



Avista Corp.

1411 East Mission P.O. Box 3727
Spokane, Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170

September 17, 2015

Via Web Portal

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-143616 - Comments of Avista Utilities

Avista Corporation, dba Avista Utilities (Avista or Company), submits the following comments in accordance with the Washington Utilities and Transportation Commission's (Commission) Notice of Opportunity to File Written Comments issued on August 20, 2015 in Docket No. UG-143616.

Avista appreciates the Commission's continued efforts in the investigation of natural gas infrastructure in Washington and for the opportunity to again provide comments on this matter in an effort to come up with possible solutions to further expand natural gas to unserved and underserved areas, address environmental concerns, and to promote the economic development and efficient end-use of natural gas.

As discussed in the Notice, most companies have not made major revisions to their natural gas line extension policies in several years; the Commission believes that it is appropriate to continue to discuss potential changes to these policies. As will be explained further in our comments the Company believes that it is appropriate to discuss potential changes to the policy that may make it easier for new customers to convert to natural gas.

The following comments are in response to the Commission's specific questions:

- 1. Line extension policies are one factor that customers consider when connecting to natural gas service, or switching from electric to natural gas service. Are the costs associated with natural gas line extensions recovered in whole through charges to end-users requesting the line extension?**

Response: New customers pay for the costs associated with their line extensions, either through a direct customer contribution, or through their rates when they begin taking service. For each natural gas line extension, an allowance based on the Company's tariffed methodology is calculated. Should the estimated overall project cost exceed the estimated allowance, any costs in excess of the allowance must be paid by the customer in advance of construction. Under the Company's present allowance methodology, the allowance provided to a customer is three times the annual revenue that the customer is estimated to provide. 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.

Avista believes that changes in the methodology used to calculate the utilities' line extension tariffs can be made under the Commission's current authority. Such a change could increase the likelihood that natural gas mains will be more accessible, and that customers will be more inclined to connect to the system.

For example, a recent estimate of the cost of an average line extension, which was provided in this docket, was \$2,345. Under current practice, the customer would receive an allowance of \$1,920, and would be responsible for an upfront contribution of \$425. Such a contribution in aid of construction, on top of equipment costs on the customer's side of the meter, can be an impediment for customers to switch to natural gas. From a margin perspective however, there is support to increase the allowance. The Company provided one example of a new allowance methodology in its December 15, 2014 comments in this Docket.¹

The Company is currently developing a filing which, among other things, will seek to revise its line extension using the Perpetual Net Present Value methodology described in the Company's December 2014 comments (and as provided in Footnote No. 1 above). That methodology would

¹ There are a number of approaches that could be used to determine an appropriate level of Company investment related to natural gas hookups. One such methodology is a perpetual net present value method. As discussed in a report by the National Regulatory Research Institute:

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.

The application of this methodology would be relatively straight-forward. In Avista's recently concluded general rate case the Commission-approved decoupled distribution margin revenue per customer for residential Schedule 101 customers, including the basic charge revenue, was \$388 per year. The rate of return approved in the Docket, for AFUDC and other purposes was 7.32%, which adjusted for income taxes would be approximately 10.2%. The allowable line extension investment in this example would be $\$388 / 10.2\%$, which is equal to \$3,803. (footnotes omitted)

likely provide further natural gas hookups in a cost-justified manner, and at the same time is easier to administer for the Company and audit for the Commission.

2. If not, what, if any, incentive is provided in the company's current line extension tariff for new or existing customers to connect to natural gas service? What other incentives does the company provide, if any?

Response: As noted in the Company's response to Question No. 1 above, the Company provides an allowance for new customer line extensions. This allowance is not necessarily an incentive, but rather a recognition that the customer will be paying for the costs associated with the line extension in their rates once they take service. 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.

Other than the line extension allowance, the only incentives the Company provides to its customers are rebates through its Demand Side Management (DSM) program for the installation of high efficiency equipment or for the conversion from Avista electric to natural gas furnaces or water heaters.

Through experience, the Company knows that equipment and installation costs are one of the greatest barriers for customers to hook up for natural gas. Providing rebates for customers converting to natural gas helps offset a portion of the total cost a customer must pay when combined with the line extension allowance, however it can still cost a customer upward of \$5,000 - \$10,000 out of pocket (before incentives). In the case of new developments or new construction, the rebate for installing a high efficiency furnace or water heater attempts to offset the incremental costs for a high efficiency model, but has a minimal impact on the total cost to a customer.

Increasing the line extension allowance, providing rebates for equipment, along with educating customers about the benefits of natural gas, and promoting the direct use of natural gas is helpful, but it still does not change a customer's situation of not having the funds available to pay for the equipment needed to convert to natural gas. In order to overcome the cost barrier that many customers face when deciding to convert to natural gas, one solution to consider is an additional customer allowance for the purchase and installation of high efficiency equipment.

Avista would propose, for consideration, that the equipment allowance be a part of the line extension allowance. As described in the Company's response to Question No. 1, the average cost of a residential line extension is \$2,345. If the line extension allowance were to increase to \$3,800, on average customers would have \$1,455 left of their allowance. In the situation where a customer does not use their entire line extension allowance, they are then contributing a greater portion of revenues overtime to cover the fixed costs of all existing customers, compared to the situation when they do use all of the line extension allowance. When a customer does not use all of their line extension allowance, the Company believes it would be reasonable to provide the

unused portion of the allowance in the form of a rebate to the customer for the purchase and installation of high efficiency equipment.²

3. Is the company's current natural gas line extension tariff designed to promote a specific policy outcome or outcomes? If so, what are these outcomes, and does the company believe that its current tariff achieves these outcomes? If not, what specific changes need to be made to the company's current natural gas line extension policy? Is additional legislative direction or authority needed in order for the Commission to approve line extension policies designed to promote environmental or economic development outcomes?

Response: Line extension tariffs provide customers who are interested in taking advantage of natural gas service with some relief from the costs necessary to make the fuel conversion. While the Company believes that its current allowance methodology helps to offset a portion of the cost to hookup to natural gas service, as discussed in the Company's response to Question No. 1 above, more can be done as it relates to the present allowance that may lead to additional customer hookups.

Avista believes that changes in the methodologies used to calculate the utilities' line extension tariffs can be made under the Commission's current authority, that would increase the likelihood that natural gas mains will be more accessible, and that customers will be more inclined to connect to the system. These changes could be effectuated through individual company line extension tariffs.

4. How does the company determine when it is necessary to revise its line extension tariff? How often should the company adjust line extension rates to account for changes in actual line extension costs?

Response: The Company has not updated its line extension in recent years. Because natural gas is in plentiful supply and at relatively low costs, and this is expected to continue for the foreseeable future, and because the direct use of natural gas is the most efficient way to heat space and water, current policies should be adjusted, as appropriate, to further expand the direct use of natural gas. We have been actively working on a filing that would include modifications to our line extension tariff, and plan to file such changes in the near future.

5. What, if any, impacts does the company's current natural gas line extension policy have on existing customers? What is the impact on new and existing customers if a new customer's usage is less than expected?

Response: New customers that hookup today provide net benefits to existing customers. An increase to the line extension allowance can be made with little or no impact to existing customers, while at the same time achieving other economic, societal, and environmental benefits of natural gas.

² The portion of the allowance allocated towards customer equipment would be capitalized as a regulatory asset and amortized over an agreed-upon time period.

There could be a small impact on existing customers if a new customer's usage is less than expected, especially given the level of new customer hookups provided in the Company's response to Question No. 6 below as compared to the total number of current natural gas customers.³ However, new customers may also use more natural gas than estimated, and the additional margin from the higher level of usage would provide a net benefit to customers.

6. What percentage of natural gas line extensions are installed at the request of 1) residential, 2) commercial, and 3) industrial customers? What percentage of each category is requested by developers? (Please provide data dating back to the last time the company revised its line extension policy, or for as many years as this data is readily available.)

Response: Avista only tracks line extension installation by residential or non-residential. The following table shows the number of new installation by year for the past 10 years.

Table No. 1

Year	Residential	% of Installs	Non-Residential	% of Installs	Total Installs
2005	3,521	92%	326	8%	3,847
2006	3,489	91%	350	9%	3,839
2007	2,866	87%	420	13%	3,286
2008	2,644	89%	325	11%	2,969
2009	1,723	83%	346	17%	2,069
2010	1,562	87%	239	13%	1,801
2011	1,482	87%	223	13%	1,705
2012	1,705	86%	269	14%	1,974
2013	2,030	91%	189	9%	2,219
2014	2,499	92%	218	8%	2,717
Total	23,521	89%	2,905	11%	26,426

7. What information does the company make available to consumers regarding natural gas line extensions? What public outreach activities does the company conduct to encourage customers to connect to natural gas service?

Response: If a customer calls to inquire about service, our Customer Service Representatives answer any questions they can regarding a natural gas line extension and send the customer a Gas Packet, which includes information about natural gas and converting to gas along with energy efficiency rebate forms for installing natural gas equipment. If a customer requests a bid for what installing natural gas service would cost, a Construction Project Coordinator (CPC) is assigned to work with them on the specifics of their install. The CPC is responsible for

³ If all of the 2,499 customers installed in 2014 provided 10% less revenue from volumetric sales, the net effect is only a reduction of approximately \$70,000.

answering any questions related to the line extension itself and for providing a cost estimate back to the customer. Also, information a customer needs to learn about the benefits of natural gas and converting to natural gas is posted on the Company's website along with the Company's tariff regarding line extensions.

Avista utilizes direct marketing to encourage customers to connect to natural gas service, which can include correspondence (letters), door hangers, direct mail, and e-mail. In addition, the limited use of print advertising in select publications, as well as outdoor signage has been used. As part of our Demand Side Management (DSM) programs, we include messaging regarding the efficiencies of natural gas and provide tools for customers to determine how much they may save by converting to natural gas.

If you have any questions regarding these comments, please contact me at 509-495-8620 or at pat.ehrbar@avistacorp.com.

Sincerely,

A handwritten signature in black ink that reads "Patrick Ehrbar". The signature is written in a cursive style with a long horizontal stroke at the end.

Patrick Ehrbar
Manager, Rates & Tariffs