

Agenda Date: November 10, 2022
Item Number: A1

Docket: UE-220669
Company: Avista Corporation, d/b/a Avista Utilities

Staff: Molly Brewer, Regulatory Analyst

Recommendation

Issue an order in Docket UE-220669 suspending the operation of the tariff sheet for Schedule 88 – Wildfire Expense Balancing Account, filed by Avista on September 2, 2022, and revised on October 20, 2022, and setting the matter for hearing concerning the justness, reasonableness of the tariff charges.

Summary of Filing

On September 2, 2022, Avista Corporation d/b/a Avista Utilities (Avista or Company) filed with the Washington Utilities and Transportation Commission (Commission) its proposed original tariff sheet for Schedule 88 – Wildfire Expense Balancing Account, containing the rates Avista proposes to charge to recover deferred wildfire-related expenses. On October 20, 2022, Avista filed a replacement page which changed the interest rate from the Company’s rate of return to its weighted cost of debt, changed the effective date from November 1 to November 15, and changed aspects of the rate spread. The proposed rates would result in a surcharge of \$5 million¹ or 0.9 percent for electric customers. The average residential customer would see an increase of \$0.89 per month, or approximately 1.0 percent.²

Background

Per Final Order 08/05 of Avista’s 2020 general rate case (Docket UE-200900) the Commission approved a two-way Wildfire Expense Balancing Account that would allow Avista to track and defer for later ratemaking treatment the level of wildfire expense above or below the level of expense embedded in base rates. For that case the Commission authorized an annual expense base of \$3.065 million. Between October 2021 and July 2022 Avista had incurred approximately \$7.3 million in expenses, which was \$4.7 million more than the authorized expense base of approximately \$2.6 million for those 10 months. The proposed Schedule 88 tariff sheet reflects rates to recover from customers over a one-year period the deferral balance of \$4.7 million plus approximately \$82,000 in interest which the Company proposes to accrue at its actual cost of debt.³

¹ The \$5 million surcharge includes an interest charge of \$81,972 and reflects the revenue conversion factor from UE-200900. The actual deferral balance is \$4.7 million.

² This equates to a change in average monthly residential bill from \$85.07 to \$85.96, for a residential customer using 932 kWhs.

³ Avista’s current actual cost of debt is 4.57 percent.

Discussion

Carrying Charge

Avista's proposed Schedule 88 rates include recovery of approximately \$82,000 in interest which Avista proposes to accrue monthly over the rate year on the unamortized portion of the \$4.7 million deferral balance. However, Avista's proposal to accrue interest in this manner appears to conflict with Order 08/05 in UE-200900 which states that interest will not accrue on the unamortized balance.⁴ While Avista even recognized this prohibition in its cover letter,⁵ it has communicated to Commission staff (Staff) its belief that the prohibition was meant only to apply to deferral balances not yet authorized for rate recovery. Avista also expressed its belief that it is standard practice to assess a carrying charge on the unrecovered portion of deferral balances as those balances are being amortized through rates.

While in principle Staff is not opposed to Avista assessing a carrying charge on the unrecovered portion of a deferral balance as it is being amortized through rates, in this specific instance doing so would be inconsistent with the plain language of Order 08/05 of UE-200900 which states that "interest will not accrue on the unamortized balance."⁶ While the \$4.7 million deferral balance in question *will be* amortized over the next year, at the points in time Avista would be assessing interest it would be doing so on the remaining, unamortized portion of the deferral balance. Because the proposed Schedule 88 rates includes interest that the plain language of Order 08/05 prohibits, Staff cannot recommend that the Commission allow the proposed rates to go into effect by operation of law. Accordingly, pending resolution of the carrying charge issue, Staff recommends that the Commission suspend operation of the Schedule 88 tariff sheet.

Given Avista's belief that it was not the Commission's intention to prohibit Avista from accruing interest on the unrecovered (unamortized) portion of deferral balance that the Commission allows into rates, and given Staff's position that authorizing such a carrying charge would be reasonable, Staff wishes to ask the Commission to offer its perspective on what it intended to authorize. In the event that the Commission agrees with Avista's perspective on what the Commission intended to authorize – plain language of the order aside – Staff would then recommend that the Commission simply take no action thereby allowing the proposed Schedule 88 rates to go into effect by operation of law. In the event that the Commission decides to stand by the plain language of Order 08/05, Staff recommends that the Commission ask Avista whether it would be willing to file a replacement page reflecting removal of interest on the unamortized balance. If Avista is unwilling to do so, Staff would continue to recommend that the Commission suspend operation of the Schedule 88 tariff sheets and set the matter for hearing.

Rate Spread

⁴ Docket UE-200900, Order 08/05 at 89-90, ¶ 254.

⁵ Docket UE-220669, Avista Cover Letter at 2 (September 2, 2022).

⁶ Docket UE-200900, Order 08/05 at 90, ¶ 254

In its initial filing, the Company proposed to apply a uniform percentage of base revenue allocation. The Alliance for Western Energy Consumers (AWEC) objected to that approach and proposed an alternative method based on the cost-of-service allocation factors approved in Docket UE-200900. Commission staff, Public Counsel, and AWEC (together Parties) met several times to discuss the alternative cost of service method and deliberate on which method is the most reasonable for this balancing account.

While the Parties did not agree on a specific methodology for calculating rate spread, the Parties did reach agreement on the specific rate spread percentages to use for the purpose of this filing only, which were incorporated into the revised rates filed by Avista on October 20. Staff notes that the question of how wildfire-related expenses should be spread to different customer classes will need to be taken up in Avista's next General Rate Case.

Conclusion

Staff believes that the tariff revision is not consistent with the public interest on the basis that it includes a carrying charge that the Commission disallowed in Order 08/05 of Docket UE-200900. Accordingly, Staff recommends the Commission suspend operation of the Schedule 88 tariff sheet and set the matter for hearing.