Avista Utilities

Fuel Conversion Transition Plan

Washington

October 26, 2018

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I. Background

On April 26th 2018, the Washington Utilities and Transportation Commission ("UTC") issued Order No. 07 in Docket Nos. UE-170485 and UG-170486 (*consolidated*) ordering Avista to work with its Energy Efficiency Advisory Group ("Advisory Group") to transition the funding of its Fuel Efficiency Program (Fuel Conversions) from its electric tariff rider (Schedule 91) to its natural gas tariff rider (Schedule 191) by December 31, 2019, and to submit a plan for a transition by October 26, 2018. The following from Order No. 07 provides that:

> "…the Commission finds that the Company may continue the natural gas Fuel Conversion program, but that the program should not be funded through the electric conservation rider but instead should be funded by the Company's natural gas conservation rider."
>
> "We agree and direct the Company and Staff to work with the Conservation Advisory Group on a plan that gradually transfers the funding obligation for the Fuel Conversion program from the electric conservation rider to the natural gas conservation rider by December 31, 2019. In developing this plan, the parties also should assess the effectiveness and sustainability of the Fuel Conversion program under a new funding structure going forward. The Company must submit this plan within six months from the effective date of this Order."

This report outlines the work that Avista, along with its Advisory Group propose as a plan to transition the program out of the electric tariff rider and to identify the various decisions made in compliance with the Commission's Order.

II. Assumptions and Inclusions

While Avista recognizes that the language used in the Commission's Order allows for more discretion given to the Company and its Advisory Group to define the program going forward, the Order has been interpreted as follows:

1. Fuel Conversions are not considered "conservation".
2. The Order applies to all Fuel Conversion Programs offered by Avista, which includes Residential Fuel Efficiency, Multifamily Market Transformation (MFMT), and Low-Income Fuel Conversions[1].
3. Definitions
    a. New Funding Structure – A mechanism for which ratepayer dollars are collected to fund a program that is separate from the current funding mechanism.
    b. Effectiveness – The measure by which the program is evaluated as successful in meeting its goals.

[1] See section B. "Stage II – Discontinuation of Fuel Conversion Programs" for a proposed exception for the Low-Income sector.

c. Sustainability – The measure by which the program is able to maintain a level of achievement where the benefits derived from its operations exceed the associated costs. These benefits include economic, societal, customer, and environmental considerations and impacts.

d. Gradual – A methodology or transition from one conservation rider to another that occurs in multiple stages rather than in a singular transfer.

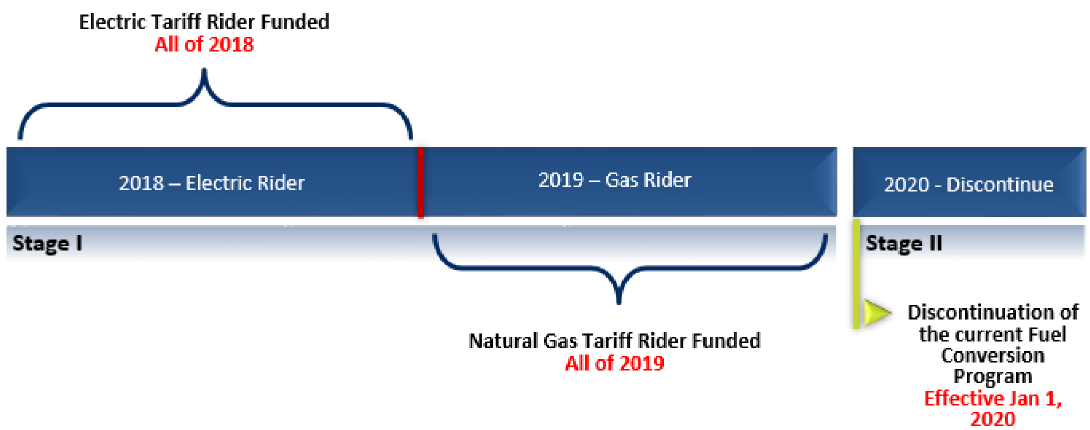
III. Transition Plan for Avista's Fuel Conversion Programs

The proposed transition plan would occur in two stages:

Stage I – Transfer to Natural Gas Conservation Rider in 2019 - The Company will begin funding all current conversion programs through its natural gas tariff rider beginning January 1, 2019 with an end date of December 31, 2019.[2]

Stage II – Discontinuation of the Fuel Conversion programs beginning in 2020 - The Company will discontinue all current Fuel Conversion programs funded through its energy efficiency tariff riders in 2020.[3]

The following graphic illustrates the two stages of the transition plan:



[2] The transition in funding to the natural gas tariff does not include any balances or contractual obligations made prior to 1/1/2019.

[3] Elimination of the natural gas Fuel Conversion Program is predicated upon the Company's belief that its Line Extension Allowance (LEAP) program will continue into the foreseeable future. In the event LEAP is substantively discontinued, the Company may seek to reinstate a fuel conversion program, as Avista believes the loss of both programs would be a disservice and detriment to the customers it serves (see section B. "Stage II – Discontinuation of Fuel Conversion Programs").

A. Stage I – Program Modifications and Transfer to Natural Gas

Modified Incentive Levels

Avista's 2016-2017 Electric Impact Evaluation provided the following realization rates for its Fuel Conversion Programs:

- 62% Residential Fuel Conversions
- 92% Non-Residential Fuel Conversions
- 92% Low-Income Fuel Conversions

A realization rate is simply the percentage of the anticipated savings that was achieved during the program year. For example, a 92% realization rate indicates that the Company's program achieved 92% of the anticipated savings amount by the end of that period.

Because of these realization rates, the current incentive levels are now too high to support the Company's $0.20 per kWh limit as outlined in the electric conservation rider – schedule 90. In order to align with the Tariff's incentive limits, the following revisions to incentive levels are proposed for 2019:

Fuel Conversion Program Incentive Levels for 2018 & 2019		
Fuel Conversion Measure Description	**2018 (Current)**	**2019 (Proposed)**
E to NG Furnace	$1,500	$1,200
E to NG Combo	$2,250	$1,700
E to NG Wall Heater	$1,300	Eliminated
Low-Income Conversions	Unchanged	Unchanged
MFMT (Non-Res)	$3,500	$3,000

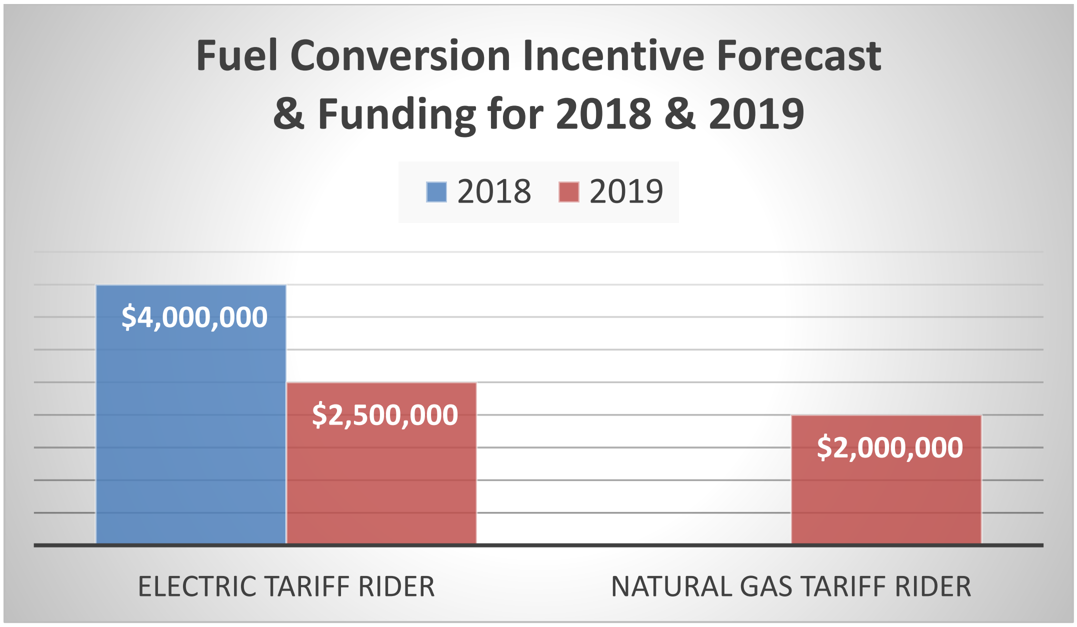
Restrictions & Forecasted Budget

The Company proposed to increase the required minimum energy usage for participants of the residential fuel conversion program. For 2019, customers will be required to have a minimum use of 10,000 kWh which is an increase from the 8,000 kWh requirement in 2018. This will ensure that that projects undertaken by the program have a higher effectiveness and make the best use of dollars spent during the transition to the intermittent natural gas funded period.

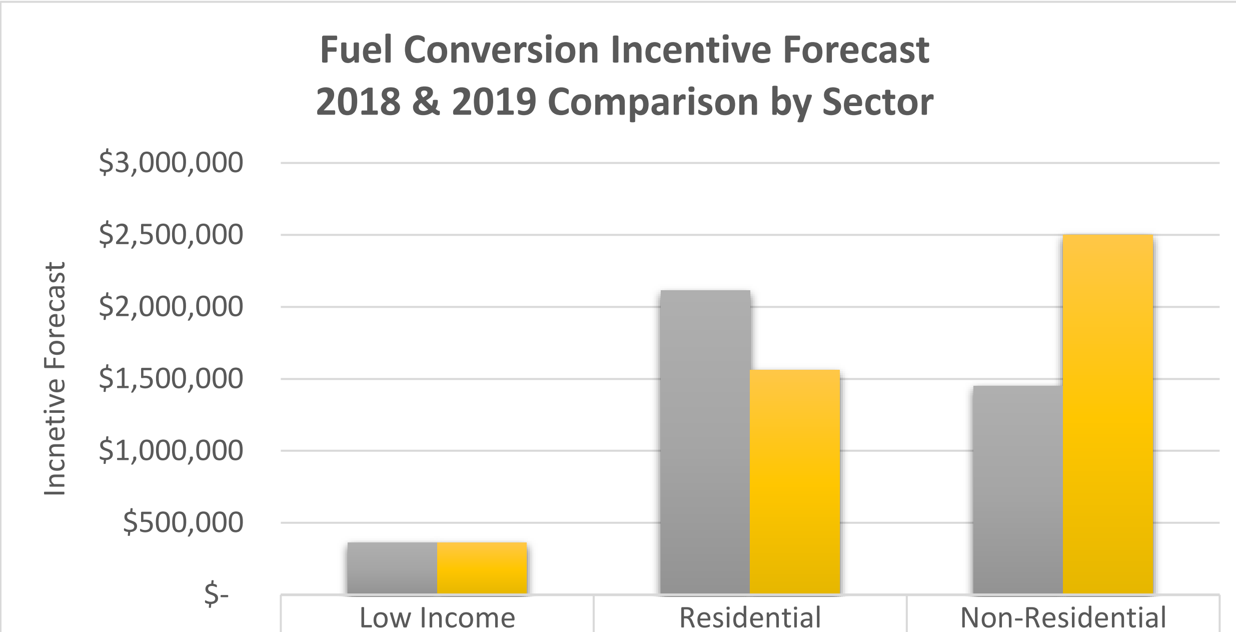
For 2018, the forecasted incentive expenditures total $4 million[4] funded through the electric conservation tariff rider. The Company forecasts a total of $4.5 million for 2019 incentives (approximately $2.5 million of which is estimated to be funded through the electric tariff rider as a result of existing contracts - see the below section for "Existing Fuel Conversion Contracts" and

[4] Total forecasted expenditures including non-incentive utility costs is $5 million.

the remaining $2 million to be funded by the natural gas rider). The following graphic illustrates the fuel conversion incentive forecasting and funding mechanisms for 2018 and 2019.



The Company recognizes that customer demand and market factors exist outside of the budgeting process and that forecasted expenses may be higher or lower by amounts exceeding 5% in each year. Additionally, there are factors that are difficult to quantify associated with the reduced incentive levels, and the increase of the required minimum usage that will impact the volume of fuel conversion projects. The Company based its budgets on the forecast of expected spending that will occur in each program year. It does not, however, represent an expectation or commitment to limit expenses to those amounts, and as such is not proposing a spending cap on fuel conversions during the remainder of the program. See the following illustration for a comparison of 2018 and 2019 fuel conversion incentive forecast and savings estimates by sector.



	Low Income	Residential	Non-Residential
2018 Incentive	$363,806	$2,113,200	$1,450,014
2019 Incentive	$363,806	$1,562,100	$2,500,000

Existing Fuel Conversion Contracts

The Company views contracts with customers as a firm commitment to the customer and community, and intends to honor any "in-place" contracts for its Fuel Conversion Programs. This includes contracts for low-income, residential, and non-residential programs.

The Company modified the Multifamily Market Transformation Program contract conditions in January of 2018 indicating that all projects must be completed by December 31, 2019. As reflected in the budget, it is estimated that $2.5 million in contracts will be completed in 2019. Funding for these projects will be through the electric tariff rider as the contracts are (or will be) signed on or before December 31, 2018.

Tariff Rider Filings

The Company filed its request to increase funding through Schedule 91 on June 1, 2018. The increase was to recover its underfunded balance of $13.7 million and also to increase collections based on the expected level of conservation over the next two years. This amount includes residential, non-residential, MFMT, and low-income fuel conversion programs.

For the transition period once this plan is in effect, the Company will assess its balance and will file for the appropriate adjustments to rates so that funds for new fuel conversion projects will be collected through the natural gas tariff rider, schedule 191, in 2019.

EM&V Requirements, Cost Effectiveness Testing & Reporting

The Company recognizes that there is not a shared interpretation of "conservation" as it applies to the Fuel Conversion program. Being that, for 2019, fuel conversion funding will be through the natural gas tariff rider, the kWh savings and impact to therms will not be counted or classified as conservation. Because the program will no longer be a considered a conservation program, it will not be evaluated through traditional EM&V or subject to cost-effectiveness testing. In addition, the Fuel Conversion Program will not be included in the 2019 Annual Conservation Plan or 2019 Annual Conservation Report, but rather documented separately.

B. Stage II – Discontinuation of Fuel Conversion Programs

Background

Avista customers have been participating in our Fuel Efficiency program since 1987. Over the years, customers have benefited by having a fuel choice and the ability to control their energy costs by using the lowest cost, highest efficiency fuel for their needs. The electric savings from this program, although not applicable to I-937 requirements, have had significant impacts on lowering load on Avista's grid, shaving peak demands from the system, deferring capital investments further, and benefiting all electric customers in our service territory and the region by reducing additional rate pressure.

Discontinuation of Program Effective Jan 1, 2020

While the Company recognizes the Fuel Conversion Program as having substantial benefits for both its customers and the utility's infrastructure and capital planning, the Company looked to the advice and counsel of its Advisory Group which brought to light the multiple challenges that exist in continuing the program as it is currently funded.

Avista's Line Extension Allowance Program

Elimination of the natural gas Fuel Conversion Program is predicated upon the Company's belief that its Line Extension Allowance (LEAP) program will continue into the foreseeable future. Approved on February 25, 2016 as a three-year pilot to "help expand natural gas distribution infrastructure to address environmental concerns associated with emissions, and further promote the efficient end-use of natural gas.",[5] the LEAP program gives residential customers an allowance for installing natural gas facilities, and allows customers to use any excess allowance towards the purchase and installation of high efficiency space heating and water heating equipment.

As part of the Commission's Order 07, the Company was instructed "to notify Staff and the Commission by November 30, 2018, whether it intends to modify, extend, or discontinue the LEAP program."[6] The Company's intention is to request Commission approval to extend the LEAP program in its November filing, as it has proven an essential tool in promoting the efficient

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[5] Petition of Avista Corporation 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, UG-152394, Para. 11

[6] UE-170485 and UG-170486 (consolidated), Order 07, Para. 283

end-use of natural gas, expanding the natural gas distribution infrastructure, addressing environmental concerns associated with emissions, and, perhaps most importantly, providing options to lower the energy burden and increase efficiency for Avista's low income population.

Results of the Company's semi-annual reporting and evaluation of the LEAP program continue to show that the availability of the excess allowance equipment rebate not only has a substantial impact on customers' decisions to convert to natural gas, but it provides an opportunity for installation of high efficiency equipment to customers that may not have otherwise had the option due to financial constraints. Through this reporting, as well as the Company's future filing to extend the program as referenced above, Avista will provide considerable evidence in support of the LEAP program's efficacy and the overall impact of the excess allowance equipment rebates during the pilot period. This analysis includes data surrounding the number of conversions per year, average costs for natural gas line extensions, number of customers that received equipment rebates, average rebate amounts, customer surveys, evaluation of heating-season kWh usage of Avista conversion customers, CO_2 and kWh savings associated with conversions, as well as the impact of the LEAP program on its low income customers. In the event LEAP is substantively discontinued, the Company may seek to reinstate a fuel conversion program as Avista believes the loss of both programs would be a disservice and detriment to the customers it serves.

Exception for Low Income Sector

As stated previously, the Company recognizes the benefits to the low-income sector, as well as all customer segments, received as a result of the Fuel Conversion Program. Avista's Advisory Group has expressed the desire that an exception be made for low-income customers. Avista has agreed to explore a potential low income fuel conversion program under a new funding structure outside of this Transition Plan. The desire is for this potential program to go into effect in 2020; in the meantime, The Energy Project in conjunction with Public Counsel and others from the Advisory Group will work together to formulate a proposed plan.

IV. Advisory Group Involvement – Meetings, Seeking Agreement, Compliance with Order

Avista has worked with its Advisory Group and has held several workshops and meetings to discuss the transition. Below are the various meeting dates and what has been discussed:

- June 28, 2018 – Initial meeting to discuss order details and interpretations.
- August 8, 2018 – Follow up meeting where Avista presented a proposal for Stage I.
- August 29, 2018 –Avista supplied the draft plan (including stage I and II proposals) to the Advisory Group for review.
- September 6, 2018 – Follow up meeting to discuss the draft plan. Received feedback on various elements to incorporate into the final draft.
- September 26, 2018 – Deadline for Avista to supply to the Advisory Group the final draft with the agreed upon elements incorporated.

The following graphic illustrates the major milestones and meetings that have occurred around the topic of fuel conversions since January 2018: