UG-210729

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October 25, 2021

Ms. Amanda Maxwell
Executive Director and Secretary
Washington Utilities & Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

RE: **Docket No. UG-210729 – Comments of Avista Regarding Natural Gas Line Extension Allowances – Perpetual Net Present Value**

Dear Ms. Maxwell:

Avista Corporation, dba Avista Utilities (Avista or the Company) is providing the following comments in response to the Commission's Notice of Opportunity to File Written Comments, dated September 21, 2021, in the above-captioned docket.

<u>Background</u>

Avista has always provided an allowance for new natural gas customer line extensions, albeit utilizing different methodologies. The purpose of a line extension allowance is not to serve as an incentive to connect to natural gas service, but rather is a recognition in traditional ratemaking that new customers pay for the costs associated with their line extension in the rates they pay once they take service. The new revenue provided by these customers cover the revenue requirement associated with the cost of their service, as well as other costs of the utility. Absent the allowance, the customer would be responsible for all of the costs of hookup, while existing customers would accrue all of the benefits of the new customer – i.e., new customer margin would reduce the fixed costs for all existing customers.

Prior to switching to the Perpetual Net Present Value (PNPV) methodology in 2016, the Company employed a "3-Times Revenue" allowance methodology. That methodology has significant deficiencies in the Company's view. One such deficiency is that the allowance would vary based on the cost of natural gas, a cost that is not a component of distribution margin. As natural gas costs rise, the allowances for new customers would rise, and vice versa. In short the cost of natural gas does not impact the costs of Avista's distribution system and line extensions, and therefore should not be a factor used in determination of a line extension allowance. The second deficiency is that the allowance was not stated in the tariff, only the methodology, so customers could not easily determine what the line extension allowance was.

In 2015 and 2016, Avista participated in the Commission's Docket UG-143616, a proceeding to investigate the need for expanding natural gas distribution infrastructure. Avista proffered the PNPV methodology, and later filed to adjust our line extension allowance methodology accordingly. Beyond increasing the allowance, the change in methodology also resolved the two infirmities of the old methodology – in that the new methodology was directly tied to distribution margin (not wholesale natural gas costs, in part), as well as the allowance was clearly stated in the tariff.

This Commission was very supportive of the change in methodology originally proffered by Avista in Docket UG-143616, the PNPV method. The value of making that change was discussed at length in workshops, filings, and comments, so we will not re-state them here. But, it is importation to remember that the Commission stated in approving Avista's line extension methodology change that:

> The change in methodology will better ensure that the Company is acquiring new customers who will aid in lowering fixed costs recovered from existing customers. In addition, the excess allowance rebate will aid in mitigating the switching costs for many customers who are interested in natural gas services while ensuring that the Company does not acquire new customers to the detriment of existing customers.[1]

Under Avista's old "3 Times Revenue" line extension methodology, whereby allowances were determined by calculating estimated customer billed revenue and multiplying that amount by 3, new customers subsidized existing customers. As Avista stated in its comments on September 17, 2015 in Docket UG-143616:

> So, if a customer were estimated to provide $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 is approximately $184 per year. Given that the average annual margin per customer is $388 per year, new customers are not only paying the revenue requirement associated with their line extension, but also contributing to the fixed costs of all existing customers.

In short, under the "3 Times Revenue" methodology, new customers subsidize existing customers. Under the PNPV methodology, the opposite could be true, but for good reason as noted earlier.

<u>Present Day</u>

Now, six years later, Avista recognizes the shift in views in some circles related to the expansion of natural gas. While Avista could continue to argue the merits of keeping the line extension policy unchanged, we also recognize the viewpoint that using the PNPV methodology may be "too rich".

[1] Docket UG-152394, Order 01, ¶7.

Instead of waiting until our next general rate case[2] to propose a modification (and waiting 11 months for the processing of the case), Avista proffers the following methodology for discussion, and potential filing, shortly after the Commission's Open Meeting on October 28th.

Avista is supportive of abandoning the PNPV methodology entirely. However, rather than simply reverting back to the old "3 Times Revenue" methodology and the infirmities that come with that method, Avista would propose a middle ground approach that would keep the transparency that the PNPV methodology has but provide an allowance more in-line with what a "3 Times Revenue" approach would generate.

Therefore, Avista would propose a "Four-Times Margin Allowance" methodology for the Commission's consideration. Under this methodology, Avista would use values from its Natural Gas Decoupling Mechanism baseline to determine the natural gas line extension allowance. These values are updated in general rate cases (basic charges and revenue per customer), are available for easy audit, are based on current rates, and are easy to understand. We would propose to use those values to set the allowance for Residential and Non-Residential customers. The result as shown in Table No. 1 below is a Residential allowance of $2,100 (compared to the present allowance of $4,678) and a Non-Residential per therm allowance of $1.36/therm (compared to the present allowance of $3.44/therm).

Table No. 1

Avista Utilities
Derivation of Allowance for Schedules 101, 111/112/116
Natural Gas Service

Line No.		Source	Residential Schedule 101	Non-Residential Schedules*
	(a)	(b)	(c)	(d)
1	Decoupled Revenues	Appendix 4, Page 1	$ 67,962,780	$ 16,088,382
2	Rate Year # of Customers 2021	Appendix 4, Page 2	165,362	3,105
3	Decoupled Revenue Per Customer	(1) / (2)	$ 410.99	$ 5,182.28
4	Revenue From Fixed Charges	Appendix 4, Page 1 * 12	$ 114.00	$ 1,433.28
5	Total Fixed Charge Revenue (rounded)	(3) + (4)	$ 525.00	$ 6,616.00
6	Multiply by 4 Times (Four Times Margin Approach)		**$ 2,100.00**	$ 26,464.00
7	Average Therm per Customer	Appendix 4, Page 1		19,431.77
8	Allowance Per 1st Year Therm (Non-Res.)	(6) / (7)		**$ 1.36**

If Avista simply reverted to the 3 Times Revenue methodology, the Residential allowance would be $2,226 versus $2,100 under the Four-Times Margin Allowance method –producing a similar

[2] Chair Danner in his dissent in the PSE General Rate Case stated: "In my view, the better course of action is to direct PSE in this Order to revert to its previous methodology and to propose a new line extension methodology for our consideration in its next general rate case."

result. The Non-Residential per therm would be $1.91 compared to $1.36. The Four-Times Margin Allowance results in allowances that we feel are still reasonable for customers yet responsive to changing views on how aggressive natural gas utilities should be to convert customers in Washington State. In our view, the Four-Times Margin Allowance method strikes a reasonable balance of ensuring new customers are provided a moderate allowance towards the cost of their new service yet recognizes they will still be contributing a significant amount towards the fixed costs of the natural gas distribution system to the benefit of all customers.

In the end, we must also consider customers, builders and developers who are operating under, and making decisions based on, the current line extension tariff. Avista would propose to make any changes effective April 1, 2022, so that stakeholders have the time needed to complete their work under contracted rates or make modifications to their plans should a lower allowance impact them.

Avista thanks the Commission for providing this opportunity to comment. If you have any questions, please feel free to contact me at 509.495.8620 or by email at patrick.ehrbar@avistacorp.com. I will also attend the October 28, 2021 Open Meeting to answer any questions.

Sincerely,

/s/ Patrick Ehrbar

Patrick Ehrbar
Director of Regulatory Affairs