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September 28, 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. UG-152394 – Avista Natural Gas Line Extension Allowance Program Semi-Annual Report No. 5

Dear Mr. Johnson,

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 fifth semi-annual report to the Commission and covers the time period from March 1, 2016, through August 31, 2018. The contents of what is to be provided in the semi-annual reports, as

shown in items A – G below, were 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

Calendar Year	Residential
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 ¹
2015	2,174
2016	3,075
2017	4,116
2018 – YTD August	2,698

New residential Schedule 101 hookups exceeded expectations for 2017, primarily due to the increased line extensions allowance and providing excess allowance rebates to customers.

B. New Residential Schedule 101 Hook-ups from March 1, 2016 to August 31, 2018

The number of new customer hook-ups from March 1, 2016 to August 31, 2018, broken down by conversion vs. new construction is as follows:

¹ 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, approximately 425, 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

Year	2016	2017	2018	Total
New Developments Hook-ups	770	920	586	2,276
New Construction (i.e., infill of existing developments or single lots)	529	646	467	1,642
Conversions	1,070	1,975	1,170	4,215
Total New Residential Customer Hook-ups	2,369	3,541	2,223	8,133

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

Year	2016	2017	2018	Total
Conversions From Avista-Electric Customers	937	1,706	947	3,590
Conversions From Non-Avista Customers	133	269	223	625
Total Conversions	1,070	1,975	1,170	4,215

D. Average Amount of Estimated Line Extension

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

	2016	2017	2018	Average 2016-2018
Average Amount of Estimated Construction Costs for New Construction and Conversions ²	\$1,666.30	\$1,624.03	\$2,435.14	\$1,908.49

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

² New development hookups are not included.

Table No. 5

Year	# of LEAP Rebates	Total Amount of Rebates	Average Rebate Amount
2016	531	\$1,444,044.25	\$2,719.48
2017	1,761	\$5,144,979.90	\$2,921.62
2018 – YTD August	1,005	\$2,549,505.61	\$2,536.82
Total	3,297	\$9,138,529.76	\$2,771.77

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

In discussing the data and information to be included within the Company’s semi-annual reports in early 2016, Commission Staff inquired about the potential for the Company to perform an evaluation of heating-season kWh usage of Avista electric conversion customers. The Company agreed to perform some type of evaluation, however, at the time did not know what the evaluation may look like or include. In the first two semi-annual reports (September 2016 and March 2017), the Company did not have enough data available to perform an evaluation of heating-season usage due to the program beginning March 1, 2016. In order to perform the analysis the Company needed to wait until it had a full heating-season worth of data available (2016-2017 heating-season).

The Company’s third semi-annual report submitted on September 29, 2017 contained the requested analysis of heating-season kWh usage of Avista electric conversion customers, using data from customers that had participated in the LEAP program and converted to natural gas between March 2016 and August 2016. The Company has now completed an additional analysis using updated data from the 2017-2018 heating-season for inclusion in this fifth semi-annual report.

For the purposes of the evaluation, the Company looked at a sample population of 109 Avista electric customers that participated in the LEAP program and converted to natural gas between March 2017 and August 2017. After an initial review, it was determined that only 68 of the customer accounts (62% of the initial population) had sufficient baseline and/or post conversion data points available to perform a regression analysis. Based on customer claim dates, the heating load baseline data timeframe was selected to be October 2016 through March 2017 (or April 2017 depending on available data), and heating load post data was October 2017 through March 2018 (or April 2017 depending on available data). Out of the 68 accounts, 40 showed a strong correlation (> 0.80 R square regression value) between the baseline Heating Degree Days (HDD) and the electric heating load BTUs and the post HDD and gas heating load BTUs. The remaining accounts

did not show a clear correlation between HDD and the baseline/post heating load BTUs with the limited data points available during the regression (i.e., regression analysis was limited to six data points before and after conversion). Several contributing factors attributed to the correlation, including, but not limited to: estimated consumption reads; low usage during winter months (vacations, unoccupied properties, etc.); irregular building occupancy; poor heating controls; or, in some cases, high usage during one month that was significantly above the trend line.

Overall, the 68 accounts showed an average of 942,327 BTU savings in their heating usage. Excluding the 28 accounts that did not show great correlation between HDD and heat load BTUs, the results show an average of 6,327,205 BTUs savings in their heating usage. On a kWh equivalent basis, this represents a 1,854 kWh savings (6,327,205 / 3413). What this evaluation shows from the pre- and post-conversion heating usage, based on a limited number of data points, is that the average heating usage profile of an Avista electric customer that converts to natural gas is lower or more efficient than an electric heating customer.

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. At the time of preparing this report, the Company had received 453 completed surveys. Of the survey responses received thus far, the following are the general responses to the questions listed above in the same order. Respondent numbers are variable, where noted, due to survey questions being left unanswered.

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 –95% of the 451 respondents surveyed included cost savings as a main reason they were interested in converting to natural gas, with 59% selecting it as the sole reason for conversion. Many respondents chose a combination of factors, with 30% of respondents selecting environmental benefits, 18% choosing appliance choices, and 11% selecting 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, and Barbeque)

Summary of responses – Of the 429 participants that responded to this question, 45% installed a furnace alone and 95% of respondents installed a furnace in addition to other appliances. Hot water heaters were installed by 51% of participants, with 48% of respondents noting both a furnace and a hot water heater. 6% of customers installed, or planned to install, a stove and 3% of respondents opted to install a barbeque and/or fireplace.

Question 3 – Had you previously considered converting to natural gas? (Yes or No)

Summary of responses – Approximately 67% of the 446 respondents that answered this question 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 – 434 of those surveyed responded to this question, with 79% noting cost of equipment as a reason they had not previously converted to natural gas. The cost of construction was a concern for 55% of respondents, while 45% of customers stated a combination of both equipment and construction costs were to blame. The cost of natural gas was a concern for nearly 10% of respondents, and other barriers to conversion included gas availability issues, newly purchased homes, and apprehension about the timing of the process.

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 – 95% of the 450 respondents stated that 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 – Of the 443 respondents that answered this question, 95% 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 – 72% of the 444 respondents stated 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 – 407 of the customers surveyed answered this question, with 80% of customers receiving an excess allowance rebate exceeding \$2,000, and another 14% receiving over \$1,000.

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

Summary of responses – Approximately 39% of the 450 respondents that answered this question heard about the program from Avista directly. 27% of participants noted being referred to the

program, while an additional 25% selected the “Other” category to list the various friends, family members, neighbors, or contractors that referred them. HVAC contractors and/or appliance dealers were mentioned in 17% of responses, advertisements in 10%, and Spokane Neighborhood Action Partners (SNAP) referrals accounted for 4% of participating customers.

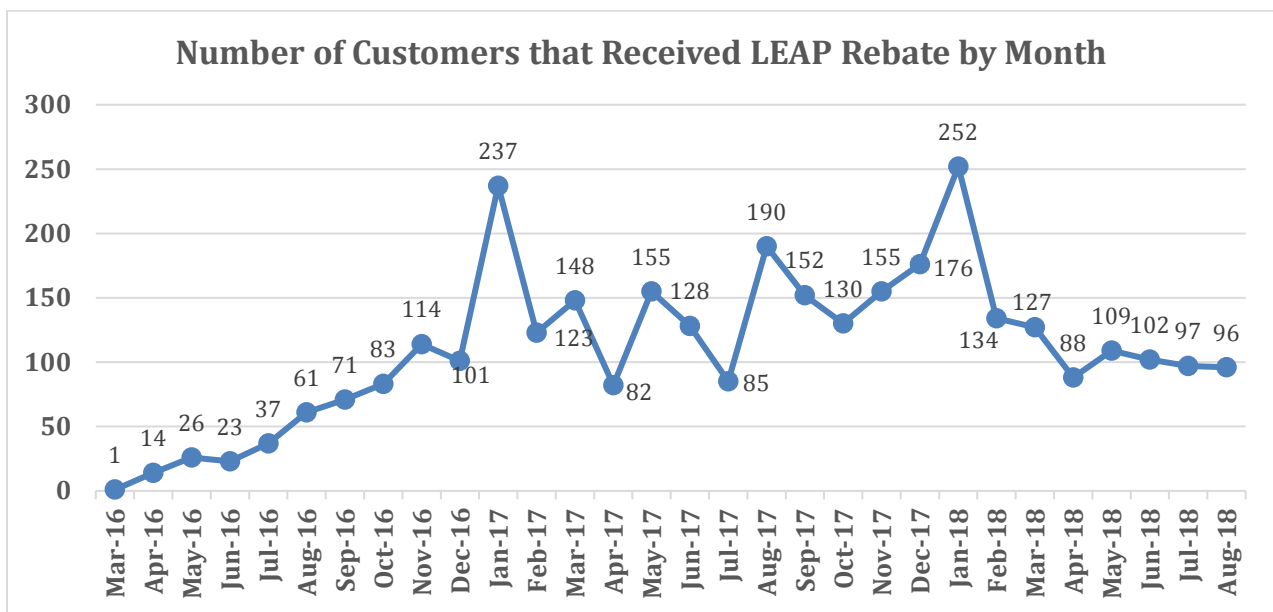
Question 10 – Have you or will you recommend that others participate in this program or converting to natural gas? (Yes or No)

Summary of responses – Save for the one customer that left this question unanswered, 100% of customers surveyed 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, over 67% said that they previously considered converting to natural gas, but chose not to. Additionally, 79% of the survey respondents noted that the cost of equipment had been a deterrent in converting to natural gas before learning about the program and 95% of respondents stated that the amount of Avista’s line extension allowance impacted their decision to convert to natural gas. Without the availability of the excess allowance equipment rebate, many of these customers may have continued without natural gas services and the associated therm savings from the installation of their high efficiency equipment would have been a lost opportunity.

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

Chart No. 1



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 up to 37% of CO₂. The emissions profile for the average customer that uses electric space heat and hot water is as follows:

Table No. 6

Average Electric (Resistance) Customer			
End Use	Electric Use (kWh)	AVA Mix CO₂ lbs. /yr.³	AVA Mix CO₂ Metric Tons/Year
Furnace	7,485	5,809	2.636
Water Heat	3,790	2,941	1.335
Combined	11,275	8,750	3.970

The emissions profile for a customer that uses natural gas as their fuel source for space heating and water heating as required to receive a LEAP allowance is as follows:

Table No. 7

Average Natural Gas Customer			
End Use	Therms @ 90% Efficient Furnace and 67% Water Heat	CO₂ lbs./yr.	Direct Use Metric Tons/Year
Furnace	284	3,321	1.507
Water Heat	193	2,259	1.025
Combined	477	5,580	2.532

Based on the information in the tables above, the savings range of CO₂ for a customer that converts their space heat and/or hot water heat through the LEAP program is 0.31 – 1.44 metric tons per year.

LEAP Pilot Revisions and Review

In the Company’s 2015 Petition seeking approval of the modifications to tariff Schedule 151 the Company committed to the following:

“Following the end of the second year of the pilot, the Company will review the results with Commission Staff, and other interested parties, to determine if the Company should continue to offer the rebate beyond the three-year pilot period or not.”

³ The AVA CO₂ lbs. /yr. is calculated using Avista’s 2015 fuel mix supply and the 2015 regional emissions data from the Fuel Mix Disclosure information provided by the Washington State Department of Commerce.

The fate of the LEAP program, however, was then brought into the Company's most recent General Rate Case, Docket Nos. UE-170485 and UG-170486 (*consolidated*). Upon conclusion of the case, the Commission issued Order 07 on April 26, 2018, updating, among other factors, the Company's approved rate of return, basic and minimum charges, and decoupled revenue per customer effective May 1, 2018. With regard to the LEAP pilot, the Commission's order also stated:

"...we agree with Avista that it is premature to impose Staff's proposed conditions, as the pilot is only in its second year of a three-year trial. We are satisfied with the Company's agreement to notify Staff and the Commission by November 30, 2018, whether it intends to modify, extend, or discontinue the LEAP program. We find that the public interest is not served by premature termination of the three-year LEAP program." (Para. 283)

Additionally, the Commission encouraged "the Company, Staff, Public Counsel and the other stakeholders to discuss whether any additional metrics or reporting are appropriate as the Company evaluates the success of the pilot and as the Company considers the continuation of the LEAP pilot." (Para. 284)

On July 27, 2018, the Company filed proposed revisions to its Natural Gas Extension Policy Schedule 151, Tariff WN U-29, to update the LEAP pilot's allowance calculations using the latest applicable rate case factors. Incorporating the updated rate case factors resulted in a new line extension allowance amount of \$4,678 (as compared to the existing \$4,482 allowance), which the company requested to become effective on September 1, 2018. Avista also committed, through this filing, to review all new customer natural gas requests beginning on the May 1, 2018 effective date of the rate case order to determine if any of those customers are due additional line extension credits and, if the Commission approved the allowance revisions, make the necessary reparations to impacted customers. The Commission allowed the proposed revisions to Schedule 151 to become effective September 1, 2018, as requested, per the No Action Agenda of August 30, 2018.

To address the additional Commission recommendations contained in Order 07, the Company invited all stakeholders to take part in a conference call on August 2, 2018 to collaborate and discuss any modifications to be made for future semi-annual reporting, as well as recommend additional metrics or reporting necessary to improve the program should it continue beyond its February 28, 2019 pilot end date. Commission Staff, Public Council, and The Energy Project provided valuable feedback through this forum, and Avista is currently working to incorporate the parties' suggestions into this and future reports.

An example of one such request discussed that has come to fruition is the Company's updated bill regression analysis, or section "F" in this report. Additional suggestions, including further comparative data, system benefits, well defined program objectives, and cross-references between LEAP participants and low income programs will be contemplated as the Company considers continuation of LEAP. Such information will be included in the Company's notification to Staff and the Commission regarding intention to modify extend, or discontinue the program.

In the interim, the Company would like to highlight the following charts, which were presented at the Company’s 2018 Natural Gas Integrated Resource Plan (IRP) Technical Advisory Committee meeting held on January 25, 2018. The charts depict the estimated impact the LEAP program has had on its customer growth rates in Washington. Chart No. 2 shows the forecast of residential customer growth through 2037 with and without the LEAP program. The black line represents the forecast from Company’s 2016 IRP. The dashed red line represents the forecast if the LEAP program were to end when the pilot terminates and the solid red line shows the forecast if the LEAP program were to continue through the planning horizon. The chart also includes an estimate of the LEAP contribution (+9,100) customers if the program were to continue through the planning horizon.

Chart No. 2

Estimating the IMPACT of LEAP in WA: Residential Customers

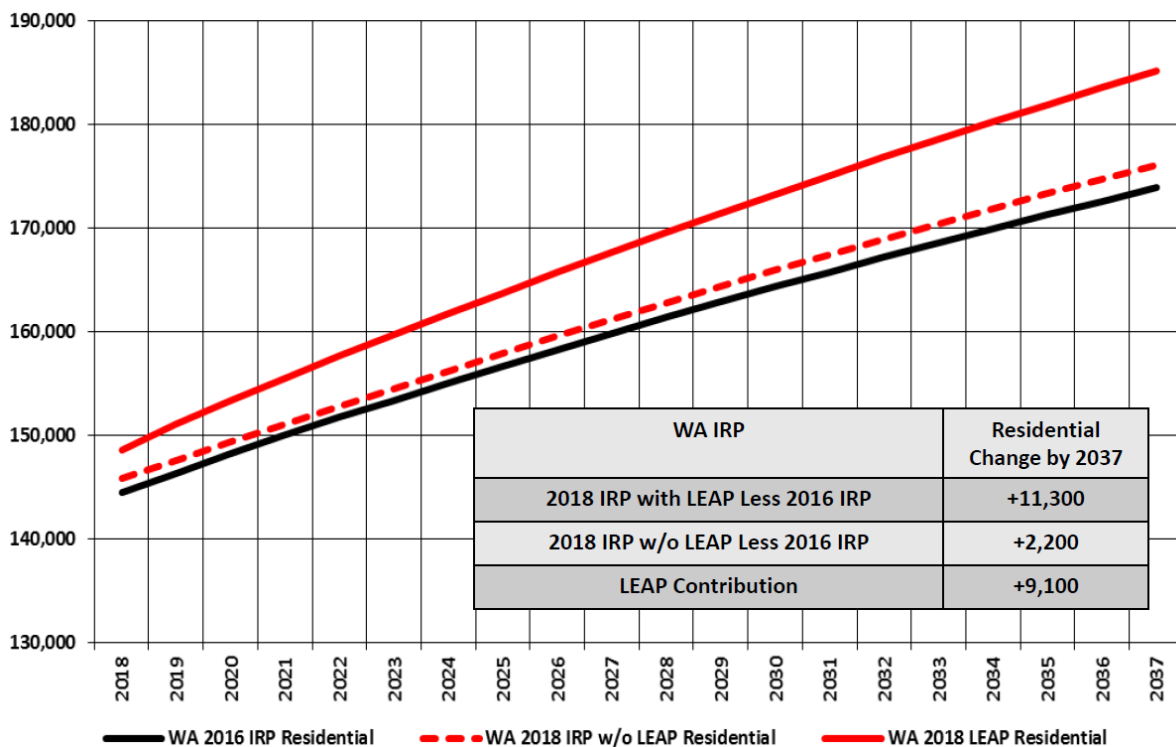
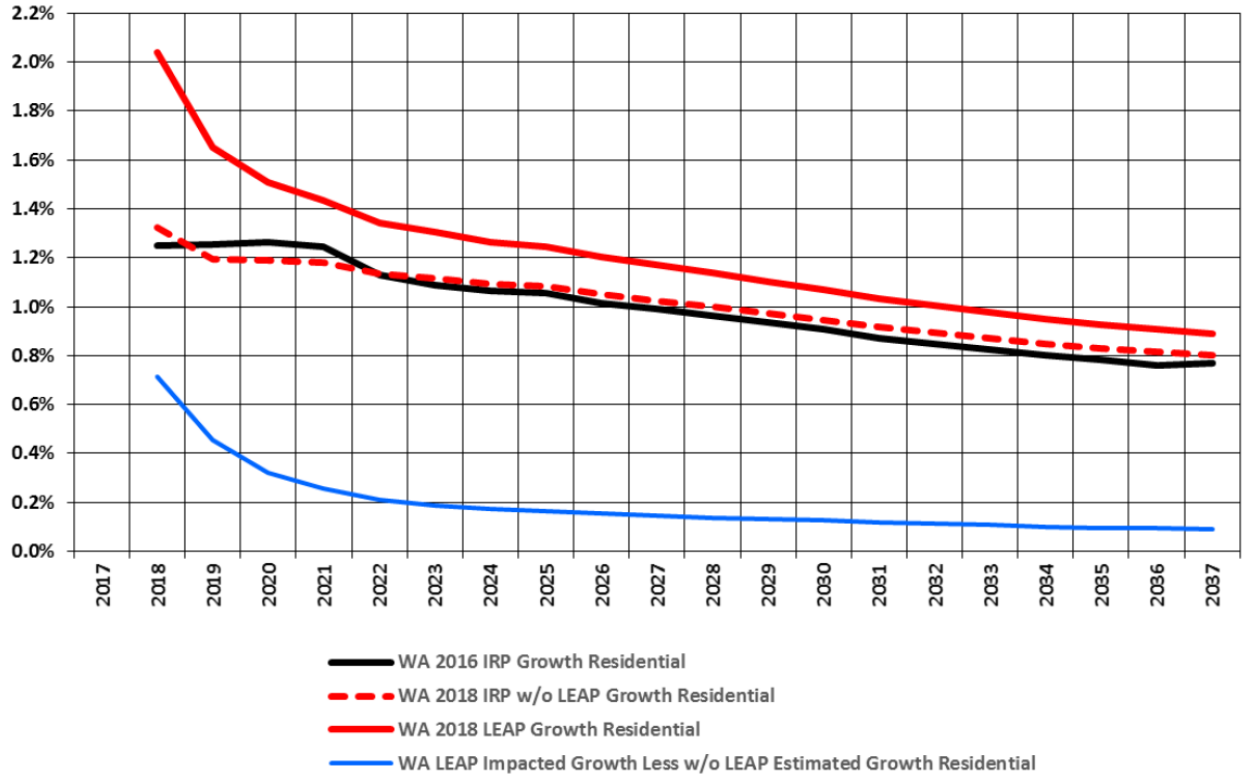


Chart No. 3 depicts the impact on customer growth rates both with and without the LEAP program. The highlight from this chart is the blue line, which indicates the impact that the LEAP program would have customer growth rates through the IRP planning horizon. If the LEAP were to continue beyond the three year pilot period, the impact of the LEAP on the growth rate would decline overtime. This is due to the fact that there are only so many existing homes available to convert to natural gas.

Chart No. 3

Estimating the IMPACT of LEAP in WA: Residential Growth Rates



As agreed, the Company expects to notify Staff and the Commission by November 30, 2018, whether it intends to modify, extend, or discontinue the Line Extension Allowance Program past its February 28, 2019 pilot end date and, in doing so, will provide further evaluation of the program. Avista appreciates the collaborative efforts of Commission Staff, Public Counsel, and The Energy Project in ensuring that the most comprehensive program information is being provided and will continue working with all parties in this matter.

If you have any questions regarding this report, please contact Jaime Majure at 509-495-7835 or jaime.majure@avistacorp.

Sincerely,

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Avista Utilities

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