BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of Avista Corporation, d/b/a Avista Utilities For an Order Authorizing Approval of Changes to the Company's Natural Gas Line Extension Tariff and Associated Accounting and Ratemaking Treatment	)))))))	Docket No. UG-18-_____ PETITION OF AVISTA CORPORATION

I. INTRODUCTION

1 In accordance with WAC 480-90-203(3), Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby petitions the Commission for an Order, on or before January 1, 2019, authorizing the approval of changes to the Company's natural gas line extension tariff Schedule 151. These changes seek to 1) make permanent the current Perpetual Net Present Value ("PNPV") calculation methodology used to determine the amount of a line extension allowance and 2) make permanent the existing Line Extension Allowance Program ("LEAP") Pilot, set to expire February 28, 2019, including the associated accounting and ratemaking treatment detailed in this Petition.

2 Avista is a utility that provides service to approximately 378,000 electric customers and 241,000 natural gas customers in a 26,000 square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 101,000 natural gas customers in Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its main office.

3 Please direct all correspondence related to this Petition as follows:

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4 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, WAC 480-07-370(1)(b), and WAC 480-90-223(1).

II. SUMMARY OF PETITION

5 Avista requests approval of the following tariff revisions to the Company's Natural Gas Extension Policy Schedule 151, Tariff WN U-29.

Tariff Revision

2nd Revision Sheet 151B	Canceling	1st Revision Sheet 151B

6 The Company through this Petition also seeks approval of the present accounting and ratemaking treatment which allows Avista to provide any excess residential line extension allowance (that is not otherwise applied towards the cost of extending natural gas service to the customer) in the form of a rebate, to any single-family, residential Schedule 101 customer who converts to natural gas from another fuel source, which is applied towards the cost and installation of the customer's high efficiency natural gas space and/or water heating equipment.

III. BACKGROUND

7 On February 25, 2016, the Commission issued Order 01 in Docket UG-152394, approving Avista's modifications to tariff Schedule 151 related to the Company's Natural Gas Line Extension rules. As part of the modifications, the Commission approved 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 residential Schedule 101 customers who are converting to natural gas service from any other fuel source. These "LEAP" 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.

8 As part of Order 01, the Commission ordered the Company to file semi-annual reports showing the impact of the allowance and excess allowance equipment rebates during the three-year pilot period from March 1, 2016 to February 28, 2019. To date, the Company has filed five semi-annual reports, each providing data agreed upon between Avista and Commission Staff prior to the filing of the first report. Through this reporting, in addition to further analysis provided in *Attachment A –Report on the Line Extension Allowance Program (LEAP) Pilot* ("Report"), the pilot has proven to be a vital and meaningful program for customers. Not only has the program accomplished its original objectives of promoting the efficient end-use of natural gas, expanding the natural gas distribution infrastructure, and addressing environmental concerns associated with emissions, but, perhaps more importantly, it has also become an essential means for providing options to lower the energy burden and increase efficiency for Avista's low income customers.

IV. REQUEST TO MAINTAIN ALLOWANCE METHODOLOGY

9 The Company is proposing that the Perpetual Net Present Value methodology currently being utilized to calculate the amount of a natural gas line extension allowance, approved on a temporary basis through Order 01 in Docket. No. UG-152394, be approved on an ongoing basis. As provided in its initial LEAP Petition[1] and discussed in a report by the National Regulatory Research Institute[2], the application of this methodology has been relatively straight-forward:

> *The maximum level of "economical" investment equals the annual distribution margin divided by the required rate of return. The assumption is that the recovery period approaches infinity. If, for example, the average new customer contributes $300 annually to the utility's distribution margin and the utility's required rate of return is 10 percent, the utility would consider spending $3,000 per new customer to be economical.*

10 The Company believes that the PNPV methodology will continue to provide further natural gas hookups through an economically supported formula. Commission Staff found that the PNPV methodology "allows the Company to make natural gas service more accessible to single-family residences in its service territory".[3] At the same time, the line extension allowance will continue to be easier for customers to understand, for the Company to administer, and for the Commission to audit, given that just a few Commission-approved inputs are used in the calculation. As stated by the Commission in Order 01:[4]

> *We agree with Staff that Avista's revised natural gas line extension allowance methodology is appropriate. 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*

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[1] Docket No. UG-152394, Petition of Avista Corporation For an Order Authorizing Approval of Changes to the Company's Natural Gas Line Extension Tariff and Accounting Ratemaking Treatment, p. 5, para.14

[2] "Line Extensions for Natural Gas: Regulatory Considerations," National Regulatory Research Institute, February 2013. http://www.nrri.org/documents/317330/aa3828ed-bbfa-4fac-b405-c6045dcf580c, p. 20.

[3] Docket No. UG-152394, Order 01, ¶6.

[4] Id. ¶7.

> *customers who are interested in natural gas services while ensuring that the Company does not acquire new customers to the detriment of existing customers.*

11 As these inputs to the formula have changed over time, the Company has simply updated the allowances through a tariff filing with the Commission, as it did on July 27, 2018 when modifications to the Company's Schedule 151 tariff were requested in order to update the allowance calculations using the latest applicable rate case factors from Order 07 in Avista's general rate case, Docket Nos. UE-170485 and UG-170486 (consolidated). Finally, the allowance methodology is similar to what the Commission has approved, on an ongoing (non-pilot) basis, for Cascade Natural Gas and Puget Sound Energy (subsequent to the Commission approving Avista's on a pilot basis).

V. EXCESS RESIDENTIAL ALLOWANCE FOR CUSTOMER EQUIPMENT ("LEAP")

12 The cost of the line extension for a customer to install natural gas service represents only a portion of the overall upfront costs a customer faces. Through experience, as well as customer survey information obtained during the Pilot, the Company knows that equipment and installation costs represent the largest portion of total costs and are one of the greatest barriers for customers to install natural gas.

13 While the cost of the line extension is more cost-effective for a greater number of customers due to the PNPV allowance methodology, the cost of equipment and installation is still a burden to many. It can cost a customer in excess of $5,000 out of pocket for natural gas equipment. This out of pocket expense will remain a barrier for many customers to pay for the equipment and installation costs to convert to natural gas, especially given the prevalence of low income customers in Avista's service territory.[5]

14 Through the evaluation of Avista's existing LEAP Pilot, the Company has found the program has provided a substantial benefit to our low-income population given financial constraints. Continuation of LEAP will not only provide financial support for customers who have more costly line extensions, it will also continue to offer the benefit of fuel choice and energy efficiency to low-income customers that may not have pursued such options without the assistance LEAP provides.

15 In order to overcome the cost barrier that many customers face in the decision to convert to natural gas, the Company proposes that any excess line extension allowance continue to be available to single-family, residential Schedule 101 customers to apply towards the purchase and installation of natural gas space and/or water heating equipment upon converting to natural gas from another fuel source. Currently, the average cost of a residential line extension is $2,435. Some extension costs will be higher, while others are lower. If the line extension allowance of $4,678 is approved to continue, on average, customers would have a remaining allowance of $2,243. In this example, the $2,243 unused portion of the allowance would be provided to the customer for the purchase and installation of high efficiency space and/or water heating equipment.

16 As mentioned above, the proposed rebate for any excess allowance will continue to only be available to single-family, residential customers that are converting to natural gas from another fuel source. The reason the Company is proposing to continue to limit this rebate to only

[5] See Attachment A - Report on the Line Extension Allowance Program (LEAP) Pilot

existing housing stock is that, currently, over 90% of new homes that are built in Avista's service area, where natural gas is available, already choose to install natural gas. It is the existing residential customers that require additional incentives to convert to natural gas, as they face a higher cost of conversion, both in terms of the cost of the line extension and equipment costs.

17 It is also important to remember that the Company has proposed, through a separate filing, to discontinue its electric to natural gas Energy Efficiency fuel conversion program.[6] Under the Company's filing, the fuel conversion program would end effective January 1, 2020. As the Company stated in that filing, the elimination of the electric to natural gas Fuel Conversion Program is predicated upon the Company's belief that the LEAP program would continue.[7] In short, the tools Avista has to help customers choose the most economic fuel for space and water heating will be diminished effective January 1, 2020, thus the strong need to continue not only the allowance methodology, but also the Line Extension Allowance Program.

18 In discussing the proposed discontinuation of the Company's Energy Efficiency fuel conversion program with Avista's Energy Efficiency Advisory Group ("Advisory Group"), parties including Public Counsel and The Energy Project have expressed interest in providing an exception to this discontinuation, available to only Avista's low-income sector. The Company is open to explore a potential low income fuel conversion program under a new funding structure in the future, however also believes that extension of LEAP may help bridge the gap in providing low-income customers the opportunity to control their energy costs by using a lower cost, higher efficiency fuel for their needs. As described in the attached Report, it is Avista's limited income customers that often live in older homes with a greater need for

[6] See Docket UE-170485 and UG-170486 (consolidated).

[7] In the event LEAP is substantively discontinued, the Company may seek to reinstate a fuel conversion program as Avista believes the loss of both programs would be a disservice and detriment to the customers it serves.

more efficiency, yet these same populations are far from able to afford the conversion from electric heating to natural gas, nor the energy efficient equipment desired after conversion.

19 The process for providing any excess allowance to a customer will remain unchanged from the existing LEAP Pilot, which is similar to the process used by the Company in providing Energy Efficiency rebates. The Company requires that the customer submit invoices for their equipment and installation costs. After verification of the invoices, the Company provides any excess allowance to the Customer. The rebate will not exceed the total cost of the customer's purchase and installation costs. The Company will provide the rebate to a customer upon receiving a paid receipt within ninety (90) days of the purchase and installation of the customer's space and/or water heating equipment.

VI. RESULTS OF THE EXISTING LEAP PILOT

20 Through its semi-annual reporting, the Company has provided data to the Commission surrounding the number of conversions per year, average costs for natural gas line extensions, number of customers that received equipment rebates, average rebate amounts, customer survey results, evaluation of heating-season kWh usage of Avista conversion customers, CO_2 and kWh savings associated with conversions, as well as an estimated impact of LEAP on Washington residential growth rates. The most recent report, submitted September 28, 2018 (covering the timeframe from March 1, 2016 to August 31, 2018) provided that there have been 4,215 total electric to natural gas conversions, constituting nearly 52% of the total new residential customer hook-ups for the Company since the Pilot began in 2016. Of these 4,215 conversions, 3,297 LEAP rebates have been issued. The number of customers that received a LEAP rebate is lower than the number of conversions for many reasons, including:

- 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., installed only a natural gas fireplace).

21 More notably, construction costs rose over 46% throughout the course of the Pilot, from an average of $1,666.30 in 2016 to $2,435.14 in 2018, resulting in a three-year average of $1,908.49. Concurrently, the average amount of LEAP rebates decreased from $2,719.48 in the first program year to $2,536.82 in 2018. As construction costs continue to rise, it is imperative that Avista continue to provide affordability to customers through programs like the LEAP Pilot.

22 During the course of the LEAP Pilot, the Company also responded to Commission Staff's request for additional emissions data by providing comparative customer emissions profiles and information regarding the annual reduction in CO_2 of homes that convert from electric to natural gas in its 2017 and 2018 reports, as seen in Table Nos. 1 and 2 below.

Table No. 1 – Emissions Profile for Average Customer Using Electric Space Heat and Hot Water

Average Electric (Resistance) Customer			
End Use	**Electric Use (kWh)**	**AVA Mix CO_2 lbs. /yr.[8]**	**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**

[8] The AVA $C0_2$ 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.

Table No. 2 – Emissions Profile for Average Customer Using Natural Gas Space Heat and Hot Water

Average Natural Gas Customer			
End Use	**Therms @ 90% Efficient Furnace and 67% Water Heat**	**CO_2 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**

23 Based on the analysis completed, the savings range of CO_2 for a customer that converts their space heat and/or hot water heat through the LEAP program was found to be 0.31 – 1.44 metric tons per year, or an annual reduction of up to 37% of CO_2.[9]

24 Customer Survey results have remained consistent throughout the LEAP Pilot, continuously showing that the availability of the excess allowance equipment rebate is impacting customers' decision to convert to natural gas. At the time of preparing the September 2018 semi-annual report, the Company had received 453 completed surveys from customers that had received LEAP rebates. Of those that responded to each question, over 67% of customers said that they had previously considered converting to natural gas, but chose not to, with 95% of respondents stating that the amount of Avista's line extension allowance impacted their decision to convert to natural gas. Time and time again, financial constraints were noted as a barriers to fuel choice, as 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. The cost of construction was a concern for 55% of respondents, while 45% of customers stated a

[9] Docket No. UG-152394 – Avista Natural Gas Line Extension Allowance Program Semi-Annual Report No. 5

combination of both equipment and construction costs were to blame. When asked why they were interested in converting to natural gas overall, 95% of customers included cost savings as a main reason for conversion, and 72% of respondents stated that prior to learning of the LEAP Pilot they had not planned on installing high efficiency natural gas space heating equipment. This means that without the availability of the excess allowance equipment rebate, these customers may have continued without natural gas services and missed out on the opportunity to lower their energy burden and take advantage of the associated therm savings from the installation of their high efficiency equipment. Additionally, a compelling 100% of all customer surveys stated they had recommended, or would recommend, that others participate in LEAP.

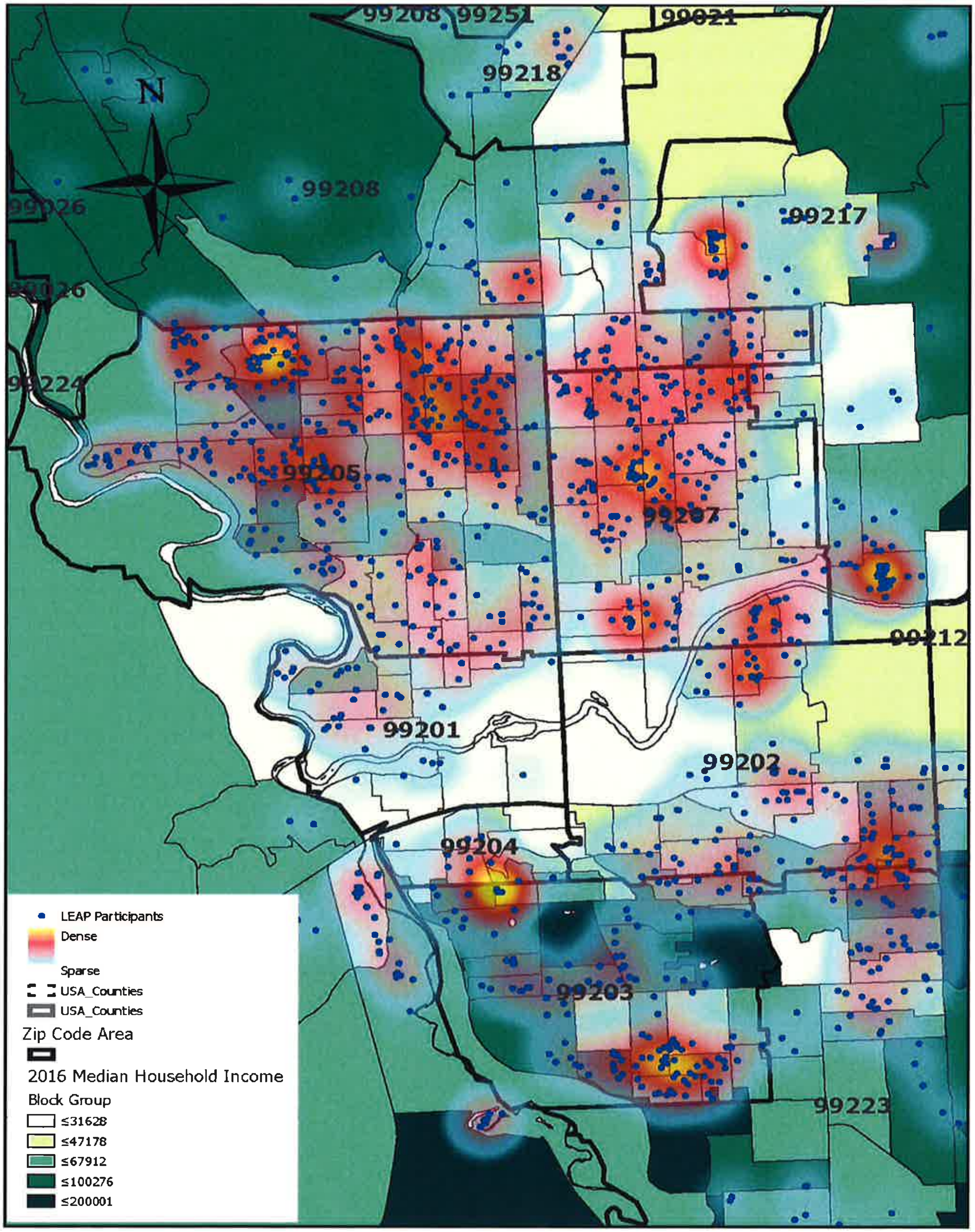
25 Arguably the most important gains identified through evaluation of the LEAP Pilot is the program's impact on Avista's low income population. Of the 39 counties in Washington, Avista Utilities provides electric and/or natural gas services across 13 counties. All 13 of these counties have a higher average of households living in poverty than the current 11 percent state average. In fact, the two highest rates of poverty found in the entire state, according to the 2017 American Community Survey ("ACS") estimates of the United States Census Bureau, are within Avista's service territory. Based on poverty rates alone, it is evident that the communities served by Avista could very well benefit from all available opportunities in increased affordability of basic services—a fact that is further compounded when considering the Asset Limited, Income Constrained, Employed (ALICE) population of the state as well.[10] Of the nine counties with LEAP participants, an average of over 45% of residents meet the "ALICE Threshold", as described in Attachment A, Section VII, meaning that they are struggling to afford only basic

[10] See Attachment A - Report on the Line Extension Allowance Program (LEAP) Pilot, Section VII

necessities and therefore would be least likely to take advantage of any opportunities that may be view as an investment or financially unattainable, such as fuel conversion.

26 While approximately 91% of the LEAP participants were in Spokane County, with a poverty rate of 13.3% and an ALICE population that reaches 38 percent, Asotin County also contributed approximately 3% of participants and the most impoverished county in the state, Whitman County, with a poverty rate of 25.9% and an ALICE Threshold population of approximately 52%, saw over 40 LEAP participants during the Pilot. With the bulk of the LEAP rebates occurring in Spokane County, Avista merged 2016 Census Tract data regarding median incomes to provide a mapping of the overall saturation of the LEAP customers in a given area, provided on the following page as Figure 1. Represented in this map are the 2016 median household incomes, with the lightest color on the gradient scale signifying the lowest income bracket of less than or equal to $31,628 per year, and the darkest green color representing the highest tract, at over $200,000 annually. Premises that received a LEAP rebate between March 2016 and August 2018 appear as blue marker on the map, with a heat mapping applied in order to illuminate "hot spots", or geographic areas where a higher concentration of LEAP participants are found. This mapping of LEAP participants provides visual proof of that it is the Company's lower income households that are primarily benefiting from the LEAP Pilot. Of particular note in Figure 1 are the various hot spots, where there was a clustering of fuel conversions. Many of these clusters are mobile home parks, homes that do not have other means by which to improve their energy burden but through this program were given a chance to do so.

Figure No. 1 – Saturation of LEAP Participants in Spokane County



VII. ADDITIONAL REPORTING METRICS

27 On August 2, 2018, the Company held a conference call open to all parties in Avista's 2017 general rate case Docket Nos. UE-170485 and UG-170486 (*consolidated*), where 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".[11] Based on testimony provided in that general rate case, as well as input received in the telephonic discussion held on August 2, 2018, additional information was requested or suggested by contributing parties that Avista has incorporated into this filing.

28 First, to address Commission Staff's concern that the program did not have a defined objective or containing clearly distinct metrics to support this objective, the Company has provided *Attachment A –Report on the Line Extension Allowance Program (LEAP) Pilot*. This Report attests to the benefits of the LEAP Pilot, in addition to providing additional information surrounding an unforeseen benefit realized through evaluation of the program: the opportunity this program has afforded to lower the energy burden of the Company's low-income customers.

29 Avista proposes to continue its semi-annual reporting to the Commission, with not only the existing metrics in place, but also including additional information regarding LEAP's impact on the low-income communities it serves, as the Company has found the outreach to low-income participants to be one of the most prominent values of the Pilot. The Company also proposes additional data collection regarding the economic benefit to the surrounding communities, in the form of vendor surveying and enhanced questions on its existing Customer Survey for LEAP participants. Avista has already commenced vendor surveying with the trade allies

[11] Docket Nos. UE-170485 and UG-170486, Order 07, ¶284.

predominantly responsible for installing natural gas equipment throughout its service territory, with the intention that enough pertinent data will be available for the Company's March 2019 semi-annual report.

30 If the continuation of LEAP is approved, Avista intends to seek input from the Parties as to what additional survey information from both vendors and customers would be beneficial for future reporting. The Company will also continue to work with the Parties further to integrate their suggestions for cross-references between LEAP participation and other weatherization measures or participation in Avista's Low Income Rate Assistance Program ("LIRAP"). Initial data compiled resulted in a correlation of about 13% of LEAP participants that also participated in the LIRAP and less than 1% participating in additional Low-Income Energy Efficiency Programs such as shell measures or other weatherization processes. The link between LEAP and actual LIRAP recipients, though relatively low at 13%, can be explained in that not all customers that need assistance actually apply for it. As seen in Section VI of Attachment A, populations still struggling to afford basic monthly essentials may not necessarily meet the qualifications for low-income rate assistance. Continuing to provide options such as the LEAP rebate, however, will help to mitigate some expenses encountered by these low-income populations and potentially alleviate not only the customer's energy burden but also financial constraints encountered when pursuing efficiency efforts.

VIII. PROPOSED ACCOUNTING TREATMENT

31 The Company is requesting an Order from the Commission approving the continued deferral, for later recovery in rates, the excess line extension allowance paid to Washington residential customers upon conversion to natural gas. In future general rate cases (as we did in

our 2017 general rate case), the Company would propose to amortize and recover the costs from all customers over a five-year period with a rate of return on the unamortized balance. In Order 01 of Avista's original LEAP Petition, the Commission stated its agreement with Commission Staff in that "deferring the excess allowance rebates for later recovery is appropriate given that acquisition of these customers will aid in lowering costs to existing customers by spreading the burden of fixed costs over a larger user base".[12]

32 The Company requests to continue to defer the costs in Account 182.3 – Other Regulatory Assets. A summary of the accounting entry follows in Illustration Nos. 1 and 2 below:

Illustration No. 1

FERC Acct. No.	Account Description	Debit	Credit
182.3	Other Regulatory Assets	$ 100	
232.1	Accounts Payable - General		$ 100
	To record payment of line extension rebate to customers.		

Note: Associated current and deferred income taxes will be recorded.

33 In future general rate cases, Avista would request recovery of the deferred balance over a five-year period. The monthly accounting entry to record the amortization is as follows:

Illustration No. 2

FERC Acct. No.	Account Description	Debit	Credit
407.3	Regulatory Debits - Amortization	$ 100	
182.3	Other Regulatory Assets		$ 100
	To record amortization of line extension rebates paid to customers.		

Note: Associated current and deferred income taxes will be recorded.

[12] Docket UG-152394, Order 01, ¶8.

IX. REQUEST FOR RELIEF

34 WHEREFORE, Avista respectfully requests that the Commission issue an Order, on or before January 1, 2019, approving the line extension tariff revisions, as well as the extension of LEAP. The Company also requests deferred accounting and ratemaking treatment of the costs incurred for Avista to offer excess line extension allowances to single-family, residential Schedule 101 customers. Recovery of the deferred costs over a five-year period would occur through general rate case filings as explained in this Petition.

DATED this 9th day of November 2018

By: Patrick Ehrbar for David Meyer
David J. Meyer
Vice President and Chief Counsel for
Regulatory and Governmental Affairs

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

David J. Meyer, being first duly sworn on oath, deposes and says: That he is a Vice President of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Petition, knows the contents thereof, and believes the same to be true.

For David Meyer

SIGNED AND SWORN to before me on this 9th day of November 2018

DEBBIE DEUBEL COMMISSION EXPIRES NOTARY PUBLIC 05/09/2021 STATE OF WASHINGTON

Debbie Deubel

NOTARY PUBLIC in and for the State of Washington, residing at Spokane.

Commission Expires: 05-09-2021