BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of Avista Corporation, d/b/a Avista Utilities For an Order Authorizing Approval of Changes to the Company's Natural Gas Line Extension Tariff, Limited Waiver of WAC 480-90-223(1), and Accounting and Ratemaking Treatment	))))))))	Docket No. UG-15-_____ PETITION OF AVISTA CORPORATION

I. INTRODUCTION

1 In accordance with WAC 480-90-203(3), Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby petitions the Commission for an Order, on or before March 1, 2016, authorizing the approval of changes to the Company's natural gas line extension tariff. These changes include, 1) a modification to the calculation and amount of a line extension allowance, 2) a limited waiver of WAC 480-90-223(1) related to natural gas advertising, and 3) accounting and ratemaking treatment detailed in this Petition related to the use of any excess single-family residential line extension allowance as a rebate on customers' purchase and installation of natural gas space and/or hot water heating equipment, if the customer is converting to natural gas from another fuel source.

2 Avista is a utility that provides service to approximately 370,000 electric customers and 232,000 natural gas customers in a 26,000 square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 98,000 natural gas customers in

Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its main office.

3 Please direct all correspondence related to this Petition as follows:

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4 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, WAC 480-07-370(1)(b), and WAC 480-90-223(1).

II. SUMMARY OF PETITION

5 Avista requests approval of the following tariff revisions to the Company's Natural Gas Extension Policy Schedule 151 or Tariff WN U-29.

Tariff Revisions

1st Revision Sheet 151	Canceling	Original Sheet 151
1st Revision Sheet 151A	Canceling	Original Sheet 151A
Original Sheet 151B		

Tariff Cancellations

Original Sheet 152
Original Sheet 152A

6 Avista's Natural Gas Extension Policy Schedule 151 is applicable to residential customers, and Schedule 152 is applicable to commercial and industrial customers. The changes to Schedule 151 discussed below will pertain to both residential and commercial/industrial customers, and therefore the Company is proposing to consolidate all

natural gas line extension policies in Schedule 151.[1] That is why the Company is proposing to cancel Schedule 152.

7 The Company is also requesting the Commission approve the Company's request to provide a limited three year waiver of WAC 480-90-223(1) related to natural gas advertising and promotion. Finally, the Company seeks approval, for a three year period, of the proposed accounting and ratemaking treatment, which would allow Avista to provide any excess residential line extension allowance (that is not otherwise applied towards the cost of extending natural gas service to the customer) in the form of a rebate, to any single-family, residential Schedule 101 customer who converts to natural gas from another fuel source, which would apply towards the cost and installation of the customer's natural gas space and/or water heating equipment.

III. BACKGROUND

8 As part of an investigation into the need for expanding natural gas distribution infrastructure, the Commission opened Docket No. UG-143616 and issued a Notice of Opportunity to File Written Comments on October 6, 2014, and held a workshop in that docket on November 3, 2014. At the workshop, participants identified opportunities to expand natural gas distribution infrastructure to address environmental concerns associated with emissions, to promote economic development, and the efficient end-use of natural gas.

9 On November 25, 2014, the Commission issued a second Notice of Opportunity to File Written Comments regarding specific strategies the Commission should pursue, including

[1] This is similar to the treatment of electric line extension policy issues, all of which are contained in electric Schedule 51.

whether the Commission should address these issues through individual tariff filings, rulemaking or a policy statement, or whether a legislative solution is needed. At the workshop and in written comments, companies stated that some of the broader issues raised in the docket may be addressed through revisions to line extension tariffs.

10 On August 20, 2015, the Commission issued a Notice of Opportunity to File Written Comments more specifically aimed at understanding all four on the natural gas utilities current line extension policies as well as potential changes to those policies. On September 23, 2015, the Commission held a workshop to discuss the companies' line extension policies, and more specifically what changes the Commission could institute through tariff filings as opposed to broader legislative fixes that are beyond the direct control of the Commission.

11 In keeping with Avista's prior comments, as well as the discussion that occurred at the two workshops held in that docket, the Company is proposing certain modifications to its line extension policies. Avista believes that the proposed changes discussed below will help to expand natural gas distribution infrastructure to address environmental concerns associated with emissions, and further promote the efficient end-use of natural gas. Avista proposes that the changes be approved on a temporary basis (pilot period), with a subsequent review to determine the effectiveness of the changes.

IV. CHANGE IN ALLOWANCE METHODOLOGY

12 Under the Company's present allowance methodology, the allowance provided to a customer is three times the annual revenue that the customer is estimated to provide. For example, if a Schedule 101 customer were to provide an estimated $640 in annual revenue, the allowance would be $1,920 (or $640 times 3 years). The estimated revenue requirement

associated with the $1,920 utility investment (the allowance) is approximately $178 per year.[2] Given that the average annual margin per residential customer, using 68 therms per month, is presently $388 per year[3], new customers are contributing margin above the annual cost of the line extension.

13 Avista believes that changes in the methodology used to calculate the Company's line extension tariff will increase the likelihood that natural gas mains will be more accessible, and that customers will be more inclined to connect to the system. The Company provided an example of a new allowance methodology in its December 15, 2014 comments in the line extension docket, UG-143616, which we are now proposing in the revised tariff Schedule 151.

14 The Company is proposing to use a Perpetual Net Present Value ("PNPV") methodology. The application of this methodology would be relatively straight-forward. As discussed in a report by the National Regulatory Research Institute[4]:

> The maximum level of "economical" investment equals the annual distribution margin divided by the required rate of return. The assumption is that the recovery period approaches infinity. If, for example, the average new customer contributes $300 annually to the utility's distribution margin and the utility's required rate of return is 10 percent, the utility would consider spending $3,000 per new customer to be economical.

15 In Avista's last general rate case, Docket Nos. UE-140188 and UG-140189, the Commission-approved distribution margin revenue per customer for Schedule 101 customers, including the basic charge revenue, was $388 per year. The rate of return approved in the

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[2] The calculation of the estimated revenue requirement has been provided in the Company's workpapers.
[3] The margin revenue per customer consists of twelve months of the $9 monthly basic charge ($108 annually) and the annual residential rate group decoupled revenue of $280.28 (based on a customer using an average of 68 therms per month). See Attachment A for the calculations.
[4] "Line Extensions for Natural Gas: Regulatory Considerations," National Regulatory Research Institute, February 2013. http://www.nrri.org/documents/317330/aa3828ed-bbfa-4fac-b405-c6045dcf580c, p. 20.

Settlement Stipulation pending Commission approval in Docket Nos. UE-150204 and UG-150205 is 7.21%, which adjusted for income taxes is 10.24%.[5] The allowable line extension investment using the PNPV methodology is $388 divided by 10.24%, which is equal to $3,789. The result of the change in methodology is a higher line extension allowance ($3,789) as compared to the Company's current methodology ($1,920).

16 For customers taking service on schedules other than Schedule 101, the Company is proposing the same methodology for determining a line extension allowance, with just one modification. Customers served on Schedule 101 tend to be a homogenous group in terms of usage. Customer usage on the Company's other service schedules, however, tends to be less similar. As such Avista believes that it is appropriate to use a "per-therm" allowance, similar to what the Company does for Schedule 51 electric line extension calculations for non-residential customers. Therefore, instead of applying a flat rate allowance as is proposed for Schedule 101 customers, the Company is proposing a per-therm rate allowance of $2.74 per first-year therm usage for Schedules 111/112, and $2.13 per first-year therm for Schedules 121/122. The derivation of those allowances, which are based on similar Commission-approved values, are provided in Attachment A to this Petition.

17 The Company believes that the PNPV methodology will provide further natural gas hookups through an economically supported formula. At the same time, the line extension allowance will be easier to administer for the Company, and easier to audit for the Commission, given that just a few Commission-approved inputs are used in the calculation.

[5] A 5.20% debt cost and a debt component of 51.5% results in a 2.68% weighted cost of debt. The tax benefit of the weighted debt cost at 35% is 0.94%. The 7.29% rate of return reduced by the tax benefit of interest (0.94%) equals 6.35%. The 6.35% grossed up by the revenue conversion factor of 0.62014 yields a pre-tax cost of capital of 10.24%

Finally, as these inputs to the formula change over time, the Company would simply update the allowances through a tariff filing with the Commission.

18 The Company has made other language modifications and clarifications to Schedule 151, which we believe provide customers with a better understanding of both their responsibilities, and the Company's. The Company has also included certain language from its electric Schedule 51 tariffs that is also applicable to natural gas line extensions.

V. EXCESS RESIDENTIAL ALLOWANCE FOR CUSTOMER EQUIPMENT

19 The cost of the line extension for a customer to install natural gas service represents only a portion of the overall upfront costs a customer faces. Through experience, the Company knows that equipment and installation costs represent the largest portion of total costs and are one of the greatest barriers for customers to install natural gas. The increased allowance proposed above will provide an increased benefit to customers who have more costly line extensions and will provide relief on the total project cost a customer faces.

20 While the cost of the line extension will be more cost effective for a greater number of customers, the costs of equipment and installation will still come as a burden to many. It can cost a customer in excess of $5,000 out of pocket for natural gas equipment. This out of pocket expense will remain a barrier for many customers to pay for the equipment and installation costs to convert to natural gas.

21 In order to overcome the cost barrier that many customers face in the decision to convert to natural gas for the three-year pilot period, the Company proposes that any excess line extension allowance be available to single-family, residential Schedule 101 customers to apply towards the purchase and installation of natural gas space and/or water heating equipment

upon converting to natural gas from another fuel source. Currently, the average cost of a residential line extension is $2,345. Some extension costs will be higher, while others are lower. If the line extension allowance increase to $3,789 is approved, on average, customers would have a remaining allowance of $1,444. In this example, the $1,444 unused portion of the allowance would be provided to the customer for the purchase and installation of space and/or water heating equipment.[6]

22 The effect of the Company's proposal is it will increase the likelihood that those customers closest to natural gas mains will convert to natural gas.

23 As mentioned above, the proposed rebate for any excess allowance will only be available to single-family, residential customers that are converting to natural gas from another fuel source. The reason the Company is proposing to limit this rebate to only existing housing stock is that, currently, over 90% of new homes that are built, where natural gas is available, already choose to install natural gas. It is the existing residential customers who face a higher cost of conversion, both in terms of the cost of the line extension and equipment costs, that require additional incentives to convert to natural gas. Both new construction and fuel conversion customers will still be eligible for the increased line extension allowance if approved, as well as existing energy efficiency rebates for the installation of high efficiency natural gas equipment.

24 The process for providing any excess allowance to a customer will be similar to the process used by the Company in providing DSM rebates. The Company will require that the

[6] The Company estimates that its proposal would add approximately 600 new single-family, residential Schedule 101 customers in 2016 by means of conversion to natural gas from another fuel source. If the effects of both the increase in the line extension allowance, as well as rebating the unused portion of the line extension allowance to customers are approved, the total rebate of the unused portion of the line extension allowance for 2016 would be approximately $866,400 (600 customers x $1,444 remaining allowance).

customer submit invoices for their equipment and installation costs. After verification of the invoices, the Company will then provide any excess allowance to the Customer. The rebate will not exceed the total cost of the customer's purchase and installation costs. The Company will provide the rebate to a customer upon receiving a paid receipt within ninety (90) days of the purchase and installation of the customer's space and/or water heating equipment.

25 The Company is proposing to provide any excess allowance to residential customers (single-family converting from another fuel source) for a period of three years (through February 28, 2019 given the proposed effective date of March 1, 2016 of the filed tariffs). During the three-year period the Company will provide semi-annual reporting to the Commission showing the impact of the increased allowance and rebates. Following the end of the second year of the pilot, the Company will review the results with Commission Staff, and other interested parties, to determine if the Company should continue to offer the rebate beyond the three-year pilot period or not.

VI. LIMITED WAIVER OF WAC 480-90-223(1)

26 Avista believes that all of its natural gas and electric customers, as well as the citizens of the State of Washington, benefit from having more customers using natural gas for space and water heating and other purposes. The Commission's investigation, as discussed earlier in this Petition, highlighted the customer and societal benefits of natural gas service that go beyond the conventional cost-benefit calculation used to determine the economics of extending natural gas to un-served and under-served areas. Such benefits include electricity savings from fuel conversions and environmental benefits, including a reduction of carbon dioxide emissions as

compared to oil heat, for example, and long-run power supply improvements through the displacement of incremental regional natural gas-fired generating resources.

27 It is also the case that Avista does not benefit from the added throughput associated with new natural gas customers. Through Avista's decoupling mechanism, the Company does not benefit from increase therm sales. The purpose of the proposed changes is to encourage customers to use natural gas, because the end-use of natural gas is the most energy-efficient, and the most environmentally friendly method to heat space and water.[7]

28 For these reasons, during the three-year term of the pilot, the Company believes that certain costs of promotional advertising encouraging customers to convert to natural gas service should be recoverable in rates. Therefore, the Company is requesting the Commission approve a three-year limited waiver (through February 28, 2019) of the WAC 480-90-223(1) language underscored below:

> **WAC 480-90-223 - Advertising.**
>
> (1) The commission will not allow expenses for promotional or political advertising for rate-making purposes. The term "promotional advertising" means advertising to encourage any person or business to select or use the service or additional services of a gas utility, to select or install any appliance or equipment designed to use the gas utility's service, or to influence consumers' opinions of the gas utility. The term "political advertising" means any advertising for the purpose of influencing public opinion with respect to legislative, administrative, or electoral matters, or with respect to any controversial issue of public importance.

29 The Company is seeking a limited waiver of the prohibition of encouraging customers through promotional advertising to select natural gas for space and water heating. If the

[7] Avista recognizes that space and water heating supported by wind, solar and other renewable may at times have environmental advantages, however, these resources generally require backup from incremental natural gas-fired resources.

waiver to WAC 480-90-223(1) is approved as proposed, the Company would advertise and promote the consumer and societal benefits of natural gas to potential customers. Examples of messaging the Company would use are as follows:

a. Economical – Natural gas generally costs less than electricity, heating oil, and propane for space and water heating, is the preferred choice among homeowners, and can be a wise investment in the home.
b. Clean – Natural gas is the cleanest burning fossil fuel, which can help reduce greenhouse gas emissions.
c. Convenient and Reliable – Natural gas is available on demand, with no worry about running out of fuel. Natural gas provides consistent hot water, precise temperature control for stovetop cooking, and warm, even heat throughout the home.
d. Plentiful and Domestic – Natural gas is an abundant energy resource produced in North America, which helps lessen our dependency on foreign oil.

30 The Company may utilize the following marketing communications strategies for broad-based advertising, as well as direct marketing to individuals:

a. Television, radio, print, and online advertisements
b. Digital promotions via our website and/or social media
c. Direct mail, email, and door hangers
d. Signage, including bill boards and other public signs
e. Public relations and outreach at community events

Under the proposed waiver, the Company would plan to spend up to $500,000 per year advertising and promoting the use of natural gas.

VII. PROPOSED ACCOUNTING TREATMENT

31 The Company is requesting an order from the Commission approving the deferral, for later recovery in rates, the excess line extension allowance paid to Washington residential customers upon conversion to natural gas. The deferral of excess line extension allowances paid by Avista would begin on the same date in which the revised tariffs included in this Petition become effective. In the general rate cases filed during the pilot period, the Company would propose to amortize and recover the costs from all customers over a five-year period with a return on the unamortized balance.

32 The accounting treatment proposed in this Petition is similar to how the Company handled its Demand Side Management (“DSM) Program prior to 1995, up until the tariff rider for recovery of DSM expenses was adopted on January 1, 1995. DSM rebates provided to customers for the installation or conversion of high efficiency equipment was deferred for later recovery, and then amortized and recovered over a period of time, with a return on the unamortized balance.

33 The Company requests to defer the costs in Account 182.3 – Other Regulatory Assets. A summary of the accounting entry follows:

FERC Acct. No.	Account Description	Debit	Credit
182.3	Other Regulatory Assets	$ 100	
232.1	Accounts Payable - General		$ 100
	To record payment of line extension rebate to customers.		

Note: Associated current and deferred income taxes will be recorded.

34 In future general rate cases Avista would request recovery of the deferred balance over a five-year period. The monthly accounting entry to record the amortization is as follows:

FERC Acct. No.	Account Description	Debit	Credit
407.3	Regulatory Debits - Amortization	$ 100	
182.3	Other Regulatory Assets		$ 100
	To record amortization of line extension rebates paid to customers.		

Note: Associated current and deferred income taxes will be recorded.

VIII. REQUEST FOR RELIEF

35 WHEREFORE, Avista respectfully requests that the Commission issue an Order, on or before March 1, 2016, approving the line extension tariff revisions, a limited waiver of WAC 480-90-223(1), and deferred accounting and ratemaking treatment of the costs incurred for Avista to offer excess line extension allowances to single-family, residential Schedule 101 customers in the form of a rebate for the purchase and installation of space and/or water heating equipment upon the conversion to natural gas from another fuel source. Recovery of the deferred costs over a five-year period would occur through general rate case filings as explained in this Petition.

DATED this 16th day of December 2015

By: ______________________
David J. Meyer
Vice President and Chief Counsel for Regulatory and Governmental Affairs

Avista Utilities
Derivation of Allowance for Schedules 101, 111/112, and 121/122
Natural Gas Service

Line No.		Source	Residential Schedule 101	Non-Residential Schedules*	Non-Residential Schedule Breakout For Natural Gas Line Extension Purposes Only: Schedules 111/112	Schedules 121/122	Total - Check for 111/112 & 121/122
	(a)	(b)	(c)	(d)			
1	Decoupled Revenues	Appendix 5, Page 1	$ 42,093,794	$ 11,491,664	$ 10,357,425	$ 1,134,239	$ 11,491,664
2	Rate Year # of Customers 2015	Revenue Data	150,186	2,548	2,523	25	2,548
3	Decoupled Revenue Per Customer	(1) / (2)	$ 280.28	$ 4,509.33	$ 4,105.20	$ 44,625.78	
	Revenue From Fixed Charges		$ 108.00		$ 1,044.48	$ 2,582.88	
	Total Fixed Charge Revenue (rounded)		$ 388.00		$ 5,150.00	$ 47,209.00	
	Grossed Up Rate of Return (Petition, Footnote 4)		10.24%		10.24%	10.24%	
	Perpertual NPV Methodology Allowance		**$ 3,789**		$ 50,293	$ 461,025	
	Average Therm per Customer				18,334.08	216,676.88	
	Allowance Per 1st Year Therm (Non-Residential Customers)				**$ 2.74**	**$ 2.13**	

Allowance per Therm

*Sales Schedules 111, 121, 131.

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

David J. Meyer, being first duly sworn on oath, deposes and says: That he is a Vice President of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Petition, knows the contents thereof, and believes the same to be true.

SIGNED AND SWORN to before me on this 16 day of December 2015

PATTY L HANSON
Commission Expires
NOTARY PUBLIC
11-23-2017
STATE OF WASHINGTON

NOTARY PUBLIC in and for the State of Washington, residing at Spokane.

Commission Expires: 11/23/2017