

Agenda Date: August 10, 2017

Item Number: A1

Docket: UE-170484

Company Name: Avista Corporation

Staff: David Gomez; Assistant Power Supply Manager
Andrew Roberts; Regulatory Analyst, Safety and Consumer Protection Division

Recommendation

Staff recommends the commission grant the Industrial Customers of Northwest Utilities' (ICNU's) Motion requesting dismissal of Avista Corporation's (Avista or company) proposed tariff revisions, or in the alternative, consolidate Avista's Power Cost Rate Adjustment (PCRA) filing with its pending general rate case proceeding.

Background and Discussion

On May 26, 2017, Avista filed with the commission proposed revisions to its currently effective Tariff WN U-28 Power Cost Rate Adjustment Schedule 93 in the above-referenced docket (PCRA filing), which would increase billed revenues by approximately \$15 million, or 2.92 percent, effective September 1, 2017, and would reset the Energy Recovery Mechanism (ERM) baseline used to track how actual power costs differ from the power costs embedded in retail rates. The company filed the proposed tariff revisions concurrently with a general rate case filing in Dockets UE-170485 and UG-170486, requesting annual rate increases over three years for both electric and natural gas service. The power cost baseline increase requested in Docket UE-170484 would expire at the conclusion of the general rate case which will again reset the power cost baseline.

On June 16, 2017, ICNU filed a Motion requesting the commission dismiss the company's proposed tariff revisions, or in the alternative, consolidate Avista's PCRA filing with its pending general rate case proceeding. On June 19, 2017, the commission issued a Notice Soliciting Staff Response and Notice of Opportunity to Respond requesting that staff and any other party or person, to file a response indicating whether it supports or opposes ICNU's Motion by June 27, 2017.

Staff filed its response in support of ICNU's motion on June 27, 2017. Avista has failed to adequately justify its request for a 2.9 percent power cost rate increase during the pendency of its general rate case. Avista currently has an Energy Recovery Mechanism (ERM) that equitably allocates between the company and its customers the risk of ordinary variations in power costs that may occur between rate cases. Increasing rates and the ERM baseline to account for a few discrete changes in power costs, without consideration of potentially offsetting cost changes, would frustrate the protections and incentives the ERM provides. Moreover, Avista's requested rate increase is driven by ordinary power cost variations that are easily accounted for by the ERM. Avista's Monthly Power Cost Deferral Report shows that the company has over-collected

its power costs in the first six months of 2017 by nearly \$6.5 million with the company receiving a \$4.6 million benefit and customers accruing \$1.9 million towards a potential rebate. The cumulative Energy Cost Deferral Balance as of June 30 is \$23.5 million in the rebate direction. This exceeds the total incremental amount of the power cost increase the company proposes to collect over the next eight months. Simply stated, even if the alleged increase in net power supply costs materialize, the ERM carries a sufficient balance to easily absorb that alleged increase.

Lending further support to staff's recommendation is Avista's August 2, 2017, report to its investors of its financial results for the second quarter of 2017.¹ According to the company's report, its 2017 earnings continue to be above expectations. Avista attributes the majority of its second quarter results to:

“...lower than expected operating expenses and lower resource costs. The lower resource costs were partially due to increased hydroelectric generation that increased our benefit position in the Energy Recovery Mechanism (ERM) in Washington.”

The report also states that the primary reason for its decrease in electric resource costs are due to:

“[a] decrease in purchased power and fuel for generation, which resulted from a decrease in thermal generation and an increase in hydroelectric generation.”

Customer Comments

The company notified its customers of the proposed rate increase by bill insert during the June-July billing cycle. Staff received seven consumer comments regarding the proposed rate increase; six opposed to the rate increase, and one undecided. Customers were generally concerned with frequent rate proposals and increasing rates. Customers were notified that they may access relevant documents about this rate increase on the commission's website, and that they may contact Andrew Roberts at 1-888-333-9882 or aroberts@utc.wa.gov with questions or concerns.

Conclusion

The commission should reject Avista's PCRA filing, and allow the ERM to operate as intended until the conclusion of the general rate case, or in the alternative, consolidate Avista's PCRA filing with its pending general rate case proceeding.

¹ See http://investor.avistacorp.com/phoenix.zhtml?c=97267&p=irol-newsArticle_print&ID=2290953.