Agenda Date: March 28, 2024
Item Number: A3

Docket: **UG-231044**
Company: Avista Corporation d/b/a/ Avista Utilities

Staff**:** Chris McGuire, Regulatory Analyst – Energy Rates and Services

Recommendation

Staff recommends the Commission issue an order allowing the revised tariff sheets, filed by Avista Corporation in Docket UG-231044 on December 22, 2023, as revised on March 4, 2024, to go into effect on April 1, 2024, on a provisional basis, subject to later review and refund.

Summary of Filing

On December 22, 2023, in Docket UG-231044, Avista Corporation d/b/a Avista Utilities (Avista or Company) filed with the Washington Utilities and Transportation Commission (Commission), proposed revisions to rates under natural gas Tariff WN U-29, Schedule 162, Climate Commitment Act (CCA) Temporary Schedule. On February 22, 2024, Avista filed with the Commission substitute tariff pages extending the effective date of the tariff revisions to April 1, 2024. On March 4, 2024, Avista filed substitute tariff pages reflecting modifications to the proposed tariff that Avista made in response to commissioner feedback during the February 22, 2024, Open Meeting.

With this filing, Avista seeks to establish a new, temporary tariff schedule to pass on to customers CCA compliance costs and auction proceeds that the Company recorded in calendar year 2023 and deferred per Order 01 of Docket UG-220803. Avista is proposing Schedule 162 as a temporary schedule that would be set to expire on March 31, 2025, after the 12-month amortization of the 2023 deferral balances.

Avista's proposed Schedule 162 would establish a volumetric charge rate to recover $46.0 million in deferred expenses for allowance purchases and establish a seasonal, nonvolumetric credit to return to customers $37.2 million in deferred revenues from no-cost allowances consigned to auction. The net effect of the proposed revisions is a $10.3 million increase in annual revenues, or 4.1 percent. A typical residential customer using an average of 64 therms per month would see an increase of $1.33 per month in summer months[1] and an increase of $5.45 per month in winter months,[2] equating to an average increase over the year of approximately $3.06 per month, or 3.3 percent.[3] Known low-income (KLI) customers would receive a credit that fully offsets the increase in the CCA charge rate, resulting in a $0.00 rate change for those customers.

---

[1] Defined as April through October.
[2] Defined as November through March.
[3] A typical residential customer with a premise connected to the system after July 25, 2021, and using an average of 64 therms per month would see an increase of $14.96 per month, or 16.1 percent.

<u>Discussion</u>

At the February 22, 2024, Open Meeting, the commissioners expressed concern with Avista's proposal to establish a nonvolumetric charge rate for its Schedule 101 customers. As a result, that same day Avista filed with the Commission substitute tariff pages extending the effective date of the tariff revisions to April 1, 2024. Subsequently, on March 4, 2024, Avista filed substitute tariff pages that included a volumetric charge rate for all customers, including Schedule 101 customers.

As this docket was previously discussed at the Commission's February 22, 2024, Open Meeting, and Staff's analysis of Avista's proposed tariff revision was provided in Staff's February 22, 2024, Open Meeting memo, this memo focuses on only the areas of concern that the commissioners raised at the February 22, 2024, Open Meeting, and the subsequent modifications Avista has made to its proposed Schedule 162.

The key issues this memo addresses are:

1. <u>The volumetric charge rate and seasonal nonvolumetric credit</u>. For Schedule 101 customers, Avista has replaced the nonvolumetric charge with a volumetric charge rate and has replaced the non-seasonal credit with a seasonal credit.
2. <u>Line items on bills</u>. Avista continues to propose that it identify neither the CCA charge nor the CCA credit as line items on bills for its Schedule 101 customers, and continues to propose that it identify both the CCA charge and the CCA credit as line items on bills for all other customer schedules, and
3. <u>Prudence</u>. Avista has replaced its estimated 2023 costs with actuals, thereby eliminating the need for a future true-up which is when prudence would have been examined. The Commission now will need to allow rates subject to later review and refund to preserve its ability to examine the prudence of these costs at a later date.

1. ***Volumetric Charge Rate and Seasonal Nonvolumetric Credit for Schedule 101 Customers***

Based on the concerns raised by the commissioners at the February 22, 2024, Open Meeting, Avista has modified its proposed Schedule 162, replacing the nonvolumetric charge for its Schedule 101 customers with a volumetric charge rate. Staff supports Avista's movement to a volumetric charge. As Staff indicated in its February 22, 2024, Open Meeting memo, a nonvolumetric charge rate does not follow fundamental cost-of-service principles and unfairly requires lower-usage customers to subsidize the carbon emissions costs of higher-usage customers.

In its substitute tariff pages, Avista also replaced the nonseasonal nonvolumetric credit for Schedule 101 customers with a seasonal nonvolumetric credit. Staff also supports this change. As Staff explained in its February 22, 2024, Open Meeting memo, a seasonal credit rate is appropriate when the charge rate is volumetric as it provides customers with a larger credit during months of higher usage. And given that Avista is now proposing a volumetric charge rate for its Schedule 101 customers, it is appropriate for Avista to also propose a seasonal credit for those customers.

In its substitute tariff pages, Avista also revised its proposed cap on the nonvolumetric credits from 75 percent of the monthly charge to 80 percent of the monthly charge. Staff supports implementing a credit cap and finds Avista's revised cap of 80 percent to be appropriate given that 80 percent more closely reflects the ratio of CCA benefits to costs in 2023.

2. Line Items on Customer Bills

Avista continues to propose that it identify neither the CCA charge nor the CCA credit as line items on bills for its Schedule 101 customers and continues to propose that it identify both the CCA charge and the CCA credit as line items on bills for all other customer schedules.

While Avista's proposal has not changed regarding line items on customer bills, there was significant discussion among the commissioners at the February 22, 2024, Open Meeting on merits of identifying the CCA charge and credit as line items on customer bills. Given that Avista's proposed Schedule 162 is a temporary schedule that will expire in a year, and that it pertains to deferral balances from 2023 (rather than going-forward costs and revenues), Staff does not believe that it is necessary to establish policy on this issue at this time in this docket. Staff comments on this issue here only to note that the question of whether CCA charges and credits should be shown as line items on customer bills – particularly on the bills of residential customers – remains an open policy question that at some point the Commission likely will need to resolve.

In this filing, Staff does not oppose Avista's proposal to identify neither the charge nor the credit as line items on the bills of Schedule 101 customers.

3. Prudence

In Avista's initial filing on December 22, 2023, the proposed tariff rates were based on dollar amounts that contained forecasted amounts for December 2023. Given that the proposed rates included forecasted costs, there would have been a need for a tracking and true-up deferral mechanism so that forecasted amounts could later be trued up to actuals. With such mechanisms, actual costs are reviewed retrospectively and, accordingly, the Commission's prudency standard is also applied retrospectively.

However, in the replacement tariff pages filed March 4, 2024, the Company updated the December forecasts to actuals such that the proposed tariff rates are now based on known actuals for calendar year 2023. Given that the proposed rates are now based on actuals, there is no longer a need for a true-up at the end of the rate year. And without an annual true-up filing, absent Commission action here in this docket there will not be another opportunity to retrospectively examine these costs or assess their prudence.

To preserve its ability to examine the prudence of the costs at issue in this filing at a later date, the Commission should authorize Avista's Schedule 162 rates subject to refund. As Staff has previously indicated, Staff believes that the prudence of CCA compliance costs should be examined across the full, four-year compliance window (in this case 2023-2026) and in a dedicated proceeding of sufficient length to allow Staff and other parties to perform a rigorous examination of prudence.

<u>Comments of Interest Parties</u>

As noted in Staff's February 22, 2024, Open Meeting Memo, on February 8, 2024, Northwest Energy Coalition (NWEC) filed comments expressing opposition to the nonvolumetric charge that Avista initially proposed for its Schedule 101 customers. Avista no longer proposes a nonvolumetric charge for its Schedule 101 customers, so this issue has been resolved.

No additional comments were filed to the docket.

<u>Customer Comments</u>

As of DATE, Staff has not received any comments from the public on this filing.

<u>Conclusion</u>

Staff continues to find the 2023 deferral balances to be reasonable bases for Schedule 162 charge and credit rates that the Company proposes in this filing. However, given that the proposed rates are now composed of actual costs rather than forecasts, there will be no annual true-up filing and, accordingly, no opportunity for a retrospective review and prudence examination. Therefore, in order to preserve its ability to examine the prudence of Avista's 2023 compliance costs, Staff recommends that the Commission enter an order authorizing the proposed rates on a provisional basis, subject to refund.