



**Avista Corp.**

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September 30, 2016

***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-152394 – Avista Natural Gas Line Extension Allowance Program Semi-Annual Report

Dear Mr. King,

On February 25, 2016, the Commission issued Order 01 in Docket UG-152394 approving Avista Corporation's, dba Avista Utilities (Avista or Company), modifications to tariff Schedule 151 related to its Natural Gas Line Extension rules. As part of the modifications to Schedule 151, the Commission approved, on a temporary basis, for a three-year period, both a change in methodology for calculating the amount of the natural gas line extension allowance provided to customers, as well as allowing the Company to provide any unused or excess portion of the allowance amount as a credit back to customers who are converting to natural gas service.

The excess allowance credits are only available to residential Schedule 101 customers who are converting to natural gas from any other fuel source. In addition, the credits are only available to customers who install high efficiency space and/or water heating equipment. New construction homes do not qualify for the excess allowance credit as it is estimated that over 90% of new homes that have natural gas available at the time of construction choose to install natural gas.

As part of Order 01, the Commission ordered the Company to file semi-annual reports with the Commission showing the impact of the increased allowance and excess allowance credits during the three-year pilot period from March 1, 2016, to February 28, 2019. This report is the first semi-annual report to the Commission and covers the time period from March 1, 2016, to

August 31, 2016. The contents of the semi-annual reports as shown in items A – G below, were discussed with Commission Staff prior to filing of this report.

**A.** Table No. 1 below shows historical residential Schedule 101 hook-ups per year. This table is included for comparison purposes to help understand the impacts from the change in methodology for calculating the line extension amount and providing excess allowance credits.

**Table No. 1**

<b>Year</b>	<b>Residential</b>
2005	3,521
2006	3,489
2007	2,866
2008	2,644
2009	1,723
2010	1,562
2011	1,482
2012	1,705
2013	2,030
2014	2,499 <sup>1</sup>
2015	2,174
2016 YTD-August	1,708

**B.** Number of new customer hookups from March 1, 2016 to August 31, 2016, broken down by conversion vs. new construction.

**Table No. 2**

New Developments Hookups	489
New Construction (i.e., infill of existing developments or single lots)	278
Conversions	436
Total New Customer Hookups	1,203

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<sup>1</sup> The Company experienced an increase in conversions in 2014 due, in part, to the privatization of housing at Fairchild Air Force Base (“FAFB”). As a part of the privatization effort, each residential unit was required by FAFB to be individually metered. Prior to 2014, FAFB housing was master-metered (i.e., a few natural gas meters served hundreds of homes).

C. Number of conversions from both Avista and non-Avista electric customers.

**Table No. 3**

From Avista-Electric Customer	382
From Non-Avista Customer	54
Total Conversions	436

D. Average amount of estimated line extension cost

**Table No. 4**

Average Amount of Estimated Construction Costs for New Construction and Conversions <sup>2</sup>	\$1,809.92
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E. Number of customers that received excess allowance credit and average amount of credits provided.

From March 1, 2016 through August 31, 2016, 160 customer received an excess allowance totaling \$421,967.19 or \$2,637.29 on average.

On page 8 of the Company's petition was the following footnote:

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).

The Company later revised the line extension amount to \$4,452 based the new base values resulting from the Company's 2015 WA General Rate Case, Docket No. UG-150205 (effective on January 11, 2016). With the higher approved allowance, and based on the average line extension cost at the time of \$2,345, the average amount a customer would receive for the excess allowance was estimated at \$2,107. If 600 new-single family, residential Schedule 101 customers were added in 2016, the total amount of the unused portion of the line extension allowance provided back to customers in 2016 would be approximately \$1,264,200.

Based on the activity to date, the Company anticipates the year-end total number of customers receiving an excess allowance credit will be less than originally estimated. As it relates to the higher level of excess allowance versus what was originally estimated, Avista believes that the initial program participants were already "on the fence", in that the increased funding from the

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<sup>2</sup> New development hookups are not included.

Company, and excess allowance program, caused those customers to convert to natural gas given the better economics. Avista anticipates that the average excess allowance amount will decrease as customers where natural gas is not readily available start to convert. Finally, the Company has seen a lag between when a customer receives natural gas service and when they submit their excess allowance form. That is the primary reason why the estimated number of customers who would participate was higher than what the Company has experienced year-to-date.

**F.** Evaluation of heating-season kWh usage of Avista electric conversion customers.

This information is not available for this report as the Company has not experienced a heating season since the modifications to Schedule 151 were approved.

**G.** Customer survey data

As part of the customer application for receiving a natural gas line extension allowance credit the customer is asked to fill out a survey regarding their conversion to natural gas. The following questions are asked as part of the survey:

1. Why were you interested in converting to natural gas? (check all that apply: Cost Savings, Appliance Choices, Environmental Benefits, Other)
2. What natural gas appliances did you install? (check all that apply: Furnace, Hot Water Heater, Stove, Fireplace, Barbeque)
3. Had you previously considered converting to natural gas? (yes or no)
4. What prevented you from previously converting to natural gas? (check all that apply: Cost of equipment, Cost of construction, Cost of natural gas, Other)
5. Did the amount of Avista's natural gas line extension allowance influence your decision to convert to natural gas? (yes or no)
6. Did the availability of any excess allowance that could be applied towards the purchase and installation of a natural gas hot water heater or natural gas high efficiency furnace/boiler influence your decision to convert to natural gas? (yes or no)
7. Prior to learning of the excess allowance program, had you planned on installing high efficiency natural gas space heating equipment? (yes or no)
8. How much was your excess allowance rebate? (\$0-\$500, \$500-\$1,000, \$1,000-\$1,500, \$1,500-\$2,000, \$2,000+)
9. How did you learn about this program? (From Avista directly, Advertisement, Referral, Other)
10. Have you or will you recommend that others participate in this program or converting to natural gas? (yes or no)

Of the customer surveys received so far, the following are the general responses to the questions listed above in the same order.

1. 96% of respondents chose cost savings as the primary reason they were interested in converting. In addition, a few customers selected all three options as the reason they chose to convert.
2. 63% of survey respondents installed only a furnace, 25% installed a furnace and hot water heater, 8% installed a furnace, hot water heater, and stove, and 4% installed a furnace and stove.
3. Approximately 70% of customers had previously considered converting to natural gas, but chose not to.
4. Nearly 100% of respondents claimed the cost of conversion and/or equipment was the reason they had not previously converted to natural gas.
5. 88% of respondents claimed the amount of Avista's line extension allowance impacted their decision to convert to natural gas.
6. 92% of respondents claimed that the availability of any excess allowance that could be applied towards their purchase of high efficiency equipment influenced their decision to convert to natural gas.
7. 50% of respondents claimed that prior to learning about the excess allowance program they had not considered installing high efficiency equipment.
8. 75% of customers received an excess allowance credit exceeding \$2,000.
9. Results were mixed on how customers heard of the excess allowance program. Responses included from Avista directly, referrals, and equipment companies.
10. All customers stated they had or would recommend others participate in the program.

Preliminary survey results indicate that the excess allowance program is having a significant impact on customers converting to natural gas. The Company is pleased with the results through the first six months of the program and looks forward to continuing to learn and understand the impacts the program has. One specific highlight from the survey results that deserves additional attention is the fact that 50% of customers that responded to the survey had not planned on installing high efficiency equipment prior to learning about the excess allowance program. Had these customers not converted to natural gas at all or converted natural gas and installed standard efficiency equipment (rather than high efficiency equipment), absent the program, their installations would have been lost opportunities for the natural savings resulting from the installation of high efficiency equipment.

If you have any questions regarding these comments, please contact me at 509-495-2782 or by email at the address below.

Sincerely,

*Shawn Bonfield*

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