9))
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, 2025.

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, 2025.

Applicable Rule or Law

Deferred accounting means recording a current expense or revenue associated with current service in a balance sheet account, with Commission authorization for later reflection in rates. OAR 860-027-0300(1)(b). ORS 757.259 provides the Commission authority to authorize deferred accounting for later incorporation in rates. ORS 757.259 also explains the types of amounts eligible for deferred accounting. As relevant here, 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 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).

OAR 860-027-0300(3) lists five items that must be included in an application for deferred accounting: (1) a description of the expense or revenue for which deferral is requested, (2) the basis for the request, (3) the accounts proposed for recording the amounts to be deferred, (4) an estimate of the amounts to be recorded in the deferred account for the subsequent 12-month period, and (5) a copy of the notice of the application for deferred accounting.

Amounts may be deferred up to twelve months. ORS 757.259(4). For deferred amounts to be allowed in rates, the utility applies to amortize the deferred accounts. ORS 757.259(5). The Commission may authorize the amortization in a rate proceeding, subject to a prudence review. ORS 757.259(5); OAR 860-027-0300(9). 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).

<u>Analysis</u>

Background

In 2016, the Commission approved a decoupling mechanism to “compare actual decoupled revenues, by rate group, to the allowed decoupled revenues determined on a per-customer basis, with any differences deferred for later rebate or credit.” *In re Avista Corp. Request for a General Rate Revision (UG 288) and Application for Authorization to Defer Expenses or Revenues Related to the Natural Gas Decoupling Mechanism (UM 1753),* Order No. 16-109 at 3 (Mar. 15, 2016). Since that 2016 order, Avista has submitted annual applications in this docket to reauthorize deferral of the revenue or expenses related to the Company’s Natural Gas Decoupling Mechanism. Avista’s last application was approved on July 9, 2024, by Order No. 24-225.

The authorization for deferred accounting treatment as described above can be authorized pursuant to ORS 757.259(2)(e). The Company’s Natural Gas Decoupling Mechanism provides for 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 further approved a Revenue-Per-Customer decoupling mechanism that compares actual decoupled 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.

Avista filed a revised version of their filing on November 7, 2024. This revised version corrected a scrivener error in their October 29, 2024, filing.

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 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, 2024,[1] the outstanding balances for the Company’s Natural Gas Decoupling Mechanism balancing accounts are as follows.

[1] See page 3 of the Q2 2024 Natural Gas Decoupling Mechanism Quarterly Report (Docket No. RG 78 (34)).

Table 1. Decoupling Account Balances		
Residential		
	2022 Residual Balance	$139,542.32
	2023 Residual Balance	($1,404,773.59)
	2024 Deferral	$2,549,061.41
	Current Balance	$1,283,830.14
Commercial		
	2022 Residual Balance	$0
	2023 Residual Balance	($2,253,200.39)
	2024 Deferral	($160,236.34)
	Current Balance	($2,813,436.73)
Total		
	Current Balance	($1,529,606.59)

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, 2025.

AVA UM 1753(9) Decoupling Deferral.