Agenda Date: August 30, 2018
Item Numbers: A1 and A2

Dockets: UE-180490 and UG-180491
Company: Avista Corporation

Staff: Deborah Reynolds, Assistant Director Conservation & Energy Planning
Joanna Huang, Regulatory Analyst
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Recommendation

Take no action, thereby allowing the tariff filings in Dockets UE-180490 and UG-180491 to become effective on September 1, 2018, by operation of law.

Background

On May 31, 2018, Avista Corporation d/b/a Avista Utilities (Avista or company) filed revisions to electric Schedule 91 and natural gas Schedule 191 for its demand-side management (DSM) tariffs. These tariff filings update rates for the recovery of conservation program expenditures. The rates established in Schedules 91 and 191 not only recover ongoing program expenditures, but also true up the difference between expenditures and collections prior to July 2018. This filing also covers Avista's budget and forecasted revenue from August 2018 to July 2020.

The review of Avista's conservation programs occurs in an ongoing manner through such avenues as advisory group participation and review of annual business plans, conservation potential assessments, biennial conservation reports, and annual cost recovery tariff filings. The cost recovery tariff filings before the commission now provide us with one of many opportunities to review Avista's conservation expenditures and the appropriateness of those expenditures.

This year, the conservation program review is complicated by the interaction with the company's fuel conversion program. The commission's recent general rate case order for Avista directed the company to begin the process of moving fuel conversion projects from its electric conservation rider to its natural gas conservation rider.[1] Staff is currently working with the Advisory Group on this issue and will continue meeting with the company through the fall of 2018, culminating in a fuel conversion plan submitted to the commission no later than October 26, 2018.

[1] *Wash. Utils. & Transp. Comm'n v. Avista Corporation*, Dockets UE-170485 and UG-170486, cons, Order 07, ¶ 285 (April 26, 2018).

Staff Review

Electric Schedule 91:
This electric filing recovers both electric conservation and electric-to-natural-gas fuel conversion expenditures from 2017 and 2018. Avista requests $25.1 million for these programs. This $25.1 million is a $5.3 million (27 percent) increase from last year's revenue requirement of $19.8 million. Avista indicates that at current rates, at the end of July 2018, the Schedule 91 balance is approximately $13.4 million underfunded. The balance to be cleared consists of the $13.4 million negative balance, an expected expenditure of $34.7 million, and projected $48.1 million of forecasted DSM revenue between August 2018 and July 2020.

Electric Schedule 91 Conservation:
Avista spent $15.73 million on electric conservation programs in 2017, compared to its $9.2 million budget as shown in Table 1. The spending is consistent with the mandate in the Energy Independence Act that requires utilities to "pursue all available conservation that is cost-effective, reliable, and feasible." Table 2 shows that in 2018, the company has spent over 60 percent of the $10.1 million budget for conservation approved by the commission. Staff believes the company is showing good progress, and recommends the commission allow full recovery.

Table 1: 2017 Conservation Budget and Expenditures

Program	Budget ($)[2]	Expenditure ($)[3]
Residential-Conservation	885,000	1,971,553
Low Income-Conservation	436,000	363,386
Nonresidential-Conservation	2,774,000	7,811,753
General Portfolio Expenses-Conservation (including EM&V and non-NEEA regional costs)	3,748,000	4,247,339
NEEA	1,400,000	1,339,420
Conservation Spending	9,243,000	15,733,451

Table 2: 2018 Year-to-date expenditures compared with annual conservation budget

Program	Annual budget ($)	Year-to-date expenditure ($)[4]
Residential-Conservation	1,257,000	432,903
Low Income-Conservation	818,000	172,651
Nonresidential-Conservation	3,343,000	2,862,432
General Portfolio Expenses-Conservation (including EM&V and non-NEEA regional costs)	3,301,000	2,627,575
NEEA	1,400,000	689,000
Conservation Spending	10,119,000	6,784,561

[2] 2017 Annual Conservation Plan, revised December 12, 2016, Dockets UE-152076 and UG-152077, Page 34.
[3] 2016-2017 Biennial Conservation Report, revised July 24, 2018, Dockets UE-152076 and UG-152077, Page 8. Including rounding, total conservation spending equals $15,733,759 for 2017, as provided by Avista in email dated August 23, 2018.
[4] Including rounding, total conservation spending equals and $6,784,457 for 2018, as provided by Avista in email dated August 23, 2018.

Electric Schedule 91 Fuel Conversion:
Avista spent over $6.0 million on electric-to-natural-gas fuel conversion programs in 2017, compared to its $3.6 million budget as shown in Table 3. There is no similar requirement to pursue all fuel conversion. Thus, the company should have requested an affirmative increase in its fuel conversion budget from the commission. The commission's order in Avista's last general rate case finds that the company may continue its natural gas fuel conversion program, but that the funding source should be gradually moved to the natural gas tariff rider.[5] Absent this order, staff would be compelled to recommend disallowance of the $3.6 million overspend. Staff highlights that Avista exceeded its budgeted expenditures for the company's residential fuel conversion program by nearly five times.[6]

Table 3: 2017 Fuel conversion budget and expenditures

Program	Budget ($)[7]	Expenditure ($)[8]
Residential-Fuel Conversion	719,000	3,363,515
Low Income-Fuel Conversion	459,000	517,653
Nonresidential-Fuel Conversion	1,400,000	1,607,732
General Portfolio Expenses (including EM&V and non-NEEA regional costs)[4]	998,000	574,988
Fuel Conversion Spending	3,576,000	6,063,888

As part of the 2018 annual business plan filed by Avista, the company requested a fuel conversion budget of $6.1 million (as shown in Table 4), precipitating the consolidation of the fuel conversion program with the general rate case. Following the general rate case, and the commission's order, Avista provided a revised request for $4.5 million for 2018 residential and multifamily fuel conversions.[9] This amount is reasonable, and consistent with the information provided by the company in its response to staff data requests.[10] Avista's revised request also increased the expected expenditures for low-income fuel conversions to $500,000, for a total budget of $5 million. Staff believes these amounts are appropriate, and urges the commission to accept them.

[5] *Wash. Utils. & Transp. Comm'n v. Avista Corporation*, Dockets UE-170485 and UG-170486, cons, Order 07, ¶ 262 (April 26, 2018).
[6] For the 2016-17 biennium the planned budget for residential fuel conversion was $2,550,040, actual expenditures totaled $6,497,105. That is $3,947,065, or 2.5 times the initial budget for the biennium.
[7] 2017 Annual Conservation Plan, revised December 12, 2016, Dockets UE-152076 and UG-152077, page 34.
[8] 2016-2017 Biennial Conservation Report, revised July 24, 2018, Dockets UE-152076 and UG-152077, page 8. Including rounding, the fuel conversion total expenditure equals $6,064,988 in 2017, as provided by Avista in an email on August 23, 2017.
[9] Letter from Linda Gervais on behalf of Avista, Docket UE-180490 (August 27, 2018).
[10] Email from Amber Gifford, dated Aug. 20, 2018, $3,587,952 for fuel conversion incentives, excluding low-income.

Table 4: 2018 Year-to-date expenditures compared with annual fuel conversion budget

Program	Annual budget ($)	Year-to-date expenditure ($)[11]
Residential-Fuel Conversion	2,471,000	1,281,850
Low Income-Fuel Conversion	129,000	218,908
Nonresidential-Fuel Conversion	1,897,000	811,122
General Portfolio Expenses-Fuel Conversion Allocation (including EM&V and non-NEEA regional costs)	1,656,000	755,756
Fuel Conversion Spending	6,153,000	3,067,636

Rate Impact:

An average residential electric customer using 938 kilowatt-hours will see a monthly bill increase of $0.84, from $87.33 to $88.17 (0.9 percent increase). The following table shows changes for all electric schedules.

Customer Class	Schedule Numbers	Current Rate per kWh	Proposed Rate per kWh	Change in Billed Revenue
Residential	1/2	0.00344	0.00433	1.0 %
General Service	11/12	0.00463	0.00597	1.1 %
Large General Service	21/22	0.00366	0.00460	1.0 %
Extra-large General Service	25	0.00232	0.00297	1.1 %
Pumping Service	31/32	0.00341	0.00433	1.0 %
Street & Area Lighting	41-49	0.01215	0.02017	1.9 %
Total Change				1.0 %

Natural Gas Schedule 191:

Avista requests an additional $1 million, for a total of $4.7 million for natural gas DSM programs, which is over a 25 percent increase from last year's total natural gas DSM program request of $3.7 million. Avista's projection also indicates that at current rates, at the end of July 2018 the Schedule 191 balance will be $0.7 million underfunded. The balance to be cleared consists of the $0.7 million balance, an expected expenditure of $8.3 million, and projected $9 million of forecasted DSM revenue between August 2018 and July 2020.

[11] Including rounding, the fuel conversion total expenditure equals $3,067,756 in 2018, as provided by Avista in an email on August 23, 2017.

Rate Impact:

An average residential natural gas customer using 65 therms will see a monthly bill increase of $0.52, from $50.66 to $51.18 (1.0 percent increase). The following table shows changes for all natural gas schedules.

Customer Class	Schedule Number	Current Rate per therm	Proposed Rate per therm	Change in Billed Revenue
Residential General Service	101	0.02229	0.03028	1.0 %
Large General Service	111/112/116	0.01581	0.01626	0.1 %
Extra-large General Service	121/122/126	0.01647	0.01276	-0.7 %
Interruptible Service	131/132	0.01521	0.01132	-0.9 %
Total Change				0.8 %

On June 11, 2018, staff conducted an on-site audit of Avista's electric and natural gas conservation expenditures for 2017 and January to March 2018. Overall, staff is satisfied with the supporting documents the company provided for each selected line item expense.

Public Comment

Avista initially issued a customer notice in June of 2018. The notice did not include several elements required by WAC 480-90-194 and WAC 480-100-194, including proposed rates and commission contact information. In response to staff's expressed concerns, on July 11, 2018, Avista revised the effective date of its filing from August 1 to September 1, 2018. On July 20, 2018, Avista issued a second customer notice via bill insert.

Staff received five consumer comments, all opposed to the proposed rate increase. Customers cited concerns around fixed incomes and frequent rate increases.

Recommendation

Staff's review indicates that the proposed Schedule 91 and Schedule 191 rates are reasonable and will sufficiently balance the DSM funding accounts from August 2018 to July 2020. Staff recommends that the commission take no action, thereby allowing the tariff filings in Dockets UE-180490 and UG-180491 to become effective on September 1, 2018, by operation of law.