



**Avista Corp.**

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August 20, 2018

Mark L. Johnson  
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. UE-18049 –Comments of Avista Utilities

Dear Mr. Johnson,

Avista Corporation, dba Avista Utilities (Avista) submits the following comments in response to the Washington Utilities and Transportation Commission Staff's ("Staff") request to support the prudent expenditures of the Company's "Fuel Efficiency" or "Fuel Conversion" program in 2017 accounted for in the above referenced Docket.

By way of 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.

The program was designed to provide customers with fuel choices and allow them to change from electric source space and water heating to natural gas where desired. The program helped customers ease their energy burden by offering incentives for cost-effective, energy

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efficient fuel use. During 2017, the Fuel Efficiency program achieved savings of 10,237 MWh<sup>1</sup> with the furnace and water heater combo measure being the highest saving measure. During 2017, the Low-Income Conversion program achieved savings of 519 MWh<sup>2</sup> which is estimated to have reduced each participating customer's energy burden by approximately \$175-\$400<sup>3</sup> annually. This level of per customer energy savings is comparable to the grants received by customers through the Company's Low Income Rate Assistance Program ("LIRAP"). Throughout this time, the Company has viewed it as an integral part of the overall portfolio of energy efficient offerings to best serve its customers in Washington and Idaho.

In its Order No. 07 in Docket Nos. UE-170485 and UG-170486 issued April 26, 2018, the Commission ordered the Company to work with its Advisory Group to transition the Fuel Conversion programs away from the Electric Conservation Rider to the Natural Gas Conservation Rider and then ultimately to a new funding mechanism.

The Company is currently working with its Advisory Group on this process and has held two meetings so far exclusively on this topic. The Company is making its best efforts to facilitate this process and also gain inputs from its Advisory Group in formulating a plan. The Company views the Commission's Order as a path forward in order to determine the fate of the fuel conversion program so as to have agreement on what is allowed within the tariff rider. In observance of this Order, the company is continuing to fund fuel conversions through the electric conservation rider and will plan to transition the funding to the natural gas tariff rider in 2019.

The overall intent of the fuel conversion program has been to reduce the customers' electric consumption and make their homes more energy efficient which in turn lowers the customers' energy burden. Heating homes with natural gas remains a desired fuel choice as it provides a less costly solution for customers. In the Greater Spokane Area, a large component of the population is considered asset limited or close to the federal poverty level, providing solutions to decrease customers' energy burden is a priority of Avista's Energy Efficiency team.

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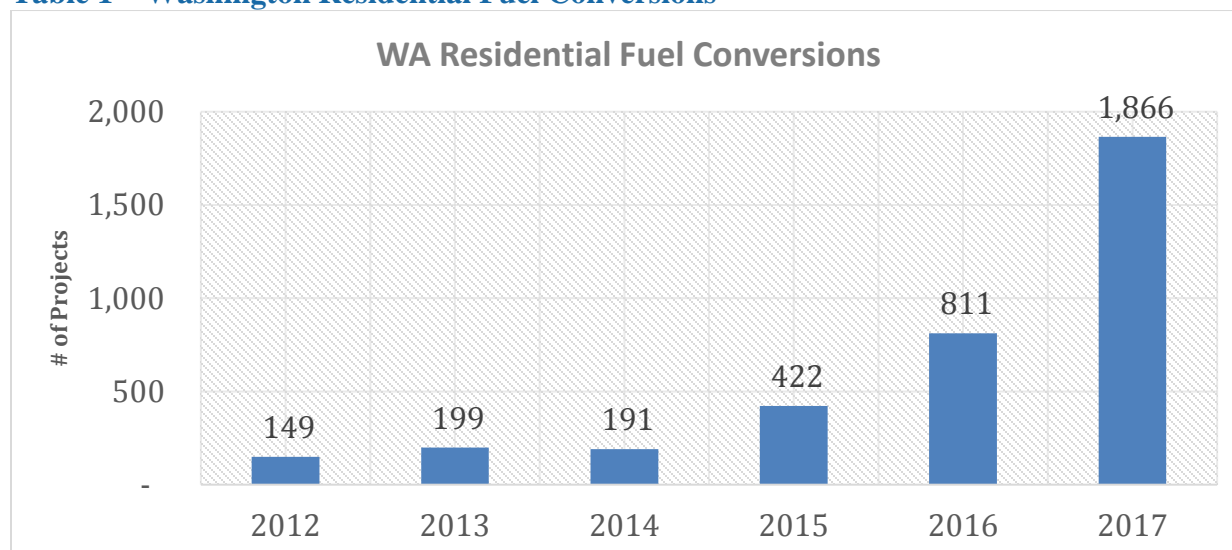
<sup>1</sup> Washington 2017 DSM Annual Conservation Report & Cost-Effectiveness Analysis, Table 4-7, pg 26.

<sup>2</sup> Washington 2017 DSM Annual Conservation Report & Cost-Effectiveness Analysis, Table 4-16, pg 36.

<sup>3</sup> Based on gross verified savings for E to G Furnace and Water Heater measures at an estimated retail rates for electric schedule 01 and natural gas schedule 101.

During the past three years, the Fuel Efficiency program has seen an uptake in program participation that it has not seen in prior years. Please see Table 1 for an illustration of the participation in Washington residential fuel conversions from 2012-2017.

**Table 1 – Washington Residential Fuel Conversions**



Despite the Company’s programmatic downward adjustments to incentive amounts during 2017, the throughput in residential fuel conversions continued to increase. Much of this can be attributed to the following three areas: 1) a well-established trade ally network in Avista’s Washington service territory, 2) the Company’s Natural Gas Line Extension Allowance Program (“LEAP”)<sup>4</sup>, and 3) an increased awareness of the program throughout the community.

Table 2 below illustrates the incentive change in Residential Fuel Conversion measures from 2016 to 2017.

**Table 2 – Residential Fuel Conversion Incentive Amounts – 2016 and 2017<sup>5</sup>**

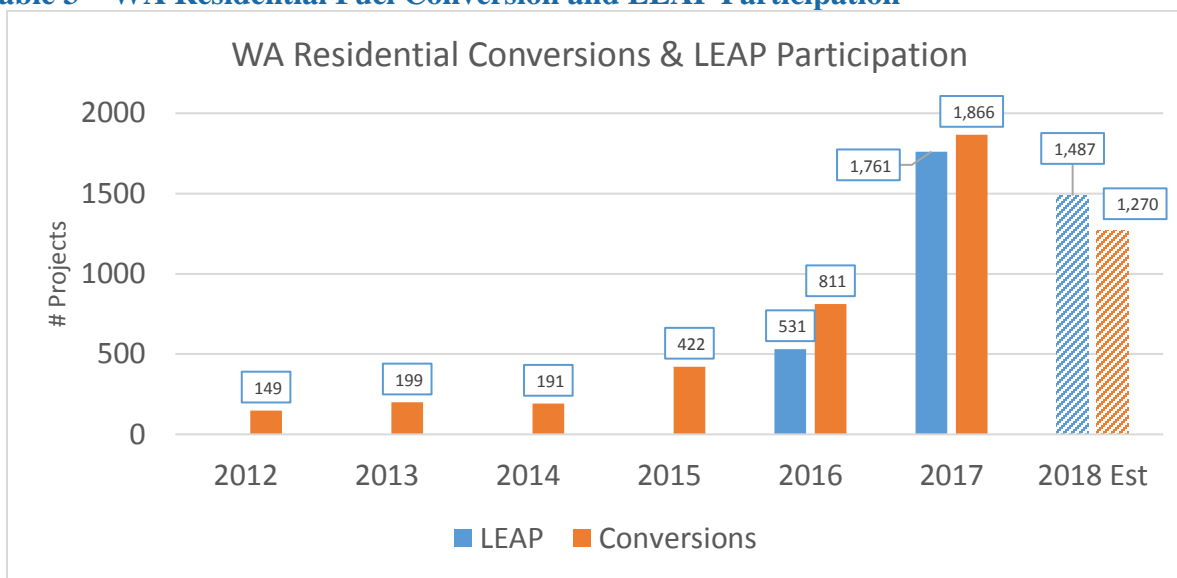
Measure Name	2016	2017	Change (\$)	Change (%)
Furnace & Water Heater	\$ 3,200	\$ 2,250	\$ (950)	-30%
NG Furnace	\$ 2,300	\$ 1,500	\$ (800)	-35%
Wall Heater	\$ 1,300	\$ 1,300	\$ -	0%
Water Heater	\$ 600	\$ 750	\$ 150	25%

<sup>4</sup> The intent of the LEAP is to expand natural gas infrastructure and make natural gas more available to all prospective natural gas customers, not just Avista electric customers.

<sup>5</sup> Note that in 2018, the Company eliminated the “water heater” measure from its portfolio as a stand-alone measure.

As noted above, LEAP is a major contributor to the success of the Residential Fuel Efficiency program. Since the inception of LEAP in March of 2016, fuel conversion throughput greatly increased with the overall number of projects nearly doubling (from 422 projects in 2015 to 811 in 2016). However, it was in 2017 that LEAP had the highest impact on the fuel conversion program uptake as LEAP saw significant throughput which correlates with the large number of conversion projects completed. Please see Table 3 below for an illustration of the relationship between the throughput of the two programs.

**Table 3 – WA Residential Fuel Conversion and LEAP Participation**



For 2018, the Company estimates that it will undertake 1,270 fuel conversion projects and 1,487 LEAP projects which is based on the year-to-date data through July 2018. This downturn in throughput of conversions correlates closely with the estimated decrease in LEAP throughput. The fuel conversion projects represent approximately \$6.2M in budgeted expenses for 2018.

As noted earlier, during 2017, the Fuel Efficiency program achieved savings of 10,237 MWh with the furnace and water heater combo measure being the highest saving measure. Nexant, Avista’s third-party evaluation, measurement and verification (“EM&V”) team evaluated the residential fuel conversion program and provided adjusted savings values on projects where customers converted their equipment to natural gas. On average, a residential customer that converts from electric to natural gas will save approximately \$100-\$350 annually on their energy

bill<sup>6</sup>. Offering an established and reliable solution for customers' energy needs supports Avista's core values.

### **Low-Income Customers**

A component of the Company's Fuel Efficiency program serves low-income customers in Avista's service territory. The cost of heating with electric resistance heat can be between 1.5 to 3 times the cost of heating with natural gas. All measures available through the residential program are also offered and administrated to the low-income sector through Community Action Program ("CAP") agencies. The Low-Income Fuel Conversion program ("LI Conversion") provides an incentive to customers that covers the full cost of the fuel conversion project. The Company allows the CAP agencies to operate independently with a level of discretion to match customer needs with energy efficient solutions. In 2017, the LI Conversion program served 117 customers in the low-income demographic. Customers in this income range are at or below 200% of federal poverty level or 60% of median income<sup>7</sup> and experience a higher energy burden proportionate to income. Again, as provided earlier, during 2017, the LI Conversion program achieved savings of 519 MWh which is estimated to have reduced each participating customer's energy burden by approximately \$175-\$400 annually. This level of per customer energy savings is comparable to the annual grants received by customers through the Company's Low Income Rate Assistance Program ("LIRAP").

### **Company and System Impact**

While the Fuel Conversion Program has not been identified as conservation for purposes of I-937 and the Energy Independence Act ("EIA"), it remains an important tool for the Company's resource planning. As identified in the Company's 2017 Annual Conservation Report ("ACR"), the Fuel Conversion Program achieved 11,826 MWh<sup>8</sup> in savings overall. This reduction in megawatt hour demand provides a benefit to all electric customers as the program removes electric load from the Company's electric grid thus deferring electric capital investment needs (which is why the electric conservation rider has historically and is currently funding the program through

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<sup>6</sup> Based on Gross Verified Savings from E Electric to Natural Gas Furnace & Water Heat and E Electric to Natural Gas Water Heater measures at an estimated retail rates for electric schedule 01 and natural gas schedule 101.

<sup>7</sup> Agencies follow income qualification guidelines set by Washington State Department of Commerce.

<sup>8</sup> Washington 2017 DSM Annual Conservation Report & Cost-Effectiveness Analysis, Table ES-1, pg 2.

2018). As identified in the Company’s 2017 Electric Integrated Resource Plan (IRP), savings derived from conservation programs offset 53.3% of the projected electric load growth in its Washington and Idaho service areas<sup>9</sup> which included the Company’s Fuel Conversion Program. In addition, the Fuel Conversion Program maintains a positive cost-effective position, consistent with the Company’s other residential offerings.

### **Communication with Avista’s Energy Efficiency Advisory Group**

Avista has demonstrated its commitment to open and ongoing communications with UTC Staff and its Advisory Group and has demonstrated this throughout the business planning and reporting process. The Company provides updates on its energy saving and program spend monthly, meets with its Advisory Group via Skype as needed, and hold in-person each Spring and Fall to discuss the energy efficiency programs. During 2017, the Company provided these regular updates to the Advisory Group along with estimates for the 2018 program year. The below table outlines the significant Advisory Group and UTC Staff meetings that have taken place over the course of 2017 and 2018 to-date.

**Table 4 – Advisory Group and WUTC Staff Meetings 2017 and 2018 to-date**

<b>Meeting Date</b>	<b>Location</b>	<b>Purpose</b>
February 13th, 2017	Conference Call	Revised 2017 WA Electric Annual Conservation Plan and Electric Tariff underfunded balances in WA and ID.
April 18th, 2017	In-Person, IPUC, Boise, ID	Spring Meeting – 2016 ACR, 2018-2019 BCP planning, Cost Recovery Tariffs, Program updates, etc.
May 23rd, 2017	Webinar	LEAP, Multifamily Market Transformation Program, 2018-2019 Planning
June 28 <sup>th</sup> , 2017	Webinar	Consult on draft BCP and ACP target
August 23 <sup>rd</sup> , 2017	Webinar	Draft targets, Business Plan Elements, Business Plan Details
September 13th, 2017	Webinar	Opower Behavior Program
September 25-26th, 2017	In-Person, Avista, Spokane, WA	Fall Meeting – Program updates, Tariff balances, 2018-2019 BCP, 2018 ACP, Gas IRP, Electric CPA, etc.

<sup>9</sup> Avista’s 2017 Electric Integrated Resource Plan, page 11-1

October 24 <sup>th</sup> , 2017	In-Person, WUTC, Olympia	WA Staff only. Draft 2018-2019 BCP.
November 30 <sup>th</sup> , 2017	Skype	Fuel Conversions & the 2018-2019 BCP/2018 ACP
March 12 <sup>th</sup> , 2018	In-Person, WUTC, Olympia	WA Staff only in-person check-in
April 25 <sup>th</sup> -26 <sup>th</sup> , 2018	In-Person, WUTC, Olympia	Spring Meeting – Program updates, YTD Results, 2016-2017 Biennial Achievements, Tariff & Budget updates, etc.
May 30 <sup>th</sup> , 2018	Skype	CEEP Funding
June 28 <sup>th</sup> , 2018	Skype-Webinar	Fuel Conversions & Multifamily Pilot Update
July 20 <sup>th</sup> , 2018	Skype	Multifamily Pilot & LED Streetlight Program Update
August 8 <sup>th</sup> , 2018	Skype	Fuel Conversion Plan Creation Mtg #2
Future - September 6 <sup>th</sup> , 2018	Skype	Fuel Conversion Plant Creation Mtg #3
Future - October 24 <sup>th</sup> -25 <sup>th</sup> , 2017	In-Person, Avista, Spokane, WA	Fall Meeting

### **Budgeting and Forecasting**

Under WAC 480-109-120, the Company must file its Annual Conservation Plan (ACP) on or before November 15<sup>th</sup> of each year. To accommodate its Advisory Group, the Company provides a draft of this plan early in October in order for the group to review and provide feedback. Because of this timeline, there is a small window during which the Company has enough data to base its forecasts off of and still be able to create an annual plan. For the 2017 ACP, the Company forecasted fuel conversions based on the year-to-date information through October of 2016. At October 2016, there were 463 conversion projects completed which suggested a total of 617 projects annualized. Based on this regression, and the change in incentive amounts, the Company forecasted an annual incentive budget amount of \$719,400 for the 2017 program year.

After that time, the Company saw a much higher throughput than anticipated. Through its normal reporting channels, the Company continued to inform its Advisory Group of the tariff rider balances, the MWhs achieved through its programs, and also the detail from which the savings were derived.

The Company has operated the Fuel Efficiency program in observance of its Tariff Schedule 90 Energy Efficiency Rider. Under section 4.1 Funding, the language holds that “Fuel-conversion incentives are available only for conversion to natural gas with an end-use efficiency of 44% or greater.” The Company has historically complied with these provisions and continued this into its 2017 and 2018 operations.

## **Conclusion**

While there may still be a debate as to whether or not the Fuel Conversion Program is conservation, a separate point and possibly more relevant to prudence is the processes and scrutiny that the program underwent, along with the positive effect the program has had on Avista and its customers. Like traditional conservation, the Fuel Conversion program:

1. Has historically been funded through the Electric Conservation Tariff Rider (Avista Schedule 91).
2. Underwent the same evaluation and review as traditional conservation programs by the Company, the Commission and third-party evaluators.
3. Was detailed and discussed within the Advisory Group meetings detailing the estimated savings, budget, and savings amounts.
4. Provided real energy savings for residential customers, including low income groups.
5. Assisted in avoiding capital investments by deferring capacity needs through the IRP.
6. Remained cost-effective throughout the 2016-2017 biennium and also into the 2018 program year.

For these reasons, the Company requests that the expenditures in this cost-recovery filing that are associated with the Fuel Conversion program in 2017, be deemed prudent under its electric conservation tariff rider.



Avista appreciates the opportunity to provide these response comments. Please direct any questions regarding these comments to Dan Johnson at (509) 495-2807 or [dan.johnson@avistacorp.com](mailto:dan.johnson@avistacorp.com) or myself at 509-495-4975.

Sincerely,

*/s/Linda Gervais*

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