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March 29, 2017

***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 No. 2

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 an equipment rebate back to customers who are converting to natural gas service.

The excess allowance rebates are only available to residential Schedule 101 customers who are converting to natural gas from any other fuel source. In addition, the rebates 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 equipment rebate, 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 equipment rebates during the three-year pilot period from March 1, 2016, to February 28, 2019. This report is the second semi-annual report to the Commission and covers the time period from March 1,

2016, to February 28, 2017. The contents of what is to be provided in the semi-annual reports, as shown in items A – G below, was discussed with Commission Staff prior to filing the first semi-annual report.

**A. Historical Residential Schedule 101 Hook-ups per Year**

Table No. 1 below shows the historical Washington residential Schedule 101 hook-ups per year. The data included in this table is based on when a new customer was first billed, which will differ from when the construction to install natural gas piping was completed and a meter was installed. 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 equipment rebates.

**Table No. 1**

<b>Calendar 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	3,075
2017 – YTD February	643

New residential Schedule 101 hookups were well above expectations in 2016 and the prior year. This was primarily due to the increases line extensions allowance and providing excess allowance rebates to customers, along with the fact that new construction permits came in stronger than expected.

**B. New Residential Schedule 101 Hook-ups from March 1, 2016 to February 28, 2017**

The number of new customer hook-ups from March 1, 2016 to February 28, 2017, broken down by conversion vs. new construction is as follows:

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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).

**Table No. 2**

New Developments Hook-ups	835
New Construction (i.e., infill of existing developments or single lots)	538
Conversions	1,222
Total New Residential Customer Hook-ups	2,595

The data in Table No. 2 is construction data, which differs than the data provided in Table No. 1, which is representative of the calendar year in which new customers were first billed. The data sets will differ as there may be a lag in time from when construction is completed to when a customer is first billed. Table No. 1 is provided to show a historical perspective of the number of new residential customers added per year.

**C. Conversions from Avista and Non-Avista Customers**

The number of conversions separated by Avista and non-Avista customers is as follows:

**Table No. 3**

Conversions From Avista-Electric Customers	1,067
Conversions From Non-Avista Customers	155
Total Conversions	1,222

**D. Average Amount of Estimated Line Extension Cost**

The average amount of the estimated construction costs for line extensions of new construction (excluding new developments) and conversions is as follows:

**Table No. 4**

Average Amount of Estimated Construction Costs for New Construction and Conversions <sup>2</sup>	\$1,659
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The average estimated construction cost decreased from the prior report due to the high number of conversions with low construction costs, such as mobile home parks.

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

## **E. Number of Customers that Received Equipment Rebate and Average Rebate Amount**

887 customers received an excess allowance equipment rebate from March 1, 2016 through February 28, 2017, totaling \$2,487,911.41 or \$2,804.86 on average.

The average amount of the excess allowance equipment rebate that customers received through the first 12 months of the program is higher than original expectations. The Company did expect to see conversions with lower construction costs convert first as the customer cost in some situations for the conversion was \$0. Between the energy efficiency rebates and availability of the excess allowance equipment rebate, the cost of both the construction and appliances, including installation, was completely covered for some customers. Many of the conversions were Avista electric customers living in mobile homes. In many instances the gas main was already ran throughout the mobile home park, but several homes had not hooked up to natural gas.

The number of customers that received an excess allowance equipment rebate is lower than the number of conversions for many reasons, such as:

- Cost of construction was higher than the line extension allowance;
- Timing delay of customer applying for rebate after completion of construction;
- Customer was unaware or did not apply for rebate;
- Customer did not install high efficiency appliances; or,
- Customer did not install qualifying equipment (e.g., gas fireplace).

## **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 complete heating season since the modifications to Schedule 151 were approved. The Company will include an evaluation of heating-season (November – March) kWh usage with its next semi-annual report.

## **G. Customer Survey Data**

As part of the customer application for receiving a natural gas line extension allowance equipment rebate, customers are asked to fill out a voluntary survey regarding their conversion to natural gas. The questions below are asked as part of the survey. As of the time of preparing this report, the Company had received 258 completed surveys. Of the surveys responses received thus far, the following are the general responses to the questions listed above in the same order.

Question 1 - Why were you interested in converting to natural gas? (check all that apply: Cost Savings, Appliance Choices, Environmental Benefits, Other)

Summary of responses - 99% 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.

Question 2 - What natural gas appliances did you install? (check all that apply: Furnace, Hot Water Heater, Stove, Fireplace, Barbeque)

Summary of responses - 38% of survey respondents installed only a furnace, 48% installed a furnace and hot water heater, 3% installed a furnace, hot water heater, and stove, and 1% installed a furnace and stove.

Question 3 - Had you previously considered converting to natural gas? (yes or no)

Summary of responses - Approximately 69% of customers had previously considered converting to natural gas, but chose not to.

Question 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)

Summary of responses - 83% of respondents claimed the cost of conversion and/or equipment was the reason they had not previously converted to natural gas.

Question 5 - Did the amount of Avista's natural gas line extension allowance influence your decision to convert to natural gas? (yes or no)

Summary of responses – 97% of respondents claimed the amount of Avista's line extension allowance impacted their decision to convert to natural gas.

Question 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)

Summary of responses – 96% 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.

Question 7 - Prior to learning of the excess allowance program, had you planned on installing high efficiency natural gas space heating equipment? (yes or no)

Summary of responses – 69% of respondents claimed that prior to learning about the excess allowance program they had not considered installing high efficiency equipment.

Question 8 - How much was your excess allowance rebate? (\$0-\$500, \$500-\$1,000, \$1,000-\$1,500, \$1,500-\$2,000, \$2,000+)

Summary of responses – 21% of customers received an excess allowance rebate exceeding \$2,000.

Question 9 - How did you learn about this program? (From Avista directly, Advertisement, Referral, Other)

Summary of responses – Results were mixed on how customers heard of the excess allowance program. Responses included from Avista directly, referrals, and equipment companies.

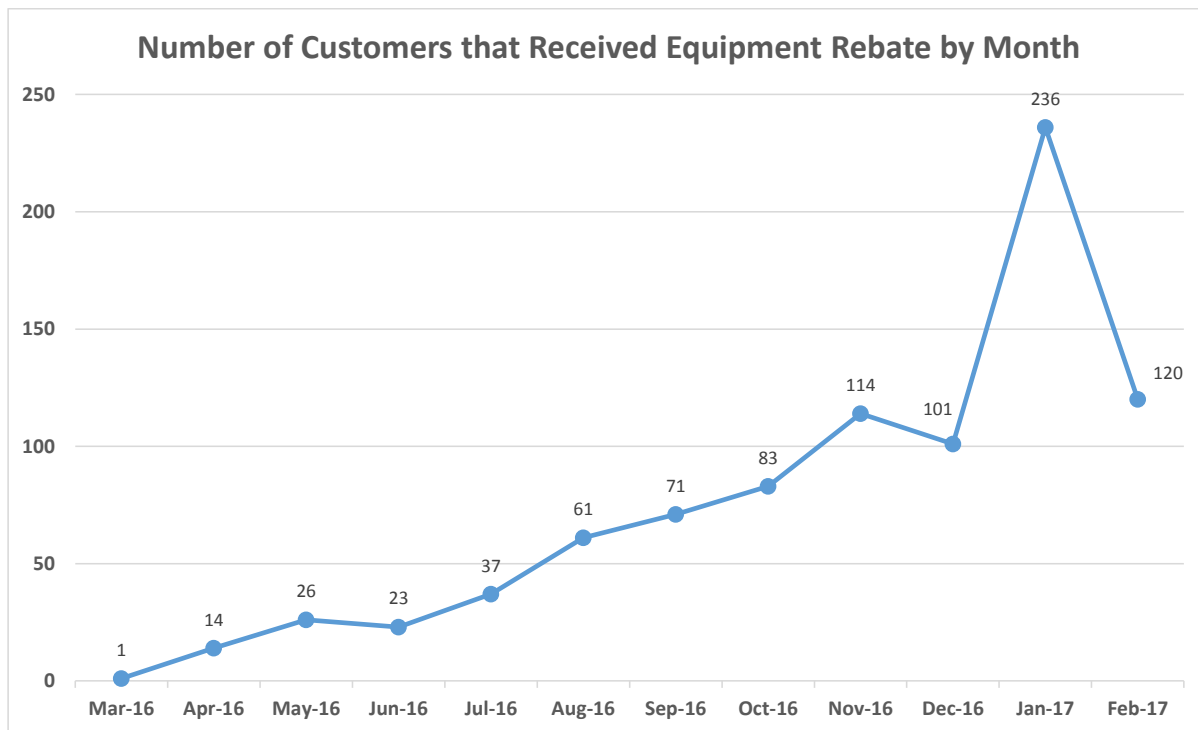
Question 10 - Have you or will you recommend that others participate in this program or converting to natural gas? (yes or no)

Summary of responses - All customers stated they had or would recommend others participate in the program.

Survey results continue to show that the availability of the excess allowance equipment rebate is impacting customers' decision to convert to natural gas. Out of those that provided a response to the survey, nearly 70% said that they previously considered converting to natural gas, but chose not to. Additionally, nearly 70% of the survey respondents said that prior to learning about the program they had not considered installing high efficiency equipment. The associated therm savings from the installation of their high efficiency equipment would have been a lost opportunity, absent the availability of the excess allowance equipment rebate.

The following chart shows the monthly number of customers that converted to natural gas and received an excess allowance equipment rebate:

**Table No. 5**



The Company expects the upward trend of conversions that result in customers receiving an excess allowance equipment rebate to continue. The program began slowly in the first few months after approval as the Company worked through the business processes to implement the program, and customers and vendors slowly learned about it. The spike shown January 2017 was due to the decrease in the Company's energy efficiency rebates for Avista electric customers converting to natural gas effective February 1<sup>st</sup>. On February 1<sup>st</sup>, the energy efficiency rebates for customers converting from electric to natural gas furnaces decreased from \$2,300 to \$1,500, from electric to natural gas water heaters decreased from \$900 to \$750, and the rebate for converting both appliances together decreased from \$3,200 to \$2,250. As a result the changes there were several customers and vendors pushing to get their jobs completed by the end of January.

In addition to the kWh savings from customers converting from electric space and/or water heating to natural gas space and/or water heating, there is an associated environmental benefit. For each home that converts from electric to natural gas there is an annual reduction of over 40% of CO<sub>2</sub> for every kWh saved. On average, customers who convert their space heat from electric to natural gas save 319 kWh per year, water heaters save 161 kWh per year, and for both pieces of equipment together they save 480 kWh per year. This results in .02 - .07 metric tons of CO<sub>2</sub> saved annually for each home that converts natural gas.

If you have any questions regarding this report, please contact me at 509-495-2782 or [shawn.bonfield@avistacorp.com](mailto:shawn.bonfield@avistacorp.com).

Sincerely,

*Shawn Bonfield*

Sr. Regulatory Policy Analyst  
Avista Utilities