

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of

AVISTA CORPORATION d/b/a Avista
Utilities Revises Tariff WN U-28, Power
Cost Rate Adjustment Schedule 93.

DOCKET UE-170484

COMMISSION STAFF'S RESPONSE
IN SUPPORT OF INDUSTRIAL
CUSTOMERS OF NORTHWEST
UTILITIES' MOTION TO DISMISS;
ALTERNATIVE MOTION TO
CONSOLIDATE WITH GENERAL
RATE CASE FILING

I. INTRODUCTION

1 In accordance with the June 19, 2017 Notice Soliciting Staff Response and Notice of Opportunity to Respond, Commission Staff submits this Response in support of the Motion to Dismiss; Alternative Motion to Consolidate with General Rate Case Filing (Motion) filed by the Industrial Customers of Northwest Utilities (ICNU). Staff recommends that the Commission grant ICNU's Motion.

II. BACKGROUND

2 On May 26, 2017, Avista Corporation (Avista or Company) filed with the Commission proposed revisions to its currently effective Tariff WN U-28 Power Cost Rate Adjustment Schedule 93 in the above-referenced docket (PCRA filing), which would increase billed revenues by approximately \$15 million, or 2.92 percent, effective September 1, 2017, and would reset the Energy Recovery Mechanism (ERM) baseline used to track how actual power costs differ from the power costs embedded in retail rates. The Company filed the proposed tariff revisions concurrently with a general rate case filing in Dockets UE-

170485 and UG-170486, designed to effect a general rate increase over three years for both electric and natural gas service.¹

3 On June 16, 2017, ICNU filed a Motion requesting the Commission dismiss the Company's proposed tariff revisions, or in the alternative, consolidate Avista's PCRA filing with its pending general rate case proceeding. Staff understands these alternatives to differ in procedure more than substance. Presumably, under either proposal a power cost rate increase would not go into effect until the conclusion of the Company's general rate case.

4 On June 19, 2017, the Commission issued a Notice Soliciting Staff Response and Notice of Opportunity to Respond that requests Staff, and permits any other party or person, to file a response indicating whether it supports or opposes ICNU's Motion by June 27, 2017. The Notice acknowledged that ICNU's Motion is premature because the Commission's rules contemplate that motions will be filed in the context of an adjudicative proceeding, but the Commission has not yet commenced an adjudication with respect to Avista's PCRA filing. The Commission adopted the process described in WAC 480-07-380(1)(c) because ICNU's Motion may have implications for Avista's general rate case, for which the Commission has scheduled a prehearing conference on June 30, 2017.

III. DISCUSSION

5 Commission Staff supports ICNU's Motion because Avista has failed to adequately justify its request for a 2.9 percent power cost rate increase during the pendency of its general rate case. Avista currently has an Energy Recovery Mechanism (ERM) that equitably allocates between the Company and its customers the risk of ordinary variations in power costs that may occur between rate cases. Increasing rates and the ERM baseline to

¹ Avista proposed an overall increase in electric base revenues of approximately \$61.4 million, or 12.5 percent in year one; by \$14 million, or 2.4 percent, in year two; and by \$14.4 million, or 2.5 percent, in year three.

account for a few discrete changes in power costs, without consideration of potentially offsetting cost changes, would frustrate the protections and incentives the ERM provides. Moreover, Avista's requested rate increase is driven by ordinary power cost variations that are easily accounted for by the ERM. Avista's Monthly Power Cost Deferral Report shows that the Company has over-collected its power costs such that the current Energy Cost Deferral Balance in the rebate direction exceeds the total incremental amount the Company proposes to collect over the next eight months. Simply stated, even if the alleged increase in net power supply costs materialize, the ERM carries a sufficient balance to easily absorb that alleged increase. The Commission should reject Avista's PCRA filing, and allow the ERM to operate as intended until the conclusion of the general rate case.

6 Avista's ERM addresses "the ordinary variations in power costs" that may occur between rate cases.² The ERM tracks the Company's actual power costs compared to the baseline levels embedded in retail rates.³ The Company and its customers pursuant to a deadband and two sharing bands share any deviation in actual power costs from the baseline costs.⁴ After each calendar year, customers' share of the positive or negative annual net difference in power costs is deferred to the Energy Cost Deferral Balance. These deferrals accumulate each year until a trigger of \$30 million is reached, at which point the Company must file a tariff change to pass back the Deferral Balance to customers via a surcharge or

² *Wash. Utils. & Trans. Comm'n v. Avista*, Docket UE-011595, Fifth Supplemental Order, ¶ 38 (June 18, 2002).

³ *See Id.* at ¶ 35 (June 18, 2002).

⁴ "Under the ERM deferral mechanism, monthly variations are accumulated until the calendar-year deadband of \$4.0 million is exceeded. Once the deadband is exceeded, 50% of the cumulative variation between actual and authorized net power supply costs between \$4.0 million and \$10.0 million is deferred if the deferral is in the surcharge direction, and 75% is deferred if the deferral is in the rebate direction. Once the cumulative power supply cost variance from the amount included in base rates exceeds \$10.0 million, 90% of the cost variance above \$10 million is deferred for future surcharge or rebate." Dockets UE-170485 and UG-170486 Ehrbar, Exhibit No. PDE-1T at 2:16-22.

rebate.⁵ In this manner, the ERM “allocate[s] appropriately between shareholders and ratepayers the risks of [ordinary] power cost variability . . . and should motivate Avista to effectively manage or even reduce its power costs.”⁶

7 In its PCRA filing, Avista asks the Commission to approve a \$15 million rate increase to account for a few discrete increases in power costs.⁷ The Company alleges all other power cost changes from baseline are “immaterial” and removing them from its filing “helps to minimize the number of items Commission Staff and other parties would need to audit.”⁸ Avista’s proposed rate increase amounts to a request for single-issue ratemaking because it ignores potentially offsetting changes in power costs. The Commission generally disfavors single-issue ratemaking.

8 The ERM can account for the power cost adjustments that drive the requested rate increase. Avista’s requested rate increase of \$15 million is well within the \$30 million threshold that triggers a surcharge or rebate to customers. It is also less than the current \$23.4 million Energy Cost Deferral Balance in favor of customers.⁹ A net \$15 million power cost increase is easily accounted for by the ERM.

9 Granting Avista’s power cost rate increase in the context of its filing would also frustrate the purpose of the ERM. Accounting for a few discrete increases in power costs, without consideration of potentially offsetting cost changes, could unintentionally tip the ERM baseline in Avista’s favor, and upset the equitable risk sharing that the

⁵ Dockets UE-170485 and UG-170486, Ehrbar, Exhibit No. PDE-1T at 5:11-18.

⁶ *In the Matter of the Petition of Avista Corp., d/b/a Avista Utilities, For Continuation of the Company’s Energy Recovery Mechanism, with Certain Modifications*, Docket UE-060181, Order 03, ¶ 23, Finding of Fact 3 (Dec. 26, 2012).

⁷ Avista’s PCRA filing at 9, Table 4.

⁸ *Id.* at 8.

⁹ *Wash. Utils. & Trans. Comm’n v. Avista*, Docket UE-011595, Power Cost Deferral Report, Month of May 2017, at page 5.

deadband/sharing bands were designed to implement. Increasing rates and the ERM baseline outside of a rate case would undercut the Company's incentive to effectively manage its power costs. To be effective, the ERM needs to account for the ordinary variations in power costs that occur over time. Frequent baseline changes erode the protections and incentives that the ERM was designed to provide.

10 Moreover, Avista does not need a 2.9 percent power cost rate increase effective September 1, 2017. Avista's Monthly Power Cost Deferral Report confirms that the Company has over-collected its power costs. Avista has an Energy Cost Deferral Balance of \$23.4 million in favor of its customers.¹⁰ Avista also has over-collected its power costs so far this year by approximately 6.4 million.¹¹ This is so despite the expiration of Avista's contract with Portland General Electric, which the Company contends is the sole cause of an unwarranted \$8 million net-benefit to customers.¹² Nevertheless, if power cost increases do occur before the conclusion of Avista's pending general rate case, these increases would merely offset the deferral balances that have accrued in the customers' favor. In sum, the ERM should be allowed to operate as intended until the conclusion of the general rate case.

11 Ultimately, Avista has failed to make a sufficient *prima facie* case for a 2.9 percent power cost rate increase on September 1, 2017. As noted above, the ERM is intended to address ordinary variations in power costs. In its PCRA filing, Avista failed to demonstrate that it has incurred extraordinary power cost variations that are beyond the ability of the ERM to address.¹³ Rather, Avista did little more than state its belief that "it is appropriate to

¹⁰ *Wash. Utils. & Trans. Comm'n v. Avista*, Docket UE-011595, Power Cost Deferral Report, Month of May 2017, at page 5.

¹¹ *Id.* at Page 14, Line 27.

¹² Avista's PCRA filing at 5.

¹³ *Wash. Utils. & Trans. Comm'n v. Avista*, Docket UE-011595, Fifth Supplemental Order, ¶ 38 (June 18, 2002) (In support of the ERM, Mr. Norwood, on behalf of Avista, testified: "it will be up to the Company . . .

update certain items included in the power supply base so that, effective September 1, 2017, customers will be paying a more appropriate level of costs in retail rates.”¹⁴ Given that the ERM addresses ordinary power cost variations, in conjunction with the proximity of its last and newly-filed general rate cases, Avista’s unsubstantiated belief about “a more appropriate level of costs” is insufficient to justify a 2.9 percent rate increase taking effect by operation of law. The Commission should reject Avista’s Power Cost Rate Adjustment Filing.

IV. CONCLUSION

12 For the reasons set forth above, Commission Staff supports ICNU’s Motion. Avista has failed to adequately justify its request for a 2.9 percent power cost rate increase to take effect during the pendency of its general rate case. Avista’s ERM is designed to protect the Company and its customers from the risk of ordinary variations of power costs that may occur between rate cases. Increasing rates and the ERM baseline to account for a few discrete changes in power costs, without consideration of potentially offsetting cost changes, would undermine the protections and incentives that the ERM provides. Moreover, the Company’s Monthly Power Cost Deferral Report demonstrates that a power cost rate increase is not necessary. The Commission should reject Avista’s Power Cost Rate

//

//

//

//

//

to come to the Commission *if it is experiencing an extreme extraordinary situation* and request the appropriate relief at that point in time” (Emphasis added).

¹⁴ Avista’s PCRA filing at 2.

Adjustment Filing, and allow the ERM to operate as intended until the conclusion of the general rate case.

Dated this 27th day of June 2017.

Respectfully submitted,

ROBERT W. FERGUSON
Attorney General

/s/ Christopher M. Casey, WSBA No. 46733
Assistant Attorney General
Office of the Attorney General
Utilities and Transportation Division
P.O. Box 40128, Olympia, WA 98504-0128
(360) 664-1189
ccasey@utc.wa.gov