

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND	)	DOCKETS UE-140188 and
TRANSPORTATION COMMISSION,	)	UG-140189 (<i>Consolidated</i>)
)	
Complainant,	)	ORDER 05
)	
v.	)	FINAL ORDER REJECTING
	)	TARIFF FILING, ACCEPTING
AVISTA CORPORATION d/b/a	)	WITH CONDITIONS FULL
AVISTA UTILITIES,	)	SETTLEMENT STIPULATION,
	)	AUTHORIZING TARIFF FILING,
Respondent.	)	AND REQUIRING COMPLIANCE
	)	FILING
.....)	

Synopsis: *The Commission rejects the tariff sheets Avista Corporation d/b/a Avista Utilities (Avista or Company) filed on February 4, 2014, by which the Company requested to increase electric base rates by \$18.2 million, or 3.8 percent, and natural gas base rates by \$12.2 million, or 8.1 percent. Instead, the Commission approves, with conditions a settlement filed by Avista, Commission Staff, Public Counsel, ICNU, NWIGU, and The Energy Project on August 18, 2014, and as amended on September 8, 2014.*

We approve the agreed upon increase in electric revenues by approximately \$4 million or 0.8 percent, which includes the impact of a \$3 million credit from the existing Energy Recovery Mechanism (ERM) deferral balance. In addition, the Commission approves an electric low income rate assistance program (LIRAP) funding increase of \$0.4 million. To partially offset the rate impact of the expiration of the current period's ERM credit and Bonneville Power Administration transmission credits totaling approximately \$13.7 million, the Commission approves a settlement that would rebate approximately \$8.6 million of Renewable Energy Credit revenues to electric customers over 18 months. In addition, the Commission approves an increase in natural gas revenues by approximately \$8.9 million or 5.58 percent, including a natural gas LIRAP funding increase of \$0.42 million or 0.14 percent.

agreed revenue changes result in rates that are fair, just, reasonable, and sufficient, and that approval is in the public interest.

b. Decoupling²²

22 The Settlement adopts revenue-per-customer full decoupling mechanisms for all fixed costs of Avista's electric and natural gas systems for the next five years.²³ The electric decoupling mechanism applies to revenues attributed to distribution systems costs as well as the fixed-cost portion of production costs.²⁴ The decoupling mechanisms commence on January 1, 2015, and terminate on December 31, 2019 and do not apply to certain customer classes including electric Schedules 25, and 41-48, or natural gas Schedules 112, 122, 132, and 146.²⁵ At hearing, Avista clarified that the decoupling deferral balances will accrue interest at the Federal Energy Regulatory Commission's (FERC) rate which is presently 3.25 percent.²⁶ The parties also offered clarifications regarding the decoupling mechanisms' earnings tests, conservation commitments, and third-party reviews, which are each described below.

²² Decoupling allows for the utility's recovery of the fixed costs it incurs independent of the amounts of electricity and natural gas it sells. Decoupling removes the so-called throughput incentive and is intended to promote more aggressive pursuit of cost-effective conservation.

²³ Settlement, ¶ 13. The decoupling mechanisms agreed to by the parties are based on Avista's original proposal, as modified by the Settlement. Ehrbar, Exh. No. PDE-1T, at 49-78. For a complete description and discussion of the Commission's decoupling policy see *In re WUTC Investigation into Energy Conservation Incentives*, Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, including Decoupling, To Encourage Utilities To Meet or Exceed Their Conservation Targets (Nov. 4, 2010) (Decoupling Policy Statement).

²⁴ Exh. No. 4, at 18-19. The mechanisms accomplish this by removing the fixed-cost portion of production costs from the ERM and the application of the Retail Revenue Credit in the decoupling mechanisms.

²⁵ Settlement, ¶ 13(b). The mechanism specified in this Settlement supersedes Avista's currently-effective natural gas decoupling mechanism. Exh. No. 4, at 17, note 13. The electric schedules omitted from the decoupling mechanism include Extra Large General Service (Schedule 25) and Street and Area Lighting (Schedules 41-48). Appendix 2 to Settlement at 3. The natural gas schedules omitted from the decoupling mechanism include Large General Service – Firm (Schedule 112), High Annual Load Factor Large General Service – Firm (Schedule 122), Interruptible Service (Schedule 132), and Transportation Service for Customer-owned Gas (Schedule 146).

²⁶ Norwood, TR 181:16-183:12; Ehrbar, Exh. No. PDE-9, at 4, line 35; Ehrbar, Exh. No. PDE-10, at 4, line 17. The Settlement did not specify if or when the interest rate will be adjusted to reflect the current FERC rate. Avista must update the interest rate to the current FERC rate on January 1 of each year the mechanisms are in effect.

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- 23 The decoupling mechanisms include an earnings test that the settling parties intend to operate as a benefit to Avista's customers.²⁷ For example, if volumetric rates produce a surplus of revenue (i.e., sales revenue is above the product of the number of customers in the rate year times the revenue per customer), all of the surplus will be returned to the customers. In addition, if Avista's achieved ROR, as determined in the Company's annual Commission Basis Report exceeds 7.32 percent, the rebate to customers will be increased by half the revenue causing the excess ROR.²⁸
- 24 Alternatively, if the decoupling mechanisms produce a revenue deficit (i.e., sales revenue is below the product of the number of customers in the rate year times the revenue per customer) and Avista's ROR is less than 7.32 percent, a bill surcharge is applied to customer bills to recover the full deficit amount. However, should that condition arise, to the extent Avista's ROR is greater than 7.32 percent, the surcharge on customer bills will be decreased by half the revenue causing the excess ROR.²⁹
- 25 At hearing, the settling parties made three clarifications regarding the earnings test. First, Avista indicated that the Settlement's use of the term "one-half the rate of return in excess of 7.32%" in paragraph 13(c) has the same meaning as the term "one-half the revenue causing the excess ROR."³⁰ Second, Mr. Norwood clarified that if Avista's ROR is exactly 7.32 percent, there will be no adjustment to any surcharge or rebate.³¹ Third, Mr. Norwood specified that the earnings test applies to all of the Company's earnings, and is not limited to the amount of decoupling surcharges or rebates.³²
- 26 Avista also agrees in the Settlement to increase its electric conservation achievement by 5 percent over its biennial target.³³ At hearing, Avista specified that its 2014-2015 biennial conservation target is currently 64,956 megawatt-hours (MWh), 5 percent of

²⁷ Settlement, ¶ 13; TR 179:24-181:7 (exchange between Commissioner Goltz and Mr. Norwood); Exh. No. 4, at 46:10-15.

²⁸ Settlement, ¶ 13(c)(ii); TR 178:12-179:2.

²⁹ Settlement, ¶ 13(c)(iii).

³⁰ Norwood, TR 178:12-179:2; Settlement, ¶ 13(c).

³¹ Norwood, TR 179:3-6.

³² TR 179:24-181:7 (exchange between Commissioner Goltz and Mr. Norwood).

³³ Settlement, ¶ 13(f); RCW 19.285.040(1)(b).

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which is 3,248 MWh.³⁴ Thus, the Settlement commits Avista to achieving 68,204 MWh of conservation in the 2014-2015 biennium. If the electric decoupling mechanism is in effect for any portion of a subsequent biennium, Avista commits to increasing its electric conservation achievement by 5 percent for the entire biennium. In other words, the 5 percent will not be reduced or pro-rated because decoupling is not in effect for the full biennium.³⁵ If this decoupling mechanism is in effect when Avista files a biennial conservation plan, that plan should state the 5 percent of additional conservation in MWh and the sum of Avista's biennial conservation target, plus this five percent commitment, in MWh.

27 Finally, Avista clarified that the Settlement obligates its shareholders to pay for a third-party evaluation of the decoupling mechanisms after three years.³⁶ The Settlement does not include specific requirements regarding the scope or contents of this evaluation, though Avista plans to consult with stakeholders as it develops the scope of the evaluation.³⁷ Mr. Schooley testified for Staff that the evaluation should include, at a minimum:

- an analysis of the mechanism's impact on conservation achievement,
- an analysis of the mechanism's impact on Company revenues (i.e., whether there has there been a stabilizing effect), and
- an analysis of the extent to which fixed costs are recovered in fixed charges for the customer classes excluded from the decoupling mechanisms.³⁸

28 *Decision.* We find that the decoupling mechanisms presented in the Settlement are in the public interest, will promote the policy goals of increased conservation, and will result in fair, just, reasonable, and sufficient rates. We require that any review of the mechanisms should, at a minimum, include the three above-referenced analyses Mr. Schooley described. Additionally, we require Avista's decoupling evaluation to analyze if allowed revenues from the following rate classes are recovering their cost of service: residential class, non-residential class, and customers not subject to

³⁴ Norwood, TR 179:16-23; *Avista Corp.*, Docket UE-132045, Order 01, Order Approving Avista Corporation's 2014-2023 Achievable Conservation Potential and 2014-2015 Biennial Conservation Target, Subject To Conditions, ¶ 9 (Dec. 19, 2013).

³⁵ Norwood, TR 181:11-15.

³⁶ Settlement Stipulation, ¶ 13(a); TR 186:2-13.

³⁷ Settlement Stipulation, ¶ 13(a); TR 184:25-185:15; TR 186:14-17.

³⁸ TR 186:18-187:3; TR 187:22-188:11.

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decoupling. Finally, to ensure that the evaluation's scope is sufficient to provide the Commission and stakeholders with a meaningful review of the new mechanisms, we require Avista to:

- consult with its conservation advisory group in the development of the evaluation's request for proposals (RFP), and incorporate the input from its advisory group in a draft RFP;
- file a draft RFP for Commission approval that includes the scope of evaluation query, allowing sufficient time for Commission consideration; and
- consult with its conservation advisory group on the selection of the entity to perform the evaluation.

c. Power Supply

29 The base power costs for the Energy Recovery Mechanism (ERM) proposed in the Settlement are derived from the Company's power cost modeling with two additional out-of-model adjustments. At the time of the filing of the Settlement, the Company estimated base power costs to increase by approximately \$6.3 million. The Settlement proposed that the Company re-run its power cost model on November 1, 2014.³⁹ At hearing, the Company agreed to include in this filing its level of planned hedging for the rate year, and its level of hedged positions included in the update base power costs.⁴⁰ On November 12, 2014, Avista filed updated power costs based on the November 1, 2014, model run.⁴¹ That filing decreased total power supply costs to \$5.6 million.

30 The Settlement provides two additional out-of-model adjustments to base power costs. First, base power costs will include 2015 renewable energy credit (REC) expenses.⁴² In Avista's future filings, REC expenses will be included in base power

³⁹ *Id.* This update will provide more recent: three-month average natural gas and electricity prices, short-term contracts, transmission contract prices. *Id.* Based on this update, the Company will file with the Commission revised appendices to the Settlement Stipulation by November 17, 2014.

⁴⁰ Norwood, TR 233:22.

⁴¹ November 2014 Update, Appendix 2; Settlement, ¶6.

⁴² November 2014 Update, Appendix 2. Ms. Fisher provides Public Counsel's rationale for moving these expenses from the REC Revenue Tracker to the ERM. Fisher, Exh. No. LF-1CT, at 15:1-13.