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Via Electronic Mail

Steven V. King
Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Docket No. UG-143616 - Comments of Avista Utilities

Dear Mr. King,

Avista Corporation, dba Avista Utilities (Avista or Company), submits the following comments in accordance with the Washington Utilities and Transportation Commission's (Commission) Notice of Opportunity to Submit Written Comments (Notice) issued in Docket UG-143616 – Investigation of Natural Gas Distribution Infrastructure Expansion.

During the 2014 Legislative Session, the Washington State House of Representatives passed ESHB 2177, concerning the expansion of natural gas distribution infrastructure. This bill would have required the Commission to initiate a stakeholder process to develop innovative proposals for financing and expanding natural gas distribution infrastructure to areas that currently lack service. While ESHB 2177 did not pass in the Senate, the bill's sponsor, Representative Jeff Morris has encouraged the Commission to move forward with the concepts outlined in the bill.

In response to Rep. Morris' request, the Commission has scheduled a workshop as a recessed open meeting on Monday, November 3, 2014 to discuss the need for natural gas distribution infrastructure expansion, and investigate the options available to implement such expansion. The Commission requested that local natural gas distribution companies and other interested parties submit written comments on the issues identified in the notice dated October 9, 2014.

By way of background, Avista owns and maintains approximately 7,650 miles of natural gas distribution lines, and is served off of two interstate pipelines, Williams Northwest Pipeline and Gas Transmission Northwest. Avista is also a one-third owner of the Jackson Prairie Natural Gas Storage Facility. Based on the Company's 2014 Natural Gas Integrated Resource Plan (IRP) the number of natural gas customers is projected to increase at a compounded average annual rate of 1% in its Washington and Idaho service territories. New natural gas customer connections for all customer classifications were 4,484 in 2013 and 3,786 in 2012.

The Company appreciates the opportunity to provide its preliminary responses to the questions identified in the notice, and looks forward to providing further input at the workshop on November 3, 2014.

1. What is the need or level of expressed demand in Washington to expand natural gas distribution infrastructure? Please describe the basis for this need or expressed demand.

Response: On average, the Company receives approximately 6,000 natural gas inquiries per year from customers that we are ultimately unable to serve. Some of the reasons why we are unable to service include the lack of natural gas infrastructure in the area, the distance from the customer's premises to existing natural gas infrastructure, customer contribution requirements (i.e., costs required by the customer to pay in excess of their allowance under our line extension tariff), and the customer's cost to replace existing appliances to new natural gas equipment.

2. What costs and benefits should natural gas distribution companies and the Commission consider when assessing the need to expand natural gas infrastructure?

Response: Consideration should be given to the following:

- a) Electric Savings – There would be reduced electric demand as customers use natural gas for space and water heat instead of electricity. The incremental resource in our region for base load electric generation is natural gas generation. It is more efficient to use natural gas directly at the end-use rather than generate and transmit electricity to the end user for space and water heat.
 - b) Increased customer satisfaction - Natural gas equipment enhances lifestyle satisfaction in that it provides warm air at the heating registers, even cook top temperatures, faster hot water heat recovery, and one-half of the drying time for clothing, among other benefits.
 - c) Environmental benefits - Reduction in greenhouse gas emissions in areas that would switch from oil and propane sources, as well as a reduction in emissions from the end use of natural gas versus generating electricity with natural gas for the end-use.
 - d) Convenience and Reliability - Natural gas is piped directly to the customer so it is available on demand. Customers never have to worry about running out of fuel or arranging for deliveries. there's no waiting, no storage, no mess.
 - e) As we work outside of our current service area, customers may incur out of pocket costs as the extension is not cost justified by the tariff allowance. This presents an additional financial hurdle for new customers to overcome.
 - f) Municipalities have increasingly stringent requirements on permitting, pavement restoration and other requirements that increase costs making some extensions economically unviable.
3. Are there certain geographic areas, communities, or districts that present a higher priority for expansion than others? Why?

Response: The two areas that present a higher priority for expansion include the Okanogan Valley, including the towns of Omak, Republic, Tonasket and Okanogan, as well as the towns of Newport and Usk in northeast Washington as those towns have the densest unserved territory, and are areas the Company has evaluated in the past. Further, there are several areas contiguous to our current service territory that the Company has investigated that require significant main extension to reach. Areas for consideration when determining expansion prioritization include regional density, the level of commercial and industrial anchor customers, environmental issues such as regional air quality, and the regional economy.

4. How should the expansion of natural gas distribution infrastructure be financed?

Response: Please see the Company's response to Question No. 5 below.

5. What financing methods or cost recovery mechanisms are available to expand service to developed areas that cannot currently be served cost-effectively?

Response: The Company believes that there are several cost recovery mechanisms that could be used to expand service to areas that cannot currently be served cost-effectively.

Below is a non-exhaustive list of potential mechanisms¹:

- a) Infrastructure Tracker – A tracker such as this would allow the Company to recover costs in annual filings associated with natural gas expansion projects between general rate cases. Such a tracker could include the recovery of the revenue requirement associated with the natural gas expansion project, net of revenue from new customers.
- b) Deferred Accounting – similar to the Infrastructure Tracker noted above, the Company would simply defer the applicable revenue requirement, net of revenue from new customers, for later recovery.
- c) Infrastructure Tariff Rider/Universal Service Fund – under this approach, all natural gas customers would pay a small surcharge on a per-therm basis to cover the revenue requirement associated with extension of natural gas infrastructure. The funds would then be used to bridge the difference between the annual revenue requirement associated with the project, and the amount of the project that is cost-effective using traditional line extension practices.
- d) New customer surcharge/fee – under this methodology, customers receiving natural gas service would, in lieu of a contribution in aid of construction, pay a surcharge meant to recover any excess costs above that justified through the line extension tariff. Such a surcharge could be a fixed monthly fee (i.e., an additional basic charge), a per-therm charge, or a % of bill surcharge (i.e., 10% adder), and be imposed for a shorter or longer time-period. In Docket No. 13-06-02, the Connecticut Public Utilities Regulatory Authority issued its decision related to a statewide expansion of natural gas by its regulated natural gas utilities. Among

¹ See also "Line Extensions for Natural Gas: Regulatory Considerations," National Regulatory Research Institute, February 2013. <http://www.nrri.org/documents/317330/aa3828ed-bbfa-4fac-b405-c6045dcf580c>

other things, the decision establishes new rate and cost recovery mechanisms for system expansion whereby, effective January 1, 2014, new customers that live near existing mains, but do not presently use natural gas, will be charged a 10% premium over current rates to offset incremental costs of expansion, in lieu of making a onetime upfront payment to cover connection costs. Off main customers added after January 1, 2014 will pay a 30% premium on the distribution component of standard rates. Premiums are to be paid over a ten year period and are to be paid only on the distribution portion of rates.

Attached as Exhibit 1 to Avista's comments is the October 2013 "State Infrastructure Expansion Activity" summary document prepared by the American Gas Association which provides a high-level overview of infrastructure expansion activities undertaken in 16 states.

6. Are there specific potential incentives that may encourage utilities to pursue and facilitate gas infrastructure expansion?

Response: Timely cost recovery, including a return on the incremental investment, would help facilitate natural gas infrastructure expansions to areas that are unserved or underserved.

7. Is the existing transmission pipeline and storage capacity in Washington sufficient to serve expanded distribution infrastructure? If so, what is the potential additional demand that may be served within existing capacity? If not, where is additional transmission pipeline and storage capacity needed?

Response: Avista believes that the existing transmission pipeline and storage capacity in Washington is sufficient to serve expanded distribution infrastructure, especially to the extent that such infrastructure occurs in, or is contiguous to, Avista's natural gas service territory. In July 2014 Avista filed its Integrated Resource Plan ("IRP"). In that IRP the Company forecasted sufficient natural gas transportation resources well into the future with resource needs not occurring during the 20 year planning horizon. Only under the high-growth, low-price scenario does Avista project that, starting in year 2029, it would not have existing resources under contract to serve customers' peak demand. As a part of

the IRP the Company outlines an Action Plan, which has the following components, among others:

- Monitor actual demand for growth exceeding the forecast to respond aggressively to address potential accelerated resource deficiencies arising from exposure to “flat demand” risk.
- Continue to monitor supply resource trends including the availability and price of natural gas to the region, LNG exports, Canadian natural gas supply availability and interprovincial consumption, and pipeline and storage infrastructure availability.
- Monitor availability of current resource options and assess new resource lead-time requirements relative to resource need to preserve flexibility.

In short, the Company believes it has the resources to serve additional load, and continues to monitor its resources in part through the IRP process.

8. To ensure a coordinated approach and comprehensive coverage, should the Commission require, subject to its approval, all regulated utilities and other stakeholders to identify unserved or underserved areas and develop a master plan for statewide gas infrastructure expansion?

Response: Yes, Avista would encourage and also participate in a statewide process to investigate how to bring natural gas to unserved and underserved areas.

Avista appreciates the opportunity to provide these comments, and we look forward to participating in the workshop scheduled for November 3, 2014. If you have any questions regarding these comments, please contact me at 509-495-4975 or at linda.gervais@avistacorp.com.

Sincerely,

/s/Linda Gervais/

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