

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, d/b/a
AVISTA UTILITIES,

Respondent.

DOCKETS UE-190334, UG-190335,
and UE-190222 (*Consolidated*)

FINAL ORDER 09

REJECTING TARIFF SHEETS;
APPROVING AND ADOPTING
PARTIAL MULTIPARTY
SETTLEMENT STIPULATION;
RESOLVING CONTESTED ISSUES;
AUTHORIZING AND REQUIRING
COMPLIANCE FILING

***Synopsis:** The Commission approves and adopts a partial multiparty settlement stipulation (Settlement) that proposes to resolve multiple contested issues and is agreed by all parties, with the exception that Public Counsel opposes the portion of the Settlement regarding natural gas revenue requirement. The Settlement establishes new revenue requirements for both Avista's electric and natural gas services, updates Avista's cost of capital, addresses rate spread and rate design for Avista's electric and natural gas services, resolves how the final Energy Recovery Mechanism (ERM) deferred balance will be returned to customers, addresses depreciation and decommissioning and remediation costs for the Colstrip power plant in Rosebud County, Montana, places limitations on capital investments in the Colstrip plant, addresses Colstrip-related transmission planning, grants funding for Colstrip community transition, increases low-income weatherization and LIRAP funding, addresses deferral amortizations for the Fee Free and LEAP programs, and resolves several programmatic and contractual issues. The parties agree to, and the Commission approves in this Order, an overall electric revenue increase of \$28.5 million (5.4 percent billed increase). Apart from Public Counsel, the parties agree to an overall natural gas revenue increase of \$8.0 million (5.2 percent billed increase), which the Commission approves.*

The Commission also resolves a number of fully contested issues related to decoupling, and several non-Colstrip ERM issues including bias in net power costs calculations and authorized gas transport revenues, the ongoing stakeholder workshop process regarding power costs, the carrying charge on the ERM deferral balance, and deferral amounts related to baseline power costs from the remanded Avista 2015 general rate case in consolidated Dockets UE-150204 and UG-150205

The Commission authorizes Avista's decoupling mechanisms to continue until March 31, 2025, subject to the requirement that a qualified third-party evaluate the mechanisms' performance after the third year. In so doing, the Commission rejects Public Counsel's proposal to replace the mechanisms with a lost revenue adjustment mechanism or, in the alternative, a rate class decoupling mechanism.

The Commission determines that certain modifications to Avista's decoupling mechanisms are appropriate and in the public interest. The Commission approves Avista's proposal to remove new customers from the decoupling mechanisms and requires that the third-party evaluator include in its analysis an evaluation of this design component. Additionally, the Commission approves Avista's commitment to achieve an additional 5 percent of its conservation targets for both electric and natural gas, and rejects NWECA's alternative proposal. We also approve moving the effective date of Avista's annual decoupling tariff revisions from November 1 to August 1, finding that this will simultaneously aid Avista in recovering revenues within two years of the deferral period and also aid ratepayers by avoiding multiple rate changes within a short time because the decoupling tariff revisions will now align with Avista's annual demand side management rate filings. Last, we reject the proposal to adopt a 20-year moving average of weather data for Avista's decoupling mechanisms at this juncture but determine that the Commission should engage in a broader conversation with stakeholders about the value of moving towards using more recent periods of weather data. To aid in this discussion and to better understand how weather variability affects Avista's decoupling mechanisms, we require Avista to maintain and present data for 30-, 20-, 15-, and 10-year moving averages, and that this design element and data be analyzed by the third-party evaluator.

In Avista's previous rate case, Dockets UE-170485, UG-170486, UE-171221, and UG-171222 (Consolidated), we found bias in the power cost calculations and instructed Avista and stakeholders to collaborate in a workshop setting to resolve these concerns. We decline Public Counsel's request to reiterate our previous finding. Instead, we continue to support and encourage the workshop process.

We approve Avista's uncontested calculation of the carrying charge for its ERM. Additionally, we find that the remand deferral amounts related to baseline power costs are not within the scope of this proceeding, but are resolved in Dockets UE-150204 and UG-150205 (Consolidated) by Order 11.

In Order 11 of the remand proceeding, we indicated that we would resolve how refunds from that remanded case must be distributed to customers. Here, we determine that Avista must return \$4,919,000 to electric customers and \$3,571,000 to natural gas customers over the course of one year to address the public interest need created by the circumstances of the ongoing COVID-19 pandemic and through a separate tariff to allow for tracking and transparency.

Lastly, due to the 2018 Colstrip outage, Avista incurred an additional \$3,274,000 in replacement power costs and failed to prove that these costs were prudently incurred. The Commission determined in Order 05 of Docket UE-190882 that this amount, approximately \$3.3 million, cannot be recovered from Avista's Washington ratepayers. According to the Settlement's terms, the total ERM deferral balance is calculated by incorporating this approximately \$3.3 million with the estimated balance of approximately \$35.8 million and is returned to ratepayers over two years. The Settlement does not prescribe an apportionment of the ERM deferral balance over these two years. Under the current circumstances facing Avista ratepayers resulting from the COVID-19 pandemic, we determine that Avista must return a greater portion of the ERM deferral balance in the first year to achieve a net zero impact, in concert with the other rate decisions we make in this Order, to Avista's electric revenue requirement beginning April 1, 2020.

The Commission determines that approval of the Settlement, without condition, in concert with the other decisions we make in this Order, establish rates, terms, and conditions for Avista's electric and natural gas services that are fair, just, reasonable, and sufficient. The Commission, therefore, rejects the tariff sheets filed by Avista on March 31, 2019, and April 30, 2019, including the Company's proposed multi-year rate plan. The Commission, considering the full record, authorizes and requires Avista to file tariff sheets that comply with the terms of the Settlement and this Order.

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BACKGROUND

1 This case concerns the 2019 electric and natural gas general rate case filing and Energy Recovery Mechanism (ERM) adjustment filing of Avista Corporation, d/b/a Avista Utilities (Avista or Company).

A. PROCEDURAL HISTORY

2 On March 29, 2019, Avista filed with the Washington Utilities and Transportation Commission (Commission) tariff revisions designed to rebate to customers approximately \$34.4 million through Avista's ERM in Docket UE-190222. This filing was made pursuant to the Multiparty Settlement Stipulation in Docket UE-120436, subsection 10, related to the ERM rate adjustment trigger, and in accordance with Docket UE-011595, which requires Avista to file annual testimony and supporting work papers on or before April 1 of each year.

3 On April 30, 2019, Avista filed a general rate case (GRC) with the Commission containing revisions to its currently effective Tariff WN U-28, Electric Service, in Docket UE-190334 and revisions to its currently effective Tariff WN U-29, Natural Gas, in Docket UG-190335 (GRC Dockets). Avista's filing proposed a two-year rate plan. For the first year of the rate plan, Avista proposed an increase in electric revenues of \$45.8 million, or 8.8 percent on a billed revenue basis, and an increase in natural gas revenues of \$12.9 million, or 10.1 percent on a billed revenue basis. For the second year of the rate plan, Avista proposed an increase in electric revenues of \$18.9 million, or 3.3 percent on a billed revenue basis, and an increase in natural gas revenues of \$6.5 million, or 4.6 percent on a billed revenue basis.

4 On May 8, 2019, the Commission issued Order 01, Complaint and Order Suspending Tariff Revisions and Order of Consolidation (Order 01), consolidating the electric and natural gas rate case filings (Dockets UE-190334 and UG-190335), suspending the tariffs, and setting the matters for adjudication. On May 9, 2019, the Commission issued Order 02, Protective Order, in Dockets UE-190334 and UG-190335.

5 The Commission convened a prehearing conference at Olympia, Washington on May 24, 2019, before Administrative Law Judge Andrew J. O'Connell.

6 On May 30, 2019, the Commission issued Order 03, Order of Consolidation, Suspension, Notice Extending Time to Intervene, Prehearing Conference Order, Notice of Hearing (Order 03), consolidating Avista's ERM in Docket UE-190222 with the GRC Dockets.

By Order 03, the Commission adopted an agreed procedural schedule presented by the parties at the Prehearing Conference and set a hearing for the consolidated dockets beginning on December 11, 2019. Order 03 also granted intervention in all proceedings to the Alliance of Western Energy Consumers (AWEC), The Energy Project, Sierra Club, and NW Energy Coalition (NVEC) (collectively with Avista, Commission Staff, and Public Counsel, “the Parties”). That same day, the Commission modified Order 02 to incorporate the consolidation of Docket UE-190222.

- 7 On September 26, 2019, Staff filed a motion requesting to suspend the filings in Puget Sound Energy’s (PSE) 2019 Power Cost Adjustment (PCA) in Docket UE-190324, and Pacific Power & Light Company’s (Pacific Power) 2019 Power Cost Adjustment Mechanism (PCAM) in Docket UE-190458. Staff’s motion also requested that the Commission sever Avista’s ERM filing, Docket UE-190222, from the GRC Dockets and consolidate it with Dockets UE-190324 and UE-190458. Staff also moved to suspend the October 3, 2019, testimony filing deadline in Docket UE-190222.
- 8 On October 2, 2019, the Commission granted the portion of Staff’s motion requesting suspension of the October 3, 2019, testimony filing deadline in Docket UE-190222.¹
- 9 On October 24, 2019, the Commission issued Order 06 in these dockets, Denying Motion to Sever and Consolidate, Initiating Investigation, Modifying Procedural Schedule, Setting Procedural Schedule (Order 06). By Order 06, the Commission denied the remaining portions of Staff’s motion, but initiated an investigation in Docket UE-190882 into the limited issue of the prudence of decision making leading up to the 2018 Colstrip outage and the costs incurred to acquire replacement power.² The Commission exercised its authority and discretion to move the portions of Dockets UE-190222, UE-190324, and UE-190458 related to that limited issue to Docket UE-190882.³ The determination reached in Docket UE-190882 is binding in Docket UE-190222.⁴ The Commission also

¹ The Commission issued “Order 04 Suspending Filing Deadline in Docket UE-190222; Requiring Non-Company Parties to File Contested Issues Lists in Docket UE-190222.” The caption of the order was later corrected to entitle it as “Order 05.” *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-190334, UG-190335, UE-190222 (*Consolidated*), Order 05 (Oct. 23, 2019).

² *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-190334, UG-190335, UE-190222 (*Consolidated*), Order 06, 7, ¶ 23 (Oct. 23, 2019) [hereinafter Order 06].

³ *Id.* at 7, ¶ 25.

⁴ *Id.* at 8, ¶ 27.

established a new procedural schedule for Dockets UE-190334, UG-190335, and UE-190222 (*Consolidated*), which made accommodations for filing testimony that was suspended by the Commission on October 2, 2019, set a new deadline of December 13, 2019, for rebuttal and cross-answer testimony, and scheduled a new evidentiary hearing date of January 8, 2020, to hear the remaining issues in Docket UE-190222.⁵

- 10 The Commission held a public comment hearing in Spokane, Washington, on October 28, 2019. Over the course of the GRC proceeding, including the public comment hearing, the Commission and Public Counsel received 146 total public comments from Washington customers regarding the proposed rate increases; 141 comments opposed the increases, no comments supported the increases, and five comments took no position.⁶ Most comments addressed customer concerns about their ability to pay bills due to low-income and fixed-income issues, and many expressed a desire for less frequent rate increases. Other customers were concerned about energy efficiency, the costs of continuing coal-generated electricity, Avista's recent stock valuation, and the failed merger with HydroOne.
- 11 On October 29, 2019, the Commission issued Order 07, Supplemental Protective Order (Order 07). The Commission accepted a proposal by the Parties to these consolidated dockets and Dockets UE-190324 and UE-190458 to issue a two-tiered protective order with multiple confidentiality designations – a traditional “confidential information” designation and a special “company-confidential information” designation. Order 07 implemented these protections and, in conjunction with the protective order in Docket UE-190882, afforded the Parties in these consolidated dockets the ability to gather and use information across these dockets.⁷
- 12 On November 7, 2019, Avista filed a motion to modify the procedural schedule in these consolidated dockets to accommodate a partial settlement reached by the Parties. Avista represented that the settlement in principle included all matters in dispute except for

⁵ *Id.* at 6-7, ¶¶ 21-22, Appendix A.

⁶ Public Comments, Exh. BR-2.

⁷ *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-190334, UG-190335, UE-190222 (*Consolidated*), Order 07, 1-2, ¶ 4 (Oct. 29, 2019). *See also in re the Investigation of Avista Corp. d/b/a Avista Utils., Puget Sound Energy, and Pacific Power & Light Co. Regarding Prudency of Outage and Replacement Power Costs*, Docket UE-190882, Order 02, 5-6, ¶¶ 15-16 (Oct. 28, 2019).

decoupling and the remaining issues related to Avista's ERM that were not moved to Docket UE-190882.

- 13 On November 8, 2019, the Commission issued Order 08, Granting Motion to Modify Procedural Schedule, Notice of Evidentiary and Settlement Hearing (set for Wednesday, December 11, 2019, at 9:30 a.m.) (Order 08). By Order 08, the Commission adopted a November 21, 2019, deadline for the Parties to file the partial settlement, and a November 26, 2019, deadline to file testimony in support of the partial settlement.
- 14 On November 21, 2019, the Parties filed a partial multiparty settlement agreement (Settlement). Public Counsel joins the settlement, in part, but opposes the portion related to the Company's natural gas revenue requirement.
- 15 On November 21, 2019, Avista, Staff, and NWECA filed with the Commission rebuttal and cross-answering testimony, respectively, to address the remaining contested issues in the GRC Dockets. Public Counsel submitted a letter in the docket indicating that it did not intend to file cross-answering testimony.
- 16 On November 25, 2019, the Commission issued a Notice Revising Procedural Schedule and Notice of Hearing (beginning January 21, 2020, at 10 a.m.). The November 25, 2019, Notice cancelled the December 11, 2019, and January 8, 2020, hearing dates and established agreed revisions to the procedural schedule, which set a hearing on January 21, 2020, to address all issues in these consolidated dockets, a deadline of December 9, 2019, for filing testimony and exhibits opposing the Settlement, and a deadline of December 23, 2019, for filing testimony and exhibits responding to the testimony opposing the Settlement.
- 17 On November 26, 2019, the Parties filed with the Commission Joint Testimony in Support of the Partial Multiparty Settlement Stipulation (Settlement).⁸
- 18 On December 9, 2019, Public Counsel filed testimony and exhibits opposing the portion of the Settlement related to the natural gas revenue requirement.

⁸ The parties' testimony supporting the Settlement maintained Public Counsel's position opposing the portion of the Settlement regarding Avista's natural gas revenue requirement. *See Ehrbar et al.*, Exh. JT-1 at 1:21-27.

- 19 On December 13, 2019, Avista filed rebuttal testimony and exhibits in Docket UE-190222 regarding ERM issues not designated for resolution in Docket UE-190882. No party offered cross-answering testimony on these issues.
- 20 On December 20, 2019, Avista filed rebuttal testimony responding to Public Counsel's opposition to the Settlement's natural gas revenue requirement.
- 21 David J. Meyer, Vice President and Chief Counsel for Regulatory and Governmental Affairs, Spokane, Washington, represents Avista. Jennifer Cameron-Rulkowski, Nash I. Callaghan, Joe M. Dallas, and Daniel J. Teimouri, Assistant Attorneys General, Olympia, Washington, represent Commission staff (Staff).⁹ Lisa W. Gafken and Nina Suetake, Assistant Attorneys General, Seattle, Washington, represent the Public Counsel Unit of the Attorney General's Office (Public Counsel). Tyler Pepple and Riley Peck, Davison Van Cleve, P.C., Portland, Oregon, represent AWEC. Simon J. ffitch, Attorney at Law, Bainbridge Island, Washington, represents The Energy Project. Jessica Yarnall Loarie and Gloria D. Smith, Attorneys at Law, Oakland, California, represent Sierra Club. Irion Sanger and Marie Barlow, Sanger Thompson P.C., Portland, Oregon, represent NVEC.

B. ISSUES

- 22 The Commission is presented with a Settlement that proposes to resolve most issues in dispute, as follows:
- Electric revenue requirement;
 - Cost of capital, including capital structure, cost of debt, return on equity, and overall rate of return;
 - Electric and natural gas rate spread and rate design;
 - ERM refund;
 - Colstrip Depreciation and Regulatory Asset, including accelerating depreciation of production plant to 2025, depreciation of transmission assets, decommission and remediation costs for Colstrip Units 3 and 4; recovery of Colstrip production plant and transmission depreciation expense and Colstrip decommissioning and

⁹ In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

remediation expense, and account balances and depreciation/amortization expense;

- Low-income weatherization funding;
- LIRAP funding;
- Disconnection reduction plan;
- On-bill repayment/financing program;
- Deferral amortizations;
- Renewables to benefit low-income;
- Transportation electrification;
- Natural gas special contracts;
- Inland Empire Paper (IEP) special contract;
- Colstrip capital investment limitations;
- Colstrip transmission planning; and
- Colstrip community transition fund.

As discussed above, Avista's natural gas revenue requirement is addressed in the Settlement but contested by Public Counsel.

- 23 The Commission also resolves several other contested matters, including decoupling and several distinct issues related to Avista's ERM, including: bias in net power costs calculations and authorized gas transport revenues; the carrying charge on the ERM deferral balance; and, deferral amounts related to baseline power costs from the remanded Avista 2015 general rate case, Dockets UE-150204 and UG-150205 (*Consolidated*) (2015 Avista Remand Dockets).
- 24 Finally, the Commission incorporates into this Order its decisions regarding: (1) the mechanism for returning the amount due to customers determined by Order 11 in the 2015 Avista Remand Dockets, and (2) how our decision in Order 05 of Docket UE-190882 affects the ERM deferral balance that must be returned to customers.

DISCUSSION AND DECISION

- 25 The Commission's statutory duty is to establish rates, terms, and conditions for electric and natural gas services that are "fair, just, reasonable and sufficient." In doing so, the Commission must balance the needs of the public to have safe, reliable, and appropriately priced service with the financial ability of the utility to provide that service. The rates thus must be fair to both customers and the utility; just, in that the rates are based solely

on the record in this case following the principles of due process of law; reasonable, in light of the range of potential outcomes presented in the record; and sufficient, to meet the financial needs of the utility to cover its expenses and attract capital on reasonable terms.

A. PARTIAL MULTIPARTY SETTLEMENT STIPULATION¹⁰

26 The Commission approves settlements “when doing so is lawful, the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the commission.”¹¹ The Commission may approve the Settlement, with or without conditions, or reject it.

27 The Parties reached agreement on most issues presented in these dockets. We address the agreed portions and contested portion of the Settlement, below.

1. UNCONTESTED ISSUES

28 Although uncontested, our statutory obligation to regulate in the public interest requires us to evaluate whether the Parties’ agreed resolution of uncontested issues complies with applicable legal requirements, is supported by an appropriate record, and is consistent with the public interest based on all of the information available to the Commission. Our review of the Settlement’s proposed resolution of the uncontested issues finds that it is lawful, supported by an appropriate record, and is in the public interest.

i. Electric Revenue Requirement

29 The Parties agree that Avista’s electric revenue requirement should be increased effective April 1, 2020, by \$28.5 million, or a 5.7 percent base rate increase, prior to any refund of the ERM deferral balance.¹² The electric revenue requirement is a “black box” agreement. This means that the Parties agree that the overall rate increase amount is fair, just, reasonable, and sufficient, but do not agree to any specific adjustments, aside from

¹⁰ The Settlement is included as Attachment A to this Order. Attachment A is incorporated into, and made part of, this Order by this reference. In this Order, we briefly summarize the Settlement’s proposed commitments. To the extent any arguable inconsistency exists between our summary and the terms of the Settlement, the terms of the Settlement (Attachment A) control.

¹¹ WAC 480-07-750(1).

¹² Settlement at 4, ¶¶ 9, 9(a).

those specifically presented in the Settlement, necessary to reach the agreed electric revenue requirement.

Commission Determination

- 30 We find that the electric revenue requirement proposed by the Parties is a fair and reasonable outcome, and we are satisfied that the Company's costs justify the \$28.5 million rate increase. In its initial filing, Avista proposed an increase to its electric revenue requirement of \$45.8 million in the first year of a two-year rate plan. The non-company parties originally opposed Avista's initial filing and provided responsive testimony and evidence supporting electric revenue requirement increases of \$17.6 million (Staff), \$11.0 million (Public Counsel), and a decrease of \$2.7 million (AWEC). These responsive recommendations were each calculated based on the inclusion or rejection of various proposed adjustments and widely varying cost of capital calculations.
- 31 Because the Settlement proposes a "black box" resolution of the electric revenue requirement, there is no indication by the Parties as to which plant additions are included in or excluded from rate base and the resulting revenue requirement calculation. The Parties will retain the right in future cases, therefore, to contest the recovery of any investment for which Avista sought recovery in this case. By approving the proposed electric revenue requirement, the rate base approved in Avista's prior rate case remains undisturbed and we make no determination relating to prudence or accepting any party's proposed adjustments.
- 32 We have considered the full record before us in evaluating whether the proposed increase in electric revenue requirement is compliant with applicable legal requirements, supported by an appropriate record, and consistent with the public interest based on all the information available to the Commission. We find that it is. The agreed increase is a fair compromise of the positions of the Parties and the withdrawal of the two-year rate plan retains the Commission's flexibility to address rates prior to the end of that two-year period. We, therefore, determine that the proposed increase in electric revenue requirement of \$28.5 million is fair, just, reasonable, and sufficient in light of all information available to the Commission.
- 33 While the Settlement does not include, and we do not approve, a multi-year rate plan as initially proposed by Avista in this proceeding, we encourage all parties in this proceeding and future proceedings to carefully review the Commission's recently issued

Policy Statement on changes to the used and useful statute.¹³ Although our Policy Statement focuses primarily on the process for reviewing utility property by or during the rate effective period, the Commission strongly urges all parties to consider multi-year rate plans in future proceedings.

ii. Cost of Capital

34 The Parties agree to a capital structure for Avista that includes 48.5 percent equity and 51.5 percent debt, an authorized return on equity (ROE) of 9.40 percent, and an authorized cost of debt of 5.15 percent. Application of these factors results in an overall authorized rate of return (ROR) of 7.21 percent, as reflected in Table 1, below.¹⁴

Table 1. Proposed Cost of Capital

	Capital Structure	Cost	Weighted Cost
Total Debt	51.5%	5.15%	2.65%
Equity	48.5%	9.40%	4.56%
Overall Rate of Return	100.0%		7.21%

35 Avista's currently approved cost of capital is shown in Table 2, below.

¹³ *In re Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful After Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful After Rate Effective Date (Jan. 31, 2020).

¹⁴ Settlement at 4, ¶ 10.

Table 2. Currently Authorized Cost of Capital

	Capital Structure	Cost	Weighted Cost
Long-Term Debt	48.6%	5.76%	2.80%
Short-Term Debt	2.9%	3.26%	0.09%
Equity	48.5%	9.50%	4.61%
Overall Rate of Return	100.0%		7.50%

Commission Determination

- 36 We find that the cost of capital proposed by the Parties is a fair and reasonable outcome that is consistent with recent cases before the Commission involving other Washington utilities.
- 37 Cost of capital is an important factor for the calculation of revenue requirement. All elements of cost of capital (as seen in Tables 1 and 2, above) have an impact on the ultimate calculation of a company's revenue requirement. For example, increases or decreases to ROR and ROE have a corresponding effect on a company's revenue requirement. Holding all other adjustments constant, variations in these factors can result in a difference of millions of dollars in revenue requirement.
- 38 In this case, Avista initially proposed an increase to its ROR, from 7.50 percent to 7.52 percent, and to its ROE, from 9.5 percent to 9.9 percent. Other parties filed responsive testimony and exhibits supporting ROR calculations ranging from 6.90 percent (AWEC) to 7.15 percent (Staff), and ROE calculations ranging from 8.8 percent (AWEC) to 9.3 percent (Staff). In the Settlement, the Parties agree to an overall ROR of 7.21 percent, which is: (1) consistent with rates of return the Commission has approved for other Washington utilities,¹⁵ (2) 31 basis points lower than the Company's original request, and (3) 31 basis points higher than the ROR proposed by AWEC. We conclude that this is a fair and reasonable outcome, and that it contributes to

¹⁵ See, e.g., *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corp.*, Docket UG-190210, Order 05 (Feb. 3, 2020) (ROR of 7.31 percent for Cascade); and *Wash. Utils. & Transp. Comm'n v. Northwest Natural Gas d/b/a NW Natural*, Docket UG-181053, Order 06 (Oct. 21, 2019) (ROR of 7.161 for NW Natural Gas).

calculating a revenue requirement that is fair, just, reasonable, and sufficient. Although this is a “black box” agreement, we appreciate that the Settlement specifies the agreed-upon capital structure, ROE, and cost of debt. Establishing these elements, even by agreement, clarifies how the ROR was calculated.

iii. Rate Spread and Rate Design

39 The Parties agree to Avista’s initially proposed rate design with a single modification: Schedule 25 will use the proposal described by AWEC witness Kaufman in Exhibit LDK-1T, which will apply the revenue increase for Schedule 25 to fixed and variable demand charges, and also to the 60kV – 115kV and the 115kV or higher primary voltage discounts.¹⁶ With respect to rate spread, the Parties agree to allocate a larger portion of the electric revenue requirement increase to residential customers, but to spread equally any natural gas revenue requirement increase across all customer classes.

40 The electric and natural gas rate spread proposed by the Settlement is presented in Tables 3 and 4, below.

Table 3. Proposed Electric Rate Spread

Rate Schedule	Increase in Base Rates	Increase in Base Rates	Increase in Billing Rates
Residential Schedules 1/2	\$ 14,579	6.7%	6.5%
General Service Schedules 11/12	\$ 2,131	2.8%	2.6%
Large General Service Schedules 21/22	\$ 7,135	5.7%	5.2%
Extra Large General Service Schedule 25	\$ 3,789	5.7%	5.5%
Pumping Service Schedules 31/32	\$ 684	5.7%	5.2%
Street & Area Lights Schedules 41-48	\$ 182	2.8%	2.7%
Overall	\$ 28,500	5.7%	5.4%

¹⁶ Settlement at 4-5, ¶ 11.

Table 4. Proposed Natural Gas Rate Spread

Rate Schedule	Increase in Base Rates	Increase in Base Rates	Increase in Billing Rates
General Service Schedules 101/102	\$ 6,187	8.7%	5.5%
Large General Service Schedules 111/112/116	\$ 1,515	8.7%	4.3%
Interrupt. Sales Service Schedules 131/132	\$ 17	8.7%	3.9%
Transportation Service Schedule 146	\$ 281	8.7%	8.6%
Special Contracts Schedule 148	\$ -	0.0%	0.0%
Overall	\$ 8,000	8.5%	5.2%

Commission Determination

41 We find that the rate spread and rate design proposed by the Parties are fair, just, and reasonable. Determining an appropriate rate spread requires consideration of several factors and not simply the result of pure arithmetic. We consider the results of a valid cost of service study with the goal of ensuring that each customer class bears the burden of the costs it imposes on the utility. The Commission also considers, as appropriate, such factors as fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability.

42 In this case, we find the Parties’ agreement is fair and balanced. We agree with the joint testimony in support of the Settlement submitted on behalf of Public Counsel that “[r]ate spread, as a general concept, is independent of revenue requirement.”¹⁷ Moreover, we agree with the Parties that it is fair and equitable for residential customers to incur a slightly larger share of the electric revenue requirement increase as it brings the electric residential class closer to parity, and for the natural gas revenue requirement increase to be spread to all classes based on an equal percentage increase on margin, as provided in the Settlement, maintaining the status quo during the pendency of the Commission’s Cost of Service Rulemaking.¹⁸ The balanced approach on both the electric and natural gas rate

¹⁷ Dahl, Exh. JT-1T at 46:5-7.

¹⁸ On July 19, 2018, the Commission filed with the Code Reviser a Preproposal Statement of Inquiry (CR-101) in Dockets UE-170002 and UG-170003 to examine the extent to which cost of service studies should be defined by rule, and address policy issues regarding the methods and

spread and rate design is consistent with principles of both fairness and gradualism. Accordingly, we determine that the Settlement's proposal for rate spread and rate design is in the public interest.

iv. Method for Returning ERM Deferral Balance

43 Avista's ERM, Docket UE-190222, is consolidated with the GRC Dockets. We determine the amount of the ERM deferral balance that must be returned to customers in Section C.2. of this Order. Here, for the purposes of settlement, the Parties agree that the ERM deferral balance — except for \$0.5 million, which will be applied to the accelerated Colstrip production plant depreciation expense of \$2.6 million — will be returned to customers through Tariff Schedule 93 over two years beginning April 1, 2020.¹⁹ The Parties also agree to allocate the refund amounts across rate schedules as proposed by Avista witness Ehrbar in Exhibit PDE-1T (ERM).²⁰

Commission Determination

44 We find that the method proposed by the Parties for returning the ERM deferral balance is fair and reasonable. Returning the ERM deferral balance to customers through a separate tariff schedule affords transparency and effective tracking to ensure that customers receive the full benefit of the return of the deferral balance. In addition, applying \$0.5 million of the ERM deferral balance, along with \$1.5 million in other benefits discussed later, to offset the accelerated Colstrip production plant depreciation expense of \$2.6 million is reasonable because it will lessen intergenerational inequity. Accordingly, we determine that the Settlement's proposal for returning the ERM deferral balance to customers is in the public interest.

practices used to calculate and present cost of service studies. WAC 480-07-510(6) currently requires cost studies in general rate proceedings, but does not specify how such cost studies must be prepared or presented. The Commission's inquiry in Dockets UE-170002 and UG-170003 will evaluate the extent to which cost studies can be standardized, the core principles and methods cost studies should utilize, how to streamline the implementation of rates based on a cost study, and the information necessary to ensure an accurate and uniform understanding of the principles upon which a cost study should be based.

¹⁹ Settlement at 5-6, ¶ 12.

²⁰ See Ehrbar, Exh. PDE-1T (ERM) at 6:6-9.

v. Colstrip Units 3 and 4

- 45 On April 3, 2019, the Commission issued Order 04 (Modified), Approving Settlement Stipulation Subject to Condition (Order 04), in Dockets UE-180167 and UG-180168 (*Consolidated*).²¹ In that order, we rejected a portion of a full settlement presented by the parties related to the use of unprotected excess deferred income tax (EDIT) benefits and the remaining undepreciated balance for Colstrip Units 3 and 4. We determined in that order that it was inappropriate to consider the settlement's proposal because we could not, at that time, measure the impact it would have on rates in the context of all other rate adjustments. We decided, therefore, that the proposal should be considered as part of Avista's next general rate case.²²
- 46 Elements rejected as part of the settlement in Dockets UE-180167 and UG-180168 (*Consolidated*) have been included in this Settlement. We address them, and all other portions of the Settlement regarding Colstrip Units 3 and 4, below.²³

a. Depreciation and Regulatory Asset

- 47 The Parties agree to accelerate the depreciation schedule for Colstrip Units 3 and 4 production plant from 2034 and 2036, respectively, to 2025 for both units. The balance for production plant, as of March 31, 2020, is approximately \$50.0 million, but does not include amounts for any plant additions to Colstrip after December 31, 2017, including SmartBurn. Consistent with RCW 19.405.030, the Settlement does not accelerate depreciation schedules for transmission assets and production plant decommissioning and remediation (D&R) costs to 2025. In the Settlement, D&R costs include the cost of removal and asset retirement obligations.
- 48 The Parties also agree to depreciate Colstrip transmission assets, including transmission D&R, consistent with the depreciation rates for non-Colstrip transmission assets approved by Order 04. As of March 31, 2020, the balance of undepreciated transmission

²¹ *In re Petition of Avista Corp. d/b/a Avista Utils.*, Dockets UE-180167 and UG-180168 (*Consolidated*), Order 04 (Modified), Approving Settlement Stipulation Subject to Condition (Apr. 3, 2019).

²² Settlement at 6, ¶ 13(a).

²³ *Id.*

plant is approximately \$11.5 million, and projected transmission D&R costs are approximately \$4.8 million.²⁴

- 49 The Parties agree to place D&R costs for Colstrip Units 3 and 4 production plant into a regulatory asset (Colstrip D&R Regulatory Asset). Production plant D&R costs are approximately \$33.0 million as of March 31, 2020. Avista will track D&R expenditures and true-up D&R cost projections to ensure that Avista recovers only the actual D&R costs the Commission determines were prudently incurred. The Settlement provides that Avista will file updated D&R projections in each of its GRCs until the end of the remediation process.²⁵ The Settlement also provides that Avista will update the annual amounts for Colstrip depreciation, amortization of the regulatory asset, and the amortization of Colstrip protected EDIT in each of its GRC filings.²⁶
- 50 The Settlement also addresses recovery of the items explained above.²⁷ Depreciation expense is currently recovered from customers at the annual rate of approximately \$4.5 million. For production plant depreciation expense, the Parties propose to apply the balance of unprotected EDIT benefits, approximately \$11.7 million, against the balance of net production plant in service, \$50.0 million. The net increase to annual depreciation expense is approximately \$2.6 million. This expense, less net amortization of protected EDIT of \$0.6 million, will be greatly offset for the rate year by \$0.5 million from the ERM deferral balance and \$0.9 million residual balance related to the amortization of 2018 temporary tax credits. Colstrip transmission depreciation expense and transmission D&R will continue to be recovered in rates at approximately \$0.5 million annually. Last, the Colstrip D&R Regulatory Asset will be amortized over 33 years and nine months consistent with the amortization schedule of protected EDIT.

b. Colstrip Capital Investment Limitations

- 51 As part of the Settlement, Avista agrees not to support capital expenditures beyond routine capital maintenance costs at Colstrip that will extend the plant's operational life beyond December 31, 2025. The Parties agree that all Colstrip capital expenditures after December 31, 2017, will be subject to a prudence determination in future rate

²⁴ Settlement at 6-7, ¶ 13(b).

²⁵ Settlement at 7, ¶ 13(c).

²⁶ Settlement at 10, ¶ 13(e).

²⁷ Settlement at 8-9, ¶ 13(d)(1)-(3).

proceedings and Avista will provide detailed information, including a complete record of the decision making and a full accounting of the costs related to those project expenditures on an annual basis.²⁸

c. Colstrip Transmission Planning

52 The Parties agree that Avista will work with other co-owners of Colstrip transmission to resolve questions surrounding the use of Colstrip transmission by future generations after Colstrip Units 1-4 retire. The Parties agree that at least one year prior to closure of Colstrip Units 3 or 4, Avista will develop a transition plan for its Colstrip transmission assets and file it with the Commission. The Settlement also commits Avista to hold at least one workshop with Staff and stakeholders to determine the transition plan's impacts on Washington ratepayers.²⁹

d. Colstrip Community Transition Fund

53 The Parties commit to ensuring that residents of Rosebud County, Montana, as well as local governments, labor organizations, and tribal members will receive community transition funding. The Settlement provides \$3.0 million in a Colstrip Community Transition fund to be funded 50 percent by shareholders and 50 percent by ratepayers. This money will fund grants for local organizations that will help the community transition away from economic activity related to coal-fired generation, such as education, worker re-training, low income energy efficiency or renewable energy programs. The Parties agree that the \$3.0 million in this fund places no limit on the amount Avista may ultimately contribute toward community transition.³⁰

Commission Determination

54 We find that the Settlement's proposals related to Colstrip Units 3 and 4 are fair, just, and reasonable. We are familiar with many of these elements from the settlement previously proposed and considered in Order 04. We can now review how many of the elements previously proposed will affect rates. Additionally, the commitments ensure compliance with Washington law and policy.³¹ The Parties' proposal to use the \$11.7 million in unprotected EDIT benefits towards the \$50.0 million net production plant in service

²⁸ Settlement at 12-13, ¶ 14(j)

²⁹ Settlement at 13, ¶ 14(k).

³⁰ Settlement at 13-14, ¶ 14(l)

³¹ See Chapter 19.405 RCW.

balance is appropriate to reduce rate pressure on customers from the increased costs of accelerating the Colstrip production plant depreciation schedule. Additionally, we agree with Staff that the Settlement “represents a deliberate effort to align the plan for the recovery of Colstrip costs with the requirements of CETA,” and that the Settlement seizes the opportunity to find “a solution for the remaining production plant balance for Colstrip,” while mitigating intergenerational inequity issues.³² We find, therefore, that the Settlement’s proposals are appropriate and consistent with state law.

55 We are also satisfied that the Settlement fairly offsets expenses with benefits without foreclosing further action in the future, *e.g.*, the potential for future contributions to community transition funding. Accordingly, we determine that the Settlement’s proposals for the above issues related to Colstrip Units 3 and 4 are consistent with state law, supported by the record, in the public interest, and result in rates that are fair, just, reasonable, and sufficient.

vi. Other Provisions

56 The Settlement proposes agreements by the Parties on several other issues, some of which have no financial impacts but promote programmatic changes. The Parties agree to provisions concerning an increase in low-income weatherization and LIRAP funding; a disconnection reduction plan; an on-bill repayment or financing program; deferral amortizations; low-income customers and how low-income customers can share in the benefits of renewables; transportation electrification; natural gas special contracts; and the Inland Empire Paper Special Contract. We address each below.

a. Low-Income Weatherization and LIRAP Funding

57 The Parties agree to increase low-income weatherization funding by \$650,000, to a total of \$3.0 million, effective August 1, 2020. The Parties also agree to increase the community action agencies’ administrative rate to 30 percent, with the direct agency project coordination rate representing 20 percent and the agency indirect rate representing 10 percent of that increase. Additionally, the Parties agree that the Energy Efficiency Advisory Group (EEAG) (members include Staff, Public Counsel, NWEA, and The Energy Project) should review these percentages periodically. The Parties agree to increase the total allowance for Health, Safety & Repair from 15 percent to 30 percent of

³² McGuire, Exh. JT-1 at 33:10-13, 35:14-17, 36:5-6.

a project's total expense.³³ Last, the Parties agree to increase LIRAP funding according to the formula used in the current five-year plan, which allows for an increase of the greater of 7 percent or twice the residential base rate increase.³⁴

b. Disconnection Reduction Plan

58 The Parties agree that Avista will gather data on disconnections, as provided in testimony by The Energy Project's witness Collins. Avista agrees to collect and report the disconnection data annually to the Commission and Public Counsel. Avista also agrees to develop a Disconnection Reduction Plan that will limit disconnections prospectively. This plan will be developed with the Energy Assistance Advisory Group, which will deliver a recommendation to the Commission within one year of the date of this Order.³⁵

c. On-Bill Repayment or Financing Program

59 The Parties have agreed to a plan for the development of an on-bill repayment or financing program for residential and small business customers. The Parties agree that Avista will work with the EEAG to develop this program with the purpose of filing the program with the Commission for implementation by September 30, 2021. If Avista and the EEAG are unable to agree on a program design, Avista will file a status report with the Commission by September 30, 2021. The Parties agree that the recovery of development costs for any on-bill repayment or financing program will be recoverable from customers, but the method of recovery will be determined in a future general rate case.³⁶

d. Deferral Amortizations

60 The Parties agree to the electric and natural gas Fee Free deferral amortization and the natural gas LEAP deferral amortization as filed by Avista witness Andrews in Exhibit EMA-1T.³⁷ The Fee Free deferral will be amortized over two years beginning April 1, 2020, and will result in an annual amortization expense of \$775,000 for electric and \$497,000 for natural gas. The natural gas LEAP deferral will be amortized over five years

³³ Settlement at 10, ¶ 14(a).

³⁴ Settlement at 10, ¶ 14(b).

³⁵ Settlement at 10-11, ¶ 14(c).

³⁶ Settlement at 11, ¶ 14(d).

³⁷ Settlement at 11, ¶ 14(e).

beginning April 1, 2020, and will result in an annual amortization expense of \$1.745 million.

e. Renewables to Benefit Low-Income

61 As part of the Settlement, Avista commits to discuss with the Energy Assistance Advisory Group renewable programs for low-income customers.³⁸

f. Transportation Electrification

62 As part of the Settlement, Avista agrees to work with its Electric Vehicle Supply Equipment (EVSE) working group to develop and finalize a plan with the Commission. Avista supports establishing a goal of dedicating 30 percent of program funds to low-income transportation electrification. Avista will also consider transportation electrification impacts in demand response pilots and integrated resource planning.³⁹

g. Natural Gas Special Contracts

63 As part of the Settlement, Avista agrees to review by May 1, 2021, all natural gas special contracts to ensure economic feasibility, and will renegotiate any contract not in compliance. The review will not reexamine the bypass feasibility of existing special contract customers.⁴⁰

h. Inland Empire Paper Special Contract

64 The Settlement provides that Inland Empire Paper and Avista will attempt to negotiate a special contract with Staff's participation. If an agreement cannot be reached, Avista and Inland Empire Paper will seek resolution through binding arbitration, the results of which will be filed with the Commission. The effective date of an approved special contract will coincide with the effective date of Avista's next GRC. Parties reserve the rights to address issues arising from the special contract, including lost margins, in a future proceeding.⁴¹

³⁸ Settlement at 11, ¶ 14(f).

³⁹ Settlement at 11-12, ¶ 14(g).

⁴⁰ Settlement at 12, ¶ 14(h).

⁴¹ Settlement at 12, ¶ 14(i).

Commission Determination

65 We find that the Parties' proposals for the items discussed above are fair and reasonable. The Commission has approved similar increases to low-income funding for other Washington utilities, and thus find it appropriate in the instant case. We find that the collaboration proposed by the Settlement to develop and implement various programs is in the public interest. Collaboration between Avista and its low-income stakeholders is valuable because it will encourage cooperative discussions and, potentially, the development of programs that will benefit Avista ratepayers. Accordingly, we determine that the Settlement's proposals for the above issues are in the public interest and, for those with a financial impact, result in rates that are fair, just, reasonable, and sufficient.

66 Although we determine it is not necessary to disturb the Settlement provision increasing the low-income weatherization administrative rate for community action agencies at this juncture, we are significantly concerned that nearly half of the total increase in weatherization funding will be allocated to these higher administrative costs. Although the record does not indicate any Party's specific concerns with this provision of the Settlement, our review shows we do not have adequate data or a clearly demonstrated need for higher administrative rates. We therefore strongly encourage the EEAG to ensure this funding is efficiently spent and periodically reviewed as provided in the Settlement. The continued requests for higher administrative rates also indicate a need for a broader investigation into the structure and administrative efficiencies of community action agencies to ensure that those customers most in need of bill assistance and weatherization will receive direct benefits from the funding we approve.

2. NATURAL GAS REVENUE REQUIREMENT

67 Avista's natural gas revenue requirement is the only issue addressed by the Settlement that Public Counsel, who otherwise joins all other portions of the Settlement, contests. Accordingly, all other parties agree that Avista's natural gas revenue requirement should be increased effective April 1, 2020, by \$8.0 million, or an 8.5 percent base rate increase.⁴²

68 Public Counsel provided responsive testimony and exhibits supporting an ROR of 6.96 percent, an ROE of 9.0 percent, and an increase to Avista's natural gas revenue requirement of \$3.762 million. In testimony and exhibits opposing the Settlement, Public

⁴² Settlement at 4, ¶¶ 9, 9(b).

Counsel witness Crane revised the calculations for Public Counsel's proposed natural gas revenue requirement to include the cost of capital from the Settlement. That revision, holding all other adjustments (proposed by Public Counsel in response) constant, increases Public Counsel's natural gas revenue requirement proposal by approximately \$1.32 million, to \$5.081 million.

Commission Determination

- 69 The only Settlement issue requiring our consideration is whether the proposed \$8.0 million increase to natural gas revenue requirement results in rates that are fair, just, reasonable, and sufficient or should be rejected in favor of Public Counsel's proposed \$5.081 million increase.⁴³ Similar to the electric revenue requirement, the Settlement's natural gas revenue requirement is a "black box" agreement. The "black box" resolution provides no indication as to which plant additions are included in or excluded from rate base and the resulting revenue requirement calculation, and also preserves for each party, including Public Counsel, the right in future cases to contest the recovery of any investment for which Avista sought recovery in this case. By approving the proposed natural gas revenue requirement, the rate base approved in Avista's prior rate case remains undisturbed and we make no determination relating to prudence or accepting any party's proposed adjustments. We find that the natural gas revenue requirement proposed by the Settlement and opposed by Public Counsel is a fair and reasonable resolution of the issue, and results in rates that are fair, just, reasonable, and sufficient.
- 70 Public Counsel argues that opposing any adjustment comprising the \$8.0 million increase to natural gas revenue requirement is impossible because it is a "black box" agreement. Public Counsel also argues that the \$8.0 million increase to natural gas revenue requirement is too large of an increase, resulting in rates that are unfair, unjust, and unreasonable. We disagree.
- 71 First, the "black box" nature of the natural gas revenue requirement agreement in this case, like the agreement for the electric revenue requirement, raises no concerns. A "black box" revenue requirement agreement that proposes an end result without specifying most, or any, underlying adjustments used to calculate the end result would be troubling only if unsupported by sufficient evidence that the agreed revenue requirement is fair, just, reasonable, and sufficient. No such deficiency exists here. In evaluating settlements, we consider the entire record. Here, the record for our consideration includes

⁴³ Crane, Exh. ACC-14T at 4:10-12.

the Settlement and supporting testimony and exhibits, the testimony and exhibits opposing the Settlement, and all initial and responsive testimony and exhibits filed by the Parties.

- 72 Avista initially filed for a natural gas revenue requirement increase of \$12.9 million, based on an ROR of 7.52 percent, in year one of a two-year rate plan. Staff filed responsive testimony and exhibits supporting a one year natural gas revenue requirement increase of \$7.0 million, based on an ROR of 7.16 percent. Public Counsel filed responsive testimony and exhibits supporting a one year natural gas revenue requirement increase of \$3.762 million, based on an ROR of 6.96 percent. AWEC filed responsive testimony and exhibits supporting an even lower one year natural gas revenue requirement increase of \$2.9 million, based on an ROR of 6.90 percent. The Settlement's proposal for a one year increase of \$8.0 million to Avista's natural gas revenue requirement falls within the range created by the Parties' recommended natural gas revenue requirement increases.
- 73 As its counter-proposal to the Settlement's \$8.0 million increase to natural gas revenue requirement, Public Counsel proposes an increase to natural gas revenue requirement of \$5.081 million, based on its position in responsive testimony modified only by adopting the Settlement's cost of capital and ROR of 7.21 percent. Public Counsel argues that its proposed increase to natural gas revenue requirement would be fair, just, reasonable, and sufficient. We disagree and find that Public Counsel's proposal is neither reasonable nor sufficient.
- 74 Public Counsel's counter-proposal is based on witness Crane's responsive testimony and exhibits. Crane excludes all of Avista's proposed pro forma major capital additions from its natural gas revenue requirement calculation, arguing that none are known and measurable. Yet in response to Public Counsel's proposal, Avista witness Andrews explains that "many capital projects . . . were already in-service and 'known and measurable' as of July 2019; well before the filing of [responsive] testimony on October 3, 2019."⁴⁴ The parties were thus given more than eight weeks to analyze capital projects placed in service by July 2019.
- 75 Accordingly, Public Counsel's refusal to consider these projects is unreasonable. At a minimum, Public Counsel should have analyzed the pro forma capital additions through

⁴⁴ Andrews, Exh. EMA-9T at 8:6-9.

July 2019 and recommended which, if any, should be included in Avista's natural gas revenue requirement consistent with Commission standards and precedent.⁴⁵ Although we decline to establish a bright line cutoff for inclusion of pro forma additions, we expect parties to consider and analyze any plant placed in service reasonably in advance of the responsive testimony deadline.

76 Notably, Avista witness Andrews argues that accepting Staff's position only on major capital additions would increase Public Counsel's natural gas revenue requirement by nearly \$2.2 million, to approximately \$7.3 million.⁴⁶ Andrews' argument illustrates that Public Counsel's \$5.081 million proposed increase to Avista's natural gas revenue requirement would have increased with only a single modification.⁴⁷ Public Counsel's *carte blanche* exclusion of all post-test year pro forma additions lacks both evidentiary and policy support. Accordingly, we find that Public Counsel's recommendation would result in insufficient rates.

77 By contrast, the Settlement's proposal to increase the natural gas revenue requirement by \$8.0 million produces a fair, just, reasonable, and sufficient end result. There is ample evidence in the record to support an increase to Avista's natural gas revenue requirement, ranging from \$2.9 to \$12.9 million. We find that the Settlement's proposal for an increase of \$8.0 million, which represents a negotiated compromise of the parties' positions, is a fair and reasonable outcome that is well supported by the evidence in the record.

⁴⁵ See *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-150204 & UG-150205 (*Consolidated*), Order 05, Final Order Rejecting Tariff Filing, Accepting Partial Settlement Stipulation, Authorizing Tariff Filings, 17, ¶ 40 (Jan. 6, 2016) *remanded on other grounds*, see *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-150204 and UG-150205 (*Consolidated*), Order 11, Final Order on Remand (Mar. 6, 2020); *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-130043, Order 05, 79, ¶ 198 (Dec. 4, 2013).

⁴⁶ Andrews, Exh. EMA-9T at 8:10-14. Staff's position includes some pro forma capital additions that are consistent with Commission precedent, but in responsive testimony Staff argued for a modification to the Commission's materiality threshold and we make no determination as to that modification or any other adjustment that was proposed by a party and now subsumed by the Settlement.

⁴⁷ Staff's position would have increased Public Counsel's proposed natural gas revenue requirement by \$2.2 million only if we approved the modification to the Commission's materiality threshold. We make no determination regarding Staff's proposed modification. With the exclusion of Staff's modification to the materiality threshold, Staff's position would still have significantly increased Public Counsel's proposed natural gas revenue requirement.

- 78 Last, we reject Public Counsel’s argument that Avista’s natural gas ratepayers “have been burdened by significant increases over the last few years,” including “increases virtually every year from 2009 to 2016,” and that the benefits of recent rate reductions enjoyed by ratepayers since 2018 “will effectively be wiped out if the proposed \$8.0 million increase is approved.”⁴⁸ The period 2009 to 2016 referenced by Public Counsel is less relevant than the period since 2016 for our consideration and balancing of Avista’s *current* costs and revenues.⁴⁹
- 79 Avista’s 2015 general rate case decision was remanded to the Commission by the Washington Court of Appeals. As a result of that remand, the Commission ordered Avista to return \$4,919,000 to electric customers and \$3,571,000 to natural gas customers.⁵⁰ Avista’s 2016 general rate case resulted in no increase to either the Company’s electric or natural gas revenue requirement.⁵¹ Avista’s 2017 general rate case resulted in a decrease to Avista’s natural gas revenue requirement of \$2.1 million.⁵² Avista natural gas ratepayers have had consistent or declining rates since 2016, have not suffered multiple recent rate increases, and, as a result of this Order, will be receiving a number of benefits including returns from the 2015 Avista Remand Dockets.
- 80 Having considered the full record before us, we find that the Settlement’s proposed natural gas revenue requirement increase of \$8.0 million is supported by the record and results in rates that are fair, just, reasonable, and sufficient.

3. SETTLEMENT DETERMINATION

- 81 We have reviewed the Settlement, its supporting evidence, and all evidence in the record. Accordingly, we conclude that the resulting rates, terms, and conditions are fair, just, reasonable, and sufficient. The Settlement terms are lawful, supported by an appropriate

⁴⁸ Crane, Exh. ACC-14T at 4:18-5:6.

⁴⁹ See Crane, Exh. ACC-15.

⁵⁰ *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-150204 and UG-150205 (*Consolidated*), Order 11, Final Order on Remand (Mar. 6, 2020).

⁵¹ *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-160228 and UG-160229 (*Consolidated*), Order 06, Final Order Rejecting Tariff Filing (Dec. 15, 2016).

⁵² *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-170485, UG-170486, UE-171221, and UG-171222 (*Consolidated*), Order 07/02/02 Final Order Rejecting Tariff Sheets, Approving Partial Settlement, and Directing Company to File Tariff Sheets in Compliance (Apr. 26, 2018).

record, and consistent with the public interest in light of all the information available to the Commission. We therefore approve the Settlement without condition.

B. CONTESTED ISSUES OUTSIDE THE SETTLEMENT

82 The Settlement failed to resolve two contested issues, or categories of issues. First, we must resolve questions regarding Avista's decoupling mechanisms and proposed modifications to those mechanisms. Second, we must resolve the remaining ERM issues in Docket UE-190222 that are not otherwise addressed in the Settlement or Docket UE-190882.

1. DECOUPLING

83 On November 25, 2014, the Commission approved a full settlement with conditions that created Avista's current decoupling mechanisms in Order 05 of Dockets UE-140188 and UG-140189 (*Consolidated*) (2014 GRC).⁵³ That settlement required Avista to undertake at its own expense a third-party evaluation of the mechanisms at the end of their third full-year. The Commission conditioned approval of the settlement and Avista's decoupling mechanisms on additional conditions related to the third-party evaluation, requiring that Avista:

- Consult with its conservation advisory group to develop 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.⁵⁴

On October 1, 2018, Avista filed with the Commission a third-party evaluation by H. Gil Peach & Associates LLC (H. Gil Peach or Independent Evaluator) of its decoupling

⁵³ *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-140188 and UG-140189 (*Consolidated*), Order 05, Final Order Rejecting Tariff Filing, Accepting with Conditions Full Settlement Stipulation, Authorizing Tariff Filing, and Requiring Compliance Filing (Nov. 25, 2014).

⁵⁴ *Id.* at 14, ¶ 28.

mechanisms in compliance with the Commission's direction in the 2014 GRC final order (Peach or Independent Evaluator Report). The Peach Report is included as part of the record in this case.⁵⁵

84 The Peach Report found that "Avista's decoupling [mechanisms are] working well within the specific window of time examined."⁵⁶ The Peach Report's summary and recommendation provides:

The decoupling mechanisms have worked as expected to stabilize revenue without impacting utility operations and energy efficiency programs. We also found no evidence of adverse impacts to any customer groups. We recommend the electric and natural gas mechanisms be continued and certain modifications be considered.⁵⁷

85 Avista proposed six modifications to its decoupling mechanisms in its initial filing. Some of these modifications arose directly from the Peach Report's recommendations.⁵⁸ The majority of Avista's proposals are uncontested, but Public Counsel and NWECC filed responsive testimony and exhibits recommending additional or opposing modifications to Avista's decoupling mechanisms. Staff did not file responsive testimony and supports Avista's proposals.⁵⁹ Staff and Avista filed cross-answering and rebuttal testimony and exhibits responding to the modifications recommended by Public Counsel and NWECC. AWECC and The Energy Project did not offer testimony regarding Avista's decoupling mechanisms. We address the parties' contested and uncontested modifications, below.

i. Contested Modifications to the Decoupling Mechanisms

86 NWECC suggests two modifications of which one, related to Avista's conservation targets, is contested. While no party opposes the Company's request to continue its decoupling mechanisms in some form through March 31, 2025, Public Counsel proposes modifying the decoupling mechanisms to either lost revenue adjustment mechanisms (LRAM) or, in

⁵⁵ Ehrbar, Exh. PDE-2, *Avista Decoupling Evaluation Final Report*, H. Gil Peach & Assoc. LLC (Oct. 1, 2018) [hereinafter Peach Report].

⁵⁶ *Id.* at 1.

⁵⁷ *Id.* at 10-1.

⁵⁸ *Id.*; Ehrbar, Exh. PDE-1T at 23:22-24:7.

⁵⁹ Jordan, Exh. ELJ-1T at 2:17-18; Ehrbar, Exh. PDE-3T at 2:2-11.

the alternative, rate class decoupling mechanisms. Public Counsel also expressed concern about Avista's proposed treatment of new customers in relation to the decoupling mechanisms.

a. Clarification, LRAM, and Rate Class Decoupling Mechanism

- 87 Public Counsel witness Crane argues that the Commission's decoupling policy is unclear, and requests the Commission clarify whether its purpose is to ensure utilities recover their authorized revenue requirement or to compensate utilities for sales lost due to energy efficiency programs. Crane critiques Avista's decoupling mechanisms and, depending upon the Commission's clarification, proposes two different mechanisms: a lost revenue adjustment mechanism (LRAM) or a rate class decoupling mechanism. Avista, Staff, and NWECA oppose Public Counsel's proposals.
- 88 NWECA witness Levin rebuts Public Counsel's decoupling criticisms and argues that Public Counsel's proposal to use an LRAM is inappropriate.⁶⁰ Levin explains that Avista's proposal, unlike an LRAM, eliminates the utility's disincentive "to promote or help customers invest in these newer, 'behind-the-meter' clean technologies such as distributed generation."⁶¹ Levin also cites to national data comparing conservation programs of utilities with LRAMs conservation programs to those with full decoupling, concluding that full decoupling ultimately results in greater conservation.⁶²
- 89 Staff witness Jordan argues the Commission's most recent NW Natural Gas rate case order answered the fundamental questions raised by Public Counsel.⁶³ Jordan opposes Public Counsel's LRAM proposal, arguing that it would require the Commission to limit the purpose of decoupling to the effects of conservation, something the Commission has not done in the past. From a practical standpoint, Jordan argues that the LRAM proposal renders it impossible "to disaggregate the causes of load variations in the way Public Counsel requests."⁶⁴
- 90 Regarding Public Counsel's proposal for a rate class decoupling mechanism, Staff witness Jordan contends that decoupling deferrals and achieved earnings have only a

⁶⁰ Levin, Exh. AML-4T at 1:6-14.

⁶¹ *Id.* at 6:9-6:22.

⁶² *Id.* at 7:13-8:5.

⁶³ Jordan, Exh. ELJ-1T at 6:5-11.

⁶⁴ *Id.* at 7:9-11.

tenuous connection, and characterizes Public Counsel's proposal as a revenue sufficiency test.

- 91 Avista witness Ehrbar opposes Public Counsel's rate class decoupling proposal, arguing that this form of decoupling fixes the total amount of revenue the Company can keep after rates are set. Ehrbar contends that this outcome is contrary to Commission's practice. Ehrbar explains that Public Counsel's decoupling proposal in PSE's 2017 GRC was very similar, and argues that the Commission's bases for rejecting Public Counsel's proposal should be the same in this case.⁶⁵

Commission Determination

- 92 We decline Public Counsel's invitation to further elaborate on the purpose of decoupling mechanisms. This topic is addressed thoroughly in the Commission's Decoupling Policy Statement and, most recently, in Final Order 06 in Docket UG-181053.⁶⁶ We reiterate by incorporation the variety of purposes decoupling mechanisms serve, including usage volatility directly tied to conservation efforts and reducing a utility's disincentive to promote energy efficiency.
- 93 We have heard and rejected Public Counsel's arguments for an LRAM or rate class decoupling mechanism in earlier proceedings.⁶⁷ We reach the same conclusion here. Instead, we approve Avista, Staff, and NWECA's proposal to continue Avista's decoupling mechanisms with the modifications discussed in this Order. The proposal is amply supported by the evidence in the record and comports with, rather than departs from, our past practice. We address and resolve the issue of whether Avista's decoupling mechanisms should be continued for five more years in Section B.1.ii.a. of this Order.

⁶⁵ Ehrbar, Exh. PDE-3T at 11:5-16.

⁶⁶ *Wash. Utils. & Transp. Comm'n's Investigation into Energy Conservation Incentives*, Docket U-100522 (Nov. 4, 2010); *Wash. Utils. & Transp. Comm'n v. NW Natural Gas*, Docket UG-181953, Order 06, Final Order Rejecting Tariff Sheets; Approving and Adopting Joint Settlement Agreement; Rejecting Partial Multiparty Settlement Agreement on Decoupling; and Authorizing and Requiring Compliance Filing, 11-18, ¶¶ 29-43 (Oct. 21, 2019).

⁶⁷ See e.g. *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 and UG-170034 (*Consolidated*), Order 08, Final Order Rejecting Tariff Sheets; Approving and Adopting Settlement Stipulation; Resolving Contested Issues; and Authorizing and Requiring Compliance Filing, 99-102, ¶¶ 289-94 (Dec. 5, 2017); see also Ehrbar, Exh. PDE-3T at 6:15-11:16.

b. New Customers

- 94 In response testimony, Public Counsel witness Crane expressed concerns about Avista’s initial proposal to remove the fixed production and transmission costs of serving new customers. Crane argues that, while the proposal would improve the Company’s decoupling mechanisms, it will continue to result in over-recovery and “permits recovery of certain costs that almost certainly already being recovered from ‘existing’ customers.”⁶⁸ In cross-answering testimony, NWEC witness Levin supports Avista’s position, arguing that allowing additional revenue growth from new customers on a revenue-per-customer basis during the rate effective period is appropriate for balancing the increased costs that can occur after rates are set.⁶⁹
- 95 Responding to Public Counsel’s concerns on rebuttal, Avista modified its position and proposed, instead, to exclude new customers from the decoupling mechanisms entirely.⁷⁰ According to Avista witness Ehrbar, this proposal will treat revenue for “new customers” the same as it was treated prior to the implementation of the decoupling mechanisms. At hearing, Ehrbar clarified that the Company meant “new meters” when it referred to “new customers.” Customers who move in to Avista’s service territory, but do not cause the addition of a new meter (as a newly built home or office might cause), will not be excluded from the decoupling mechanisms. Ehrbar also clarified that any new customers would be incorporated into the decoupling mechanisms during the next rate case.⁷¹ Avista believes its proposal reasonably balances the revenues and costs of new customers consistent with the Commission’s direction in its Decoupling Policy Statement.⁷²

⁶⁸ Crane, Exh. ACC-1T at 55:15-19.

⁶⁹ Levin, Exh. AML-4T at 3:8-5:19.

⁷⁰ Ehrbar, Exh. PDE-3T at 3:13-14. Avista would exclude new customers after the end of the test year in the instant case, January 1, 2019. At the time of the next GRC, the new customers added since the last GRC will be added to the decoupling mechanisms. *Id.* at 2:14-19 and 5:8-13. Ehrbar notes that the exclusion of new customers proposed here is similar to the exclusion of new natural gas customers under Avista’s decoupling mechanism in Oregon. *Id.* at 4:13-15:2.

⁷¹ *Id.* at 2:14-19 and 5:8-13.

⁷² *Id.* at 4:6-12.

96 Staff believes that either of the approaches presented in Avista's initial or rebuttal testimony is reasonable and consistent with the Commission's Decoupling Policy Statement.⁷³

Commission Determination

97 We find that excluding new customers in their entirety from the decoupling mechanisms, as proposed by Avista, is appropriate in this case subject to limited monitoring and reporting. The Commission noted in its Decoupling Policy Statement the possibility that a utility could earn more than its authorized ROR via additional revenues realized from the addition of new customers. The Commission also emphasized that a decoupling mechanism must strike a balance between the revenues and costs from new customers, and that the Commission would consider excluding all or some new customer revenue. Here, we find that it is necessary to monitor the data for new customers to understand future consequences of excluding them from the decoupling mechanisms. Accordingly, we determine that Avista's proposal to exclude new customers from its decoupling mechanisms should be approved, but that Avista must include a status update in its yearly decoupling report identifying the number of new customers excluded from the decoupling mechanisms and associated costs and revenues from those customers. Additionally, we require the third-party evaluator to include an evaluation of this design component in its evaluation.

c. Conservation Targets

98 In its initial filing, Avista committed to achieving an additional 5 percent above its electric energy efficiency targets with the continuation of its electric decoupling mechanism.⁷⁴ The Company has not previously had a similar target associated with its natural gas decoupling mechanism. Avista proposed, however, that with the continuation of its natural gas decoupling mechanism it would commit to achieving an additional 5 percent above the natural gas conservation target required by its natural gas integrated resource plan (IRP).⁷⁵ Further, the Company agrees to a penalty if it fails to meet this proposed target on a graduated scale, as follows:

⁷³ Staff Brief at 7, ¶ 16.

⁷⁴ Ehrbar, Exh. PDE-1T at 11:13-14.

⁷⁵ *Id.* at 11:17-12:2.

\$20,000 for incremental conservation between 4.5 and 5.0 percent;
\$50,000 for incremental conservation between 3.75 and 4.5 percent;
\$75,000 for incremental conservation below 3.75 percent.⁷⁶

- 99 NWEC Witness Levin instead proposes that Avista should achieve an additional 10 percent above its conservation targets, achievable on either the electric or natural gas side, in lieu of separate 5 percent targets for each of the electric and natural gas decoupling mechanisms.⁷⁷ Levin reasons that NWEC’s proposal “would provide more flexibility for Avista to procure the most cost-effective end-use equipment and measures, no matter the fuel, in the future given policies and prices.”⁷⁸ Levin argues that growing efforts to price greenhouse gas emissions and efforts to ban new gas hookups raise concerns about “locking” customers into long-lasting equipment and infrastructure.⁷⁹
- 100 Avista and Staff oppose NWEC’s proposal. Staff witness Jordan argues that the proposal amounts to inter-business subsidization between the electric and the natural gas operations, which has been previously rejected by the Commission.⁸⁰ Jordan argues that the reasons NWEC offers to support the additional 5 percent are not related to the operation or purpose of the decoupling mechanism.⁸¹ Avista witness Ehrbar argues on rebuttal that the natural gas target is consistent with targets approved by the Commission for other Washington utilities and that, because the commitment to achieve additional natural gas conservation is new, it is “premature to have a target above 5 percent.”⁸²

Commission Determination

- 101 We agree with Avista and Staff. In general, we find that it is appropriate to avoid inter-business subsidization and that natural gas conservation targets should be connected to

⁷⁶ *Id.* at 11:22-12:2.

⁷⁷ Levin, Exh. AML-1T at 14:14-19.

⁷⁸ *Id.* at 18:9-12. NWEC proposes the 10 percent be the simple addition of the percent by which the Company exceeded its electric target and the percent by which the Company exceeded its natural gas target. *Id.* at 18:20-19:2.

⁷⁹ *Id.* at 18:6-10.

⁸⁰ Jordan, Exh. ELJ-1T at 10:13-15 (citing *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-170485, UG-170486, UE-171221, and UG-171222 (*Consolidated*), Order 07, 94, ¶ 285 (Apr. 26, 2018)).

⁸¹ *Id.* at 10:17-11:15.

⁸² Ehrbar, Exh. PDE-3T at 6:11-14.

the natural gas decoupling mechanism. NWECC's proposal to create a combined 10 percent conservation target for Avista decoupling mechanisms, weakens the connection between Avista's natural gas conservation efforts and its natural gas decoupling mechanism and also results in inter-business subsidization that has not been sufficiently justified in this proceeding. Although we understand NWECC's position that fewer fossil fuels may be used to provide energy to Washington customers at some point in the future, we agree with Avista that the argument is premature at this juncture. Accordingly, we do not foreclose future consideration of modified conservation targets if demonstrated to be appropriate in future cases. No such showing has been made here. To the contrary, we find that Avista has established that a 5 percent conservation target for its natural gas business is appropriate. Accordingly, we determine that a separate 5 percent conservation target for each of the electric and natural gas decoupling mechanisms is fair, reasonable, and in the public interest.

ii. Uncontested Modifications to the Decoupling Mechanisms

102 The remaining proposed modifications to the decoupling mechanisms are uncontested. We approve some and reject others, as we explain below.

a. Continuation of Mechanisms

103 Avista requests authorization from the Commission to continue its decoupling mechanisms for both electric and natural gas through March 31, 2025. No party opposes a five-year continuation of Avista's mechanisms.

Commission Determination

104 The Commission first authorized Avista's decoupling mechanisms for a period of five years. We find that extending the mechanisms with the modifications required by this Order for another five years is reasonable. The Commission will evaluate the mechanisms again after they have operated for five years, which we find is appropriate in light of the modifications required by this Order. Accordingly, we determine that continuing Avista's decoupling mechanisms until March 31, 2025, is in the public interest and will result in rates that are fair, just, reasonable, and sufficient.

b. 20-Year Moving Average of Weather Data

105 In responsive testimony, NWEC witness Levin recommends Avista move from a 30-year moving average of weather data to a 20-year moving average in its next rate case.⁸³ Levin asserts that Avista could also maintain moving averages based upon a 30-, 15-, and 10-years to understand the impacts and implications of these different averages.⁸⁴ Levin contends that weather is one of the two main drivers of per-customer usage, and that a 20-year moving average in response to warming weather trends could help reduce over-forecasting of sales and under-recovery of fixed costs.⁸⁵ NWEC argues that in two of the last three years the residential natural gas decoupling adjustment surcharge reached its 3 percent annual cap, warning that this pattern could “result in cost recovery issues if the Company continues to see lower-than-expected sales resulting in persistent deferrals that cannot be recovered in a timely manner through the decoupling mechanism.”⁸⁶

Commission Determination

106 NWEC’s proposal is generally consistent with the Peach Report’s recommendations to consider changes to normal weather and no party opposes it. We nevertheless find that the record is insufficient in this proceeding to adopt a 20-year moving average for decoupling. In addition, this proposal would create inconsistency among Commission regulatory practices beyond Avista’s decoupling mechanisms. For example, 30-year weather data is used in weather normalization calculations in rate cases and in integrated resource planning models, among other areas of utility regulation. Changing the basis of weather data from a 30-year to a 20-year moving average would, therefore, have a significant impact on the Commission’s regulation of electric and natural gas utilities. Such a change should be thoroughly evaluated and only applied after careful consideration of the broad effect it would have on the Commission’s regulatory practice. Here, the record is insufficient to support such a significant change. We agree with NWEC, however, that having comparative data for 30-, 20-, 15-, and 10-year moving averages would help the Commission understand the impacts and implications of various moving weather averages on decoupling. In addition, we encourage Staff to initiate a workshop discussion with stakeholders to discuss whether a 20-year weather average is appropriate across regulatory and utility practice. Accordingly, we require Avista to

⁸³ Levin, Exh. AML-1T at 14:14-19.

⁸⁴ *Id.* at 16:18-19.

⁸⁵ *Id.* at 16:13-18.

⁸⁶ *Id.* at 16:9-12.

maintain and present data and a brief explanatory narrative for 30-, 20-, 15-, and 10-year moving averages for purposes of decoupling in its annual decoupling report.

c. Reporting Exemption

107 Avista also petitioned in this rate case for an exemption from WAC 480-90-275, which requires each gas utility to file a report of actual results for Washington operations within 45 days of the end of each quarter. Avista requests permission to file its natural gas decoupling report at 60 days instead of 45 days. This would align the filing of natural gas decoupling reports with those for electric decoupling, which are already required to be filed within 60 days of the end of each quarter.⁸⁷

Commission Determination

108 WAC 480-07-110 provides that the Commission “may grant an exemption from, or modify the application of, any of its rules in individual circumstances if the exemption or modification is consistent with the public interest, the purposes underlying regulation, and applicable statutes.”⁸⁸ We find that granting the requested exemption for the purposes of Avista’s natural gas decoupling report meets each of these requirements. The Company files its electric decoupling report within 60 days of the end of each quarter, which avoids conflict with the release of Avista’s financial earnings reports. Its filing of its natural gas decoupling report, however, did conflict with the release of Avista’s financial earnings reports throughout the first three years of Avista’s decoupling mechanisms that necessitated Avista to file a redacted, confidential version of its natural gas decoupling report within 45 days and then refile a fully unredacted version when it filed its electric decoupling report. At hearing, Avista witness Ehrbar clarified that the exemption Avista seeks is solely for its natural gas decoupling mechanism reporting. We find that granting Avista’s request is consistent with the public interest, the purposes underlying regulation, and applicable statutes. Accordingly, we determine that Avista’s request for an exemption from WAC 480-90-275 should be granted as it applies to the filing of Avista’s natural gas decoupling report.

⁸⁷ See WAC 480-100-275.

⁸⁸ See WAC 480-90-008.

d. Other Uncontested Modifications

- 109 No party objects to Avista's proposal to move the effective date of its annual decoupling tariff revisions from November 1 to August 1, and modifying the annualized true-up. We discuss each below.
- 110 Avista requests the Commission move the decoupling tariff effective date from November 1 to August 1 of every year. The Peach Report recommended moving the effective date from November 1 to July 1, but Avista modified that recommendation to August 1 to coincide with its annual Demand Side Management rate adjustment filings in order to minimize the number of annual rate changes for customers. Moving the tariff effective date, as explained in the Peach Report and by Avista witness Ehrbar in Avista's initial filing, will increase the likelihood that reported revenue would be collected within two years as required by the Securities and Exchange Commission and will allow Avista to report expected earnings that might not otherwise be recognized under Generally Accepted Accounting Practice (GAAP) rules, which require that revenues must be recovered within 2 years of the deferral period.⁸⁹
- 111 Avista proposes to continue using the 12-month deferral calculation in the annual true-up, but also add a comparison of the annual decoupled revenue per customer to the actual deferred revenue. Avista witness Ehrbar argues that the proposed modification better matches the authorized annual revenue per customer to actual annual revenue per customer.⁹⁰

Commission Determination

- 112 We find that each of these modifications is fair and reasonable. First, moving the decoupling tariff effective date from November 1 to August 1 is fair to customers and the Company, and will better allow Avista to report expected earnings according to GAAP rules, and thus recover revenues within two years of the deferral period. While the Peach Report recommended an effective date of July 1, we agree with the Company that August 1 is a better date for customers because it coincides with Avista's annual Demand Side Management rate adjustment filings and will result in fewer potential rate changes for customers. No party opposes these modifications. Accordingly, we determine the

⁸⁹ Ehrbar, Exh. PDE-1T at 26:13-27:13.

⁹⁰ *Id.* at 28:2-4.

above modifications to Avista's decoupling mechanisms are in the public interest and should be approved.

e. Third-Party Evaluation

113 As part of the 2014 GRC authorization of Avista's previous decoupling mechanisms, the Commission required a third-party evaluation after three years. No party raised a proposal for another third-party evaluation of Avista's decoupling mechanisms during the next 5-year authorization period. We will evaluate the mechanisms approved by this Order after five years and, to aid our evaluation of the operation of the mechanisms, we determine that a third-party evaluation of the decoupling mechanisms is necessary and appropriate in light of the modifications required of the mechanisms by this Order.

114 We, therefore, require a third-party evaluation of the decoupling mechanisms, paid for by Avista shareholders, after three years. As mentioned briefly above, the third-party evaluation of Avista's decoupling mechanisms must include an analysis of the following elements:

- the mechanisms' impact on conservation achievement;
- the mechanisms' impact on Company revenues; and,
- the extent to which fixed costs are recovered in fixed charges for the customer classes.

In addition, we require the third-party evaluator to include an analysis of the effects of:

- Excluding new customers from the decoupling mechanisms;
- Using a moving average of weather data shorter than 30 years based on the data gathered by Avista regarding a 30-, 20-, 15-, and 10-year moving average; and,
- The 3 percent cap on annual adjustments compared with (1) a 5 percent cap, had it been implemented as we have approved for other utilities in Washington, and (2) no cap on annual adjustments.

115 We also require the Company to consult with its EEAG in the development of the Request for Proposals (RFP) and the selection of the third-party evaluator. We require Avista to file its draft RFP, including a scope of the evaluation query, with the Commission for approval allowing sufficient time for Commission consideration.

2. ENERGY RECOVERY MECHANISM

116 Most of the issues concerning Avista's ERM were either uncontested, resolved as part of the Settlement, or resolved in Docket UE-190882. Public Counsel and AWEC contest several outstanding issues. Public Counsel addresses bias in Avista's power cost calculations, and AWEC presents issues regarding (1) the carrying charge on the ERM deferral balance, and (2) deferral amounts related to baseline power costs arising in the 2015 Avista Remand Dockets.

i. Power Costs Bias and Workshops

117 In responsive testimony, Public Counsel witness Avi Allison identifies bias in Avista's net power costs calculations and authorized gas transport revenues. Allison argues that the Commission recognized this bias in Avista's 2017 GRC and directed Avista to engage in the current series of ongoing workshops. Public Counsel requests that the Commission re-affirm that Avista's net power cost calculations are directionally biased, continue to support the stakeholder workshop process, and require the Company to correct identified errors and biases in its net power costs calculations no later than its next GRC.⁹¹ Allison argues that the Company's 2018 actual net power costs suffered from the same directional bias as in years past.⁹²

Commission Determination

118 We find it unnecessary to reassert the determinations made in Avista's 2017 rate case. Public Counsel is correct that we ordered the currently ongoing series of power cost workshops. The Parties testify to the value of these workshops and the prospect that the workshops will resolve stakeholder concerns. We encourage the Parties and stakeholders to continue their collaborative efforts and trust that the workshops will bring the parties' concerns to a speedy and successful conclusion. In general, we find it unnecessary to require resolution prior to Avista's next GRC, but we expect the Parties to be able to resolve many, if not all, issues through the power costs workshops and apply those findings in Avista's next GRC. We determine that the Commission need not reassert any declaration of bias already asserted in Avista's 2017 rate case, but we emphasize our continued support for the workshop process and encourage the progress being made by the Parties and stakeholders. In addition, we require Avista to provide a status update

⁹¹ Allison, Exh. AA-1T at 3:2-8.

⁹² *Id.* at 5:3-8.

within three months of the date of this Order regarding the agreed-upon power supply modeling consultant, E3, and its development of a study.

119 Neither the Settlement nor testimony supporting the Settlement addresses the authorized power supply baseline. Avista witness Vermillion testified in Avista's initial filing that the Company does not propose to update power supply costs. We find that no change to the power supply baseline is necessary, particularly in light of our decision to continue to support party and stakeholder collaboration to resolve these issues in the power costs workshops.

ii. Carrying Charge on ERM Deferral Balance

120 As a result of the Parties' agreement in the Settlement regarding treatment of the ERM deferral balance, which accepts AWEC's recommendation that the deferral balance be returned to customers over a two-year period beginning April 1, 2020, the only remaining contested issue is the appropriate interest rate to apply to the deferral balance. In responsive testimony, AWEC witness Mullins recommends that the Commission remove the tax adjustment to the cost-of-debt rate Avista uses to calculate the ERM interest accruals and, instead, use the straight cost of debt without an offsetting net-to-gross adjustment for taxes.⁹³

121 Avista opposes AWEC's recommendation by demonstrating that its own interest rate calculation yields results identical to AWEC's. Avista shows that its calculation also offsets the ERM deferral balance with associated accumulated deferred income taxes consistent with the Commission's order establishing the ERM in Docket UE-011595.⁹⁴

122 In its brief, AWEC withdrew its recommendation based on Avista's clarification of its calculation.⁹⁵

⁹³ Mullins, Exh. BGM-12T at 5:16-9:16; AWEC Brief at 2, ¶ 5.

⁹⁴ Andrews, Exh. EMA-8T at 5:7-7:19; AWEC Brief at 2, ¶ 5; *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Docket UE-011595, 5th Supp. Order, Rejecting Tariff Filing; Approving and Adopting Settlement Stipulation; Authorizing and Requiring Compliance Filing, Appendix A at 6-7, II.4. (Jun. 18, 2002).

⁹⁵ AWEC Brief at 2, ¶ 6.

Commission Determination

123 This issue is no longer contested by any party. In light of the evidence in the record, we find that Avista has shown that it has correctly calculated the carrying charge consistent with the Commission's order establishing the ERM in Docket UE-011595. Accordingly, we approve Avista's calculation of the carrying charge for the ERM.

iii. Remand Deferral Amounts Related to Baseline Power Costs

124 AWEC witness Mullins argues that the Commission should increase deferral amounts related to baseline power costs from the 2015 Avista Remand Dockets. Mullins requests that if the Commission does not account for the \$12.3 million of disputed power costs from the Remand, then the Commission should increase the deferral balance in the ERM to ensure that Avista is not provided a "windfall."⁹⁶

125 Avista witness Andrews takes issue with AWEC's recommendation to recalculate the authorized level of power supply. Andrews testifies that the Company accurately reflected the current level of authorized power supply expense. Further, Andrews argues that the \$12.3 million is not at issue in this proceeding and is outside the scope of the annual review proceeding.

Commission Determination

126 We agree with Avista that this this issue exceeds the scope of this proceeding. The Commission recently issued Order 11 in the 2015 Avista Remand Dockets, which resolved this issue.⁹⁷ Accordingly, we determine that this issue is not properly before us in this proceeding.

C. INCORPORATION OF REMAND AND PRUDENCY DECISIONS

127 The Company's approved revenue increase in this proceeding is offset by the results of two recent Commission Orders. First, to avoid multiple rate changes within a single month, the Commission determined in Order 11, resolving the 2015 Avista Remand Dockets, that the amount returned to customers from that decision should be incorporated

⁹⁶ Mullins, Exh. BGM-12T at 10:6-16.

⁹⁷ *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-150204 and UG-150205 (Consolidated), Order 11, Final Order on Remand, 12-13, ¶¶ 40-43 (Mar. 6, 2020).

into this Order and go into effect on April 1, 2020.⁹⁸ Second, the Commission determined in Order 05 in Docket UE-190882 that \$3.3 million in replacement power costs related to the 2018 Colstrip outage should not be recovered from Avista's Washington ratepayers. The Commission directed that amount to be included in the calculation of Avista's ERM deferral balance in these consolidated dockets. We include in this Order, therefore, the total amount of Avista's ERM deferral balance that must be returned to ratepayers.

1. REMAND RETURN

- 128 In Order 11 in the 2015 Avista Remand Dockets, the Commission ordered Avista to return \$4,919,000 to its electric customers and \$3,571,000 to its natural gas customers.⁹⁹ The Commission also indicated that it would “determine how [Avista] must distribute the refund in [Avista's 2019 rate case]. In light of the timing of [Order 11], incorporating the refunds into any changes the Commission makes to Avista's rates in the 2019 Rate Case is more administratively efficient and would reduce the likelihood of customer confusion.”¹⁰⁰
- 129 The Commission also determined in Order 11 in the 2015 Avista Remand Dockets that the distribution of \$4,919,000 to electric customers and \$3,571,000 to natural gas customers should be consistent with the rate spread the Commission approved in Order 05 in the 2015 Avista Remand Dockets.
- 130 We find that the distribution should occur through credits in separate electric and natural gas tariffs to promote tracking and transparency. Additionally, we find that the amounts should be distributed over a period of one year beginning April 1, 2020, to align the refund with the other modifications to Avista's rates in this case and to reduce the economic impacts an increase to rates would cause Avista ratepayers during the emergent circumstances resulting from the COVID-19 pandemic. We determine, therefore, that Avista must return \$4,919,000 to electric customers and \$3,571,000 to natural gas customers over the course of a single year through separate tariffs.

⁹⁸ *Id.* at 22, ¶ 73.

⁹⁹ *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-150204 and UG-150205 (Consolidated), Order 11 at 25, ¶ 102.

¹⁰⁰ *Id.* at 22, ¶ 73.

2. ERM DEFERRAL BALANCE

- 131 When Avista initially filed Docket UE-190222, the ERM deferral balance was estimated at approximately \$34.4 million. That balance has continued to accrue interest. At hearing, the Commission requested through Bench Request No. 1 that Avista provide the expected ERM deferral balance as of April 2020 and the expected amortization amount to be rebated over the Settlement's agreed upon two-year period. Avista's response to Bench Request No. 1 indicated an estimated balance of \$36.3 million as of March 31, 2020. Pursuant to the Settlement, \$0.5 million of that balance is applied to accelerated Colstrip production plant depreciation expense pursuant to the Settlement's terms, resulting in an estimated balance of approximately \$35.8 million.
- 132 As a result of the 2018 Colstrip outage, Avista incurred an additional \$3,274,000 in replacement power costs, which the Commission determined in Order 05 of Docket UE-190882 cannot be recovered from Avista's Washington ratepayers. According to the Settlement's terms, which we approve, the total ERM deferral balance is calculated by incorporating this approximately \$3.3 million with the estimated balance of approximately \$35.8 million and will be returned to ratepayers over two years. In response to Bench Requests No. 1 and No. 3, Avista and Staff propose calculations to return the total ERM deferral balance in equal portions over two years. The apportionment of the ERM deferral balance between the first and second year is not, however, addressed in the Settlement.
- 133 Under normal circumstances we would accept and adopt the calculations Avista and Staff propose. However, following the closing of the record in this case, the Governor on February 29, 2020, issued a Declaration of Emergency, noting the health and economic impacts to Washington citizens resulting from the outbreak of COVID-19. Under these circumstances, we find that rather than returning an equal portion of the ERM deferral balance over two years, which would result in a rate increase to electric customers during this difficult time, the better course of action is to return a greater portion of the ERM deferral balance in the first year to achieve a net zero revenue requirement impact beginning April 1, 2020.
- 134 To achieve this result, Avista must calculate the portion of the ERM deferral balance to be returned to customers following the method Avista and Staff used to arrive at a

deferral balance of approximately \$42.4 million in response to Bench Request No. 3.¹⁰¹ In conjunction with the Settlement's \$28.5 million increase to Avista's electric revenue requirement and the return of approximately \$4.9 million to electric customers from the 2015 Avista Remand Dockets over one year, Avista must modify the apportionment of the ERM deferral balance such that there is no net increase to Avista's electric revenue requirement beginning April 1, 2020. Accordingly, we approve the 2018 ERM deferral entries and determine that the ERM deferral balance and the apportionment of the balance we require is fair, just, reasonable, sufficient, and in the public interest.

D. CONCLUSION

- 135 The Commission's statutory duty is to establish rates, terms, and conditions for electric and natural gas service that are "fair, just, reasonable and sufficient."¹⁰² In doing so, the Commission must balance the needs of the public to have safe, reliable, and appropriately priced service with the financial ability of the utility to provide that service. The resulting rates thus must be fair to both customers and the utility; just, in that the rates are based solely on the record in this case following the principles of due process of law; reasonable, in light of the range of potential outcomes presented in the record; and sufficient, to meet the financial needs of the utility to cover its expenses and attract capital on reasonable terms.¹⁰³
- 136 We determine that approval of the Settlement, without condition, in concert with the other findings we have made and explained, above, establish rates, terms, and conditions for Avista's electric and natural gas service that are fair, just, reasonable, and sufficient.

¹⁰¹ In response to Bench Request No. 3 Avista's narrative (and Attachment E) and Staff's Result D both calculate, using a \$3.3 million disallowance from Docket UE-190882, an ERM deferral balance after sharing of approximately \$42.4 million with approximately \$21.2 million returned to customers in year one and approximately \$21.3 million returned to customers in year two.

¹⁰² RCW 80.28.010(1); RCW 80.28.020.

¹⁰³ See generally *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W.V.*, 262 U.S. 679 (1923); *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *People's Org. for Wash. Energy Res. v. Wash. Utils. & Transp. Comm'n*, 104 Wn.2d 798, 807-13 (1985) (describing rate setting process in Washington).

FINDINGS OF FACT

Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

- 137 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric and natural gas companies.
- 138 (2) Avista is a “public service company,” an “electrical company,” and “gas company” as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. Avista provides electric and natural gas utility service to customers in Washington.
- 139 (3) Avista’s currently effective rates were determined by the Commission’s Final Order in *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-170485, UG-170486, UE-171221, and UG-171222 (Consolidated), Order 07 (Apr. 26, 2018).
- 140 (4) On March 29, 2019, Avista filed with the Commission tariff revisions to its currently effective Tariff WN U-28, Electric Service, in Docket UE-190222 pursuant to the Multiparty Settlement Stipulation in Docket UE-120436, subsection 10, related to the ERM rate adjustment trigger. The revisions proposed to rebate to customers approximately \$34.4 million.
- 141 (5) On April 30, 2019, Avista filed with the Commission revisions to its currently effective Tariffs WN U-28, Electric Service, and WN U-29, Natural Gas Service, including a proposed multi-year rate plan with an initial increase in revenues of \$45.8 million and \$12.9 million for its electric and natural gas operations, respectively, followed by a second-year increase in revenues of \$18.9 million and \$6.5 million for its electric and natural gas operations, respectively.
- 142 (6) On November 21, 2019, the Parties filed the Settlement, which is attached to this Order as Appendix A, and requested the Commission approve and adopt it as a resolution of some, but not all, of the issues in this proceeding. Public Counsel

joined the Settlement but opposed the portion of the Settlement related to Avista's natural gas revenue requirement.

- 143 (7) Avista initially filed testimony and exhibits supporting a natural gas revenue requirement increase of \$12.9 million. Staff, Public Counsel, and AWEC filed responsive testimony and exhibits supporting natural gas revenue requirements increases of \$7.0 million, \$3.762 million, and \$2.9 million, respectively. After adopting the Settlement's cost of capital, Public Counsel's proposed natural gas revenue requirement increase is \$5.081 million.
- 144 (8) Avista proposed pro forma capital additions that were in service by July 2019. Public Counsel did not evaluate or include any of these pro forma capital additions in its proposed increase to Avista's natural gas revenue requirement.
- 145 (9) There is substantial and sufficient evidence in the record supporting the Settlement's increase of \$8.0 million to Avista's natural gas revenue requirement.
- 146 (10) The Settlement proposes reasonable resolutions, supported by the record, to the following issues: electric revenue requirement; cost of capital; electric and natural gas rate spread and rate design; ERM refund; accelerated depreciation of Colstrip production plant to 2025; depreciation of Colstrip transmission assets; D&R costs for Colstrip Units 3 and 4; recovery for Colstrip production plant depreciation expense, transmission, and D&R; Colstrip account balances and depreciation/amortization expense; low-income weatherization funding; LIRAP funding; disconnection reduction plan; on-bill repayment/financing program; deferral amortizations; renewables to benefit low-income customers; transportation electrification; natural gas special contracts; the Inland Empire Paper special contract; Colstrip capital investment limitations; Colstrip transmission planning; and, the Colstrip community transition fund.
- 147 (11) Issues not addressed by the Settlement include Avista's decoupling mechanisms and proposed modifications. These proposals included contested modifications, such as: Public Counsel's request that the Commission clarify the purpose of decoupling and modify the existing mechanisms to an LRAM or a rate class decoupling mechanism; Avista's proposal to exclude new customers from the decoupling mechanism; and, NWECC's proposal for flexible conservation targets. It also included uncontested modifications, such as: continuation of the mechanisms until March 31, 2025; changing the mechanisms' 30-year moving

average of weather data to a 20-year moving average; a requested exemption from natural gas decoupling reporting within 45 days after the end of each quarter; moving the effective date of annual decoupling tariff revisions; and, modifying the annualized true-up.

- 148 (12) The record establishes that Avista's decoupling mechanisms are working as intended. The Peach Report, conducted by an independent third-party evaluator chosen with input from the EEAG, concluded that the decoupling mechanisms have stabilized revenue without impacting utility operations and energy efficiency programs and without any adverse impacts to any customer groups.
- 149 (13) The evidence in the record supports a finding that Avista's mechanisms should be continued, with the requirement of a third-party evaluator after three years, without modifying the mechanisms to an LRAM or a rate class mechanism as proposed by Public Counsel.
- 150 (14) Avista proposes to exclude new customers from its decoupling mechanisms until they are incorporated by a subsequent rate case. Avista's proposal is unopposed, supported by the record, and, with the requirement that Avista include a status report regarding the exclusion of new customers from its decoupling mechanism, reasonable.
- 151 (15) Avista commits to a 5 percent additional conservation target for each its electric and natural gas mechanism. Avista's commitment for its natural gas decoupling mechanism is consistent with the commitment for its electric decoupling mechanism. Avista's proposal is reasonable and well supported by the record.
- 152 (16) NWEAC's proposal, to create a combined 10 percent conservation target for Avista's electric and natural gas mechanisms, weakens the connection between Avista's natural gas conservation efforts and its natural gas decoupling mechanism, and also results in inter-business subsidization that has not been sufficiently justified in this proceeding.
- 153 (17) NWEAC's proposal to adopt a 20-year moving average of weather data would have a much broader effect on Commission regulation, beyond Avista's decoupling mechanisms, and, as such, is not adequately supported by the record in this case. The record is adequate to support NWEAC's proposal that Avista maintain and present data for 30-, 20-, 15-, and 10-year moving averages of weather data for purposes of decoupling.

- 154 (18) Avista requested exemption from WAC 480-90-275 for its natural gas decoupling reporting, which requires Avista to file its report within 45 days of the end of each quarter, and to be permitted, instead, to file its natural gas decoupling report on time with its electric decoupling report, which must be filed within 60 days of the end of each quarter.
- 155 (19) Moving the decoupling tariff effective date from November 1 to August 1, which is unopposed by any party, will better allow Avista to report expected earnings according to GAAP rules, recover revenues within two years of the deferral period, and align decoupling tariff revisions with Avista's annual demand side management rate filings.
- 156 (20) Modifying Avista's decoupling mechanism annual true-up to include a comparison of the annual decoupled revenue per customer to the actual deferred revenue, which is unopposed by any party, is reasonable and well supported by the record.
- 157 (21) The Settlement does not address ERM issues relating to bias in power costs calculations and the power cost workshops, carrying charge on ERM deferral balance, and remand deferral amounts related to baseline power costs.
- 158 (22) Avista and the Parties are engaged in power cost workshops to resolve concerns including bias in power cost calculations. The record supports that these power cost workshops are progressing well, and that it is therefore unnecessary for the Commission to reassert any declaration of bias already asserted in Avista's 2017 rate case.
- 159 (23) AWEC withdrew its opposition to Avista's calculation of the carrying charge for the ERM.
- 160 (24) Avista's calculation of the carrying charge on the ERM deferral balance, which is unopposed by any party, is reasonable and well supported by the record.
- 161 (25) The remand deferral amounts related to baseline power costs, as raised by AWEC, is resolved by Order 11 in Dockets UE-150204 and UG-150205 (*Consolidated*).
- 162 (26) Order 11 in Dockets UE-150204 and UG-150205 (*Consolidated*) ordered Avista to return \$4,919,000 to electric customers and \$3,571,000 to natural gas customers. Order 11 in Dockets UE-150204 and UG-150205 (*Consolidated*) also

indicated the Commission would determine in this Order how Avista must return those amounts to customers.

- 163 (27) Avista must return \$4,919,000 to electric customers and \$3,571,000 to natural gas customers over the course of one year through a separate tariff to allow for tracking and transparency.
- 164 (28) Due to the 2018 Colstrip outage, Avista incurred an additional \$3,274,000 in replacement power costs and failed to prove that these costs were prudently incurred. The Commission determined in Order 05 of Docket UE-190882 that this approximately \$3.3 million cannot be recovered from Avista's Washington ratepayers.
- 165 (29) In accordance with the Settlement, the ERM deferral balance is calculated by incorporating the \$3.3 million disallowance in Docket UE-190882 with the estimated balance of approximately \$35.8 million and will be returned to customers over two years.
- 166 (30) On February 29, 2020, the Governor issued a Declaration of Emergency, noting the health and economic impacts to Washington citizens resulting from the outbreak of COVID-19. Under these circumstances, it is fair, just, and reasonable and in the public interest to return a greater portion of the ERM deferral balance in the first of the two-year return period to achieve a net zero impact to Avista's electric revenue requirement beginning April 1, 2020.
- 167 (31) Avista's currently effective electric and natural gas rates do not provide sufficient revenue to recover the costs of its operations and provide a rate of return adequate to compensate investors at a level commensurate to what they might expect to earn on other investments bearing similar risks.

CONCLUSIONS OF LAW

Having discussed above all matters material to this decision, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:

- 168 (1) The Commission has jurisdiction over the subject matter of, and parties to, this proceeding.

- 169 (2) Avista is an electric company, a natural gas company, and a public service company subject to Commission jurisdiction
- 170 (3) At any hearing involving a proposed change in a tariff schedule the effect of which would be to increase any rate, charge, rental, or toll theretofore charged, the burden of proof to show that such increase is just and reasonable will be upon the public service company. RCW 80.04.130 (4). The Commission's determination of whether the Company has carried its burden is adjudged based on the full evidentiary record.
- 171 (4) Avista's existing rates for electric and natural gas service are neither fair, just, and reasonable, nor sufficient, and should be adjusted prospectively after the date of this Order.
- 172 (5) Public Counsel's proposed increase to Avista's natural gas revenue requirement of \$5.081 million is insufficient and, based on the evidence in the record, will not result in rates that are fair, just, reasonable, and sufficient.
- 173 (6) Based on the record evidence, we conclude the \$8.0 million increase in natural gas revenue requirement agreed to in the Settlement is fair, just, reasonable, and sufficient.
- 174 (7) The Commission should approve the Settlement in this proceeding because it is lawful, supported by an appropriate record, consistent with the public interest in light of all the information available to the Commission, and sets rates that are fair, just, reasonable, and sufficient. The Settlement should be incorporated by reference into the body of this Order, as if set forth in full.
- 175 (8) Avista should be authorized and required to make compliance filings in these consolidated dockets in accordance with the Settlement and to recover in prospective rates its revenue deficiency of \$28.5 million for electric operations and to recover in prospective rates its revenue deficiency of \$8.0 million for natural gas operations.
- 176 (9) We conclude that continuing Avista's decoupling mechanisms until March 31, 2025, with a third-party evaluation after three years as described in this Order, is fair, just, reasonable, and in the public interest.

- 177 (10) Avista's proposal to exclude new customers from its decoupling mechanisms should be approved with the requirement that Avista include a status report in its yearly decoupling report regarding how many new customers are excluded from the decoupling mechanisms and their associated costs and revenues.
- 178 (11) Separate 5 percent conservation targets, as proposed by Avista, for each of the electric and natural gas decoupling mechanisms are fair, reasonable, and in the public interest.
- 179 (12) Moving the decoupling tariff effective date from November 1 to August 1 is fair to customers and to Avista and should be approved.
- 180 (13) Avista's proposal to modify its decoupling mechanism annual true-up to add a comparison of the annual decoupled revenue per customer to the actual deferred revenue is fair and reasonable.
- 181 (14) We conclude that Avista's request for an exemption from WAC 480-90-275, for purposes of its natural gas decoupling mechanism report, is consistent with the public interest, the purposes underlying regulation, and applicable statutes. Avista's request for an exemption from WAC 480-90-275, as it applies to the filing of Avista's natural gas decoupling report, should be granted.
- 182 (15) The Commission should continue its support for the power costs workshop process and, to stay apprised of the progress made by the Parties, should require Avista to provide a status report within three months of the date of this Order regarding the agreed-upon power supply modeling consultant, E3, and its development of a study.
- 183 (16) Avista should be authorized and required to make a compliance filing in these consolidated dockets to return \$4,919,000 to electric customers and \$3,571,000 to natural gas customers over the course of one year through a separate tariff.
- 184 (17) Avista should be authorized and required to make a compliance filing in these consolidated dockets to return to electric ratepayers the ERM deferral balance, incorporating the \$3.3 million disallowance from Docket UE-190882 with the estimated balance of approximately \$35.8 million, over two years, with a greater portion returning to ratepayers in the first year such that there is a net zero impact to Avista's electric revenue requirement beginning April 1, 2020.

- 185 (18) The Commission Secretary should be authorized to accept by letter, with copies to all parties to this proceeding, filings that comply with the requirements of this Order.
- 186 (19) The Commission should retain jurisdiction over the subject matter and the Parties to effectuate the terms of this Order.

ORDER

THE COMMISSION ORDERS:

- 187 (1) The proposed tariff revisions Avista Corporation, d/b/a Avista Utilities, filed in these dockets on March 29, 2019, and April 30, 2019, and suspended by prior Commission order, are rejected.
- 188 (2) Avista Corporation, d/b/a Avista Utilities, is authorized and required to make compliance filings in this docket including all tariff sheets that are necessary and sufficient to effectuate the terms of this Order.
- 189 (3) The Commission Secretary is authorized to accept by letter, with copies to all parties to this proceeding, filings that comply with the requirements of this Order.
- 190 (4) The Commission retains jurisdiction to effectuate the terms of this Order.

DATED at Olympia, Washington, and effective March 25, 2020.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner

APPENDIX A

MULTIPARTY PARTIAL SETTLEMENT STIPULATION