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April 17, 2014

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: Investigation on Compressed Natural Gas for Fueling Natural Gas Powered Vehicles,
Docket UG-140525

Dear Mr. King,

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 (Notice) issued in Docket UG-140525 dated April 10, 2014. Avista appreciates the opportunity to provide the following comments related to the issues identified by the Commission in its Notice.

1. What are the benefits to Washington State of widespread availability of compressed natural gas services for transportation?

Widespread availability of compressed natural gas ("CNG") service for transportation will provide increased options for customers' fueling needs. As more CNG fueling stations become available, we believe more fuel conversions from gasoline and diesel to CNG will occur. These conversions can provide economic and environmental benefits through a reduction in the cost per-mile of transportation, as well as a reduction in greenhouse gases.

Over the past five years, the natural gas industry has fundamentally changed, with the proliferation of natural gas derived from unconventional sources, i.e., through horizontal drilling for shale gas. The dramatic increase in natural gas supply has led to a substantial decrease in wholesale natural gas costs. This decline in natural gas prices has already led to lower natural gas costs for utility customers, and could prove to be beneficial for customers who choose to use CNG versus gasoline/diesel for their transportation needs.

The Company has included as Attachment A to these comments summary statistics showing the proliferation of natural gas reserves in North America. Page 1 of Attachment A shows that, based on a study conducted in 2011, over 900 trillion cubic feet of proven natural gas reserves that can be developed at cost of \$4 or less per MMBtu. Page 2 of Attachment A demonstrates that this \$4/MMBtu supply of natural gas is not exhausted until 2037 given projected US and Canadian usage as well as LNG exports. The point is that there is a substantial amount of natural gas that can be developed relatively inexpensively, and we believe that transportation customers should be able to benefit from that.

2. What are the benefits to utility ratepayers if the Commission approves a utility tariff for gas compression service, and if so, what are those ratepayer benefits?

Avista has existing CNG fueling facilities that it uses for its own fleet of vehicles. Avista is considering making these facilities available to the public, based in part on inquiries from customers regarding the potential use of these existing facilities. Public use of these facilities would require a tariff approved by the Commission to establish pricing and other terms and conditions. The use of existing facilities by the public would result in contributions toward the fixed costs of the CNG facilities, which would reduce costs for Avista's retail customers.

The costs and benefits associated with incremental, stand-alone CNG fueling facilities for use by the public would be dependent upon the demand for the use of the facilities. Even though CNG for transportation has been around for a long time, the CNG for transportation market is still in its infancy. In order for that market to become more mature, there will need to be substantial growth in the number of CNG stations. The development of CNG infrastructure is capital intensive and requires sustainable levels of fuel consumption to support the investment. Of approximately 1,200 fueling stations in operation nationally, the majority were built in geographic regions where economic and environmental incentives helped to support the investment made by infrastructure developers and NGV operators. The penetration levels nationally for CNG is limited, and it has been even more limited in the Pacific Northwest.

Generally, unless there is a concentration of CNG users in a relatively small geographic area that are willing to make long term commitments to use the facilities, it would require some

form of subsidy to support the investment. This subsidy could take many forms, such as upfront state or federal grants, or a per-unit subsidy based on actual usage, among others.

Another approach would be to decide to install additional CNG fueling facilities knowing that the near-term usage would not support the full cost of the facilities, but with the expectation that, in the long term, increased usage would likely be sufficient to fully cover the costs and provide benefits. Consideration should also be given to the value associated with the reduction in carbon that would occur with increased CNG for transportation, reduced dependence on foreign oil, and other social and economic benefits. Under this latter approach, ratepayers could see a small amount of increased costs in the near-term, but we would expect to see a net benefit in the long-term.

3. What are the risks to ratepayers, if any?

If consideration is given to other benefits associate with CNG that are more difficult to quantify, e.g., reduced carbon, it may be reasonable to incur some increased costs and risks in the near-term, for the opportunity to increase the maturity of the CNG market and the opportunity to achieve longer-term benefits.

The cost of each new CNG station is relatively small when viewed on a macro level; i.e., approximately \$2 million to \$3 million each. In addition, new CNG stations can be added one at a time incrementally over time. Therefore, the costs and risks both in the near-term and long-term are relatively small, and can be incrementally managed over time.

4. Is the existing gas compression market potentially competitive? If so, how is the market benefited or harmed if a regulated utility provides service through its tariff?

As stated earlier, the CNG market is in its infancy, and in order for that market to become more mature, there will need to be substantial growth in the number of CNG stations. Utilities can be a part of advancing the maturity of the marketplace. Avista agrees with the National Association of Regulatory Utility Commissioners (“NARUC”) November 2012 Alternative Fuel Resolution (“AFV”), which states that NARUC “supports a competitive AFV marketplace, where utility companies, businesses, governments, and third-party service providers are able to participate in the owning, leasing, operating, or maintenance of charging or fueling equipment.”

State regulators are a proxy for competition. As such, the terms, conditions and pricing for CNG service approved by state regulators for utilities providing CNG for transportation, can ensure that the utilities are not advantaged or disadvantaged when compared to others who choose to participate in the CNG for transportation market. It would generally be

advantageous to the market to have an increased number of CNG providers as long as there is a level playing field for all.

5. What would be the advantages or disadvantages to the market if a utility provides gas compression service as an unregulated subsidiary buying its gas from its regulated operation via an affiliate transaction?

The unregulated subsidiary, in this example, would be a customer of the utility, just like any other natural gas customer, and would receive service under Commission approved tariffed rates. WAC 480-90-245, “Affiliated Interests – Contracts or Arrangements”, provides that a utility must file contracts or agreements with the Commission, “except for transactions provided at tariff rates.” As such, there would be no advantage or disadvantage for the unregulated subsidiary as compared to other CNG providers. It would generally be advantageous to the market to have an increased number of CNG providers, including the unregulated subsidiary, as long as there is a level playing field for all.

6. What constraints exist in developing NGV infrastructure – both nationwide and in Washington?

The development of CNG infrastructure is capital intensive and requires sustainable levels of fuel consumption to meet the financial requirements of the investor. Of approximately 1,200 fueling stations in operation nationally, the majority were built in geographic regions where economic and environmental incentives helped to support the investment made by infrastructure developers and NGV operators. There has been limited CNG penetration levels nationally, and it has been even more limited in the Pacific Northwest.

7. What are the appropriate private sector, utility and commission roles in fostering the economic development and the expansion of the necessary infrastructure?

The non-utility private sector may tend to deploy capital when and where it believes it can earn a fair return on its investment. Absent incentives or subsidies, this will likely lead to limited expansion of CNG for transportation.

The utilities’ role will vary based on its own unique service territory and assessment of customer need. CNG is in its infancy as a transportation fuel. With the environmental and economic benefits that can be realized by using CNG, Avista believes, like NARUC, that all sectors of the economy, including utilities, should be allowed to provide CNG services in order to create a broader CNG market.

The Commission’s role has generally been defined in RCW 80.28.290. The RCW states that the “commission shall identify barriers to the development of refueling stations for vehicles

operating on compressed natural gas, and shall develop policies to remove such barriers. In developing such policies, the commission shall consider providing rate incentives to encourage natural gas companies to invest in the infrastructure required by such refueling stations.”

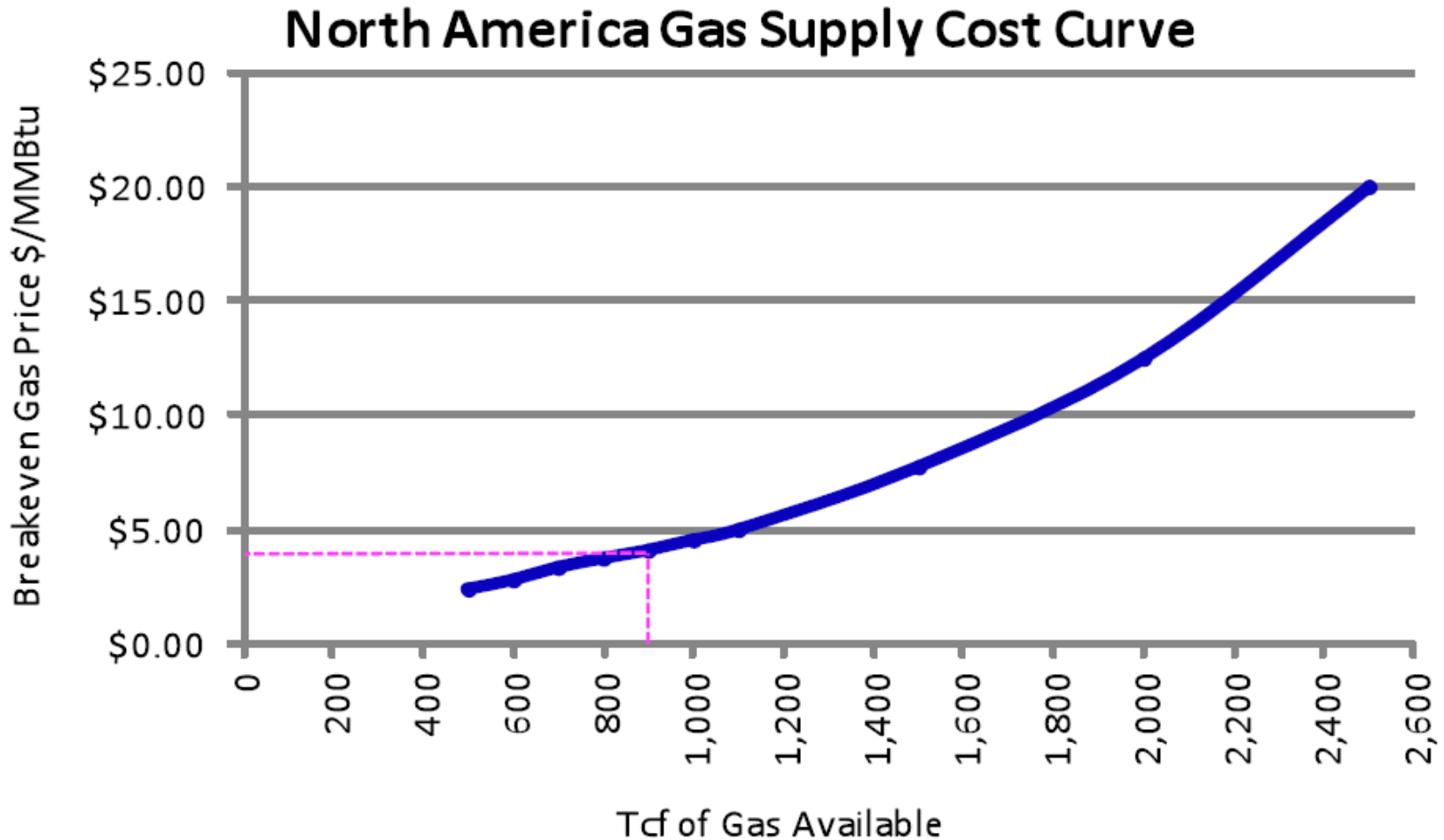
Again, the Company appreciates the opportunity to provide these comments and we look forward to participating in the workshop scheduled for April 25, 2014. If you have any questions regarding these comments, please contact me at 509-495-8620 or at pat.ehrbar@avistacorp.com.

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.

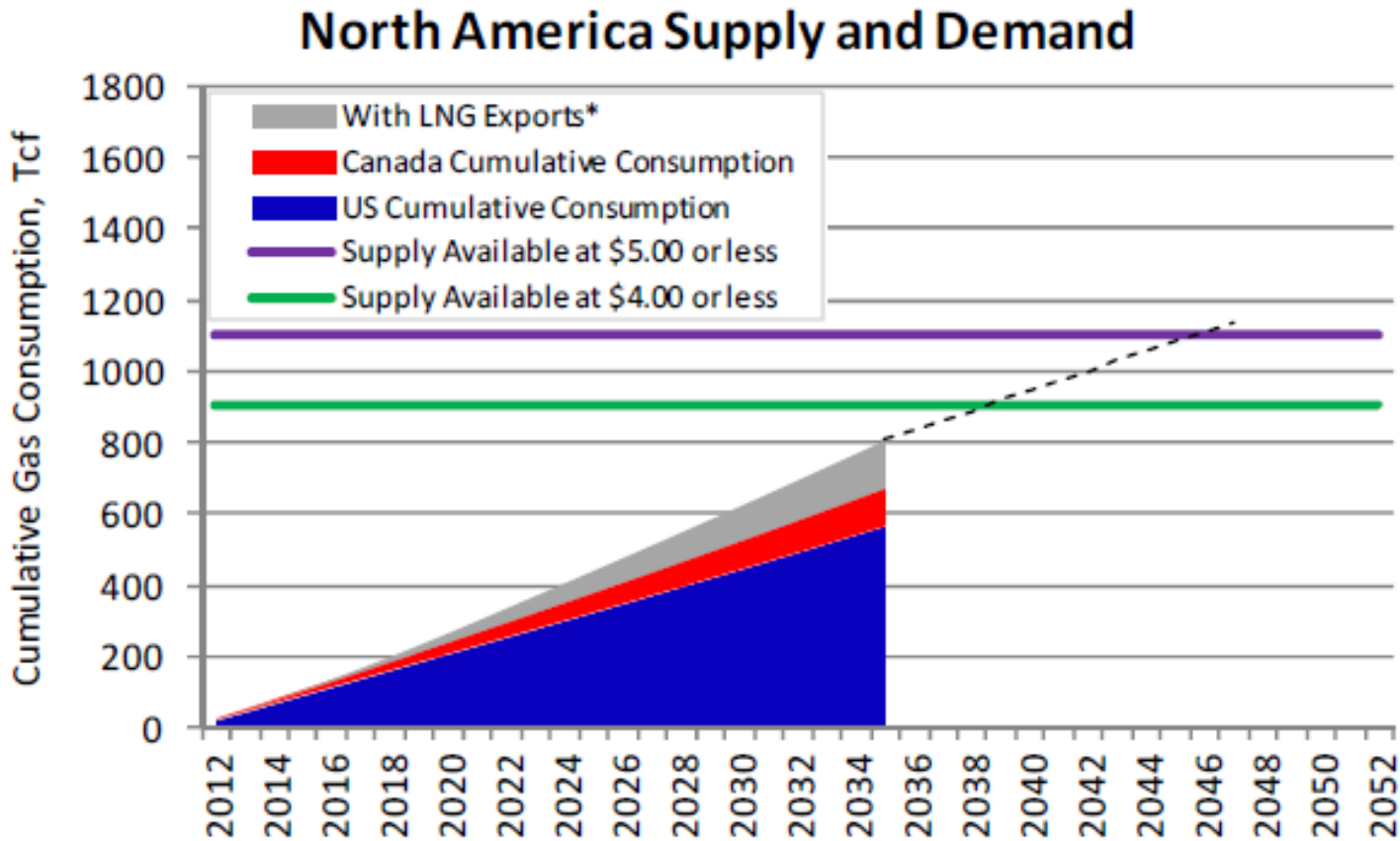
Patrick Ehrbar
Manager, Rates & Tariffs

Quantity is not the Issue 900 Tcf at \$4 or less



Source: 2011 MIT Study on the Future of Natural Gas, Figure 2.10

25 Years of Supply Under \$4



- US and Canadian consumption based on forecast prepared by EIA and NEB.
- LNG exports begin in 2015 at 6 bcf/d and grow to 20 bcf/d in 2022 then held flat

Source: Energy Information Administration and National Energy Board Forecast data