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AVISTA Corp.

August 26, 2016

Advice No. 16-13-G/ UG-____ (Tariff Changes to Rule 15, Gas Main Extensions)

Public Utility Commission of Oregon
201 High St SE
Suite 100
Salem, OR 97301

Attention: Filing Center

Pursuant to OAR 860-022-0025(1), Avista Corporation, dba Avista Utilities ("Avista" or "Company") hereby submits electronically the following listed tariff sheets applicable to its Oregon natural gas operations.

Oregon PUC Sheet No.	Canceling Oregon PUC Sheet No.
First Revision Sheet 15	Original Sheet 15
First Revision Sheet 15A	Original Sheet 15A
First Revision Sheet 15B	Original Sheet 15B
First Revision Sheet 15C	Original Sheet 15C
n/a	Original Sheet 15D

The changes proposed to Rule 15 are focused primarily on the level of allowance that Avista will contribute towards the cost of providing natural gas service to new customers. As discussed in more detail below, the Company is proposing, on a three-year pilot period basis, a change in the methodology for how allowances are calculated. The change in the allowance methodology will make the conversion to natural gas from other fuel sources more economical for potential customers. The Company requests that the following tariff sheets become effective on November 1, 2016, and with the proposed three-year pilot period, would remain in effect until October 31, 2019 unless otherwise modified or extended through a future filing.

Background

Line extension tariffs provide customers who are interested in taking advantage of natural gas service with some relief from the construction costs necessary to make the fuel conversion. In the Company's experience, if there is natural gas available in the street adjacent to the customer's premise, and if the natural gas main is on the same side of the street as the premise, then the current line extension tariff generally allows the customer to connect without paying a contribution to the construction. If the natural gas main is on the opposite side of the street from the customer's premise, however, the added construction cost associated with boring or pavement cutting will likely require a customer contribution.

In cases where the natural gas main has not yet been installed in the customer's neighborhood, then the customer will bear the additional cost of installing new main pipe. In addition to these construction costs, the customer also faces the substantial cost of installing new equipment (furnace, water heater, etc.) in their home or business. These out of pocket costs can be a significant challenge for a customer considering a conversion to natural gas service, particularly in cases requiring main pipe extensions.

The changes in the methodology to calculate the Company's line extension allowance would make natural gas mains more accessible, and customers will be more inclined to connect to the system. There are customer and societal benefits of natural gas service that go beyond the conventional cost-benefit calculation used to determine the economics of extending natural gas to new customers. Some of these benefits include:

1. Lower Energy Bills – Natural gas is a lower cost fuel for space and water heat, providing lower utility bills for customers.
2. Long-run Power Supply Impacts - The incremental resource in our region for base load electric generation is powered by natural gas. A Combined Cycle Combustion Turbine is roughly 50% efficient in its conversion of natural gas to electricity, compared with direct-use efficiencies approaching 90%. It is significantly more efficient to use natural gas directly at the end-use rather than generate and transmit electricity to the end user for space and water heat and other uses.
3. Environmental benefits - Reduction in greenhouse gas emissions would occur with the switch to natural gas from oil and wood, as well as a reduction in emissions from the end use of natural gas versus generating electricity with natural gas for the end-use.
4. Although the following items are not generally included in the economic analysis related to natural gas line extensions, they are factors that are likely considered by customers in their decision to adopt natural gas:
    a. Increased Customer Comfort - Natural gas equipment enhances lifestyle satisfaction in that it provides warm air at the heating registers, even cook top temperatures, faster water heat recovery, and one-half of the drying time for clothing, among other benefits.
    b. Convenience and Reliability - Natural gas is piped directly to the customer so it is available on demand. Customers do not have to worry about running out of fuel or arranging for deliveries. There is no waiting, no storage, and no mess.

The National Regulatory Research Institute stated that[1]:

> Commissions and other governmental agencies should realize that line extensions may produce public benefits, justifying subsidies and other inducements to encourage fuel switching. Just as several commissions advocate subsidies for energy efficiency, they could require financial assistance to prospective customers who want to switch to

[1] "Line Extensions for Natural Gas: Regulatory Considerations". NRRI, February 2013, p. 43.

natural gas. In fact, commissions may find that gas utilities' expending a fixed amount of dollars on fuel switching yields a higher societal return than from spending the same dollars on energy efficiency.

Senate Bill 32

The Company's proposed change in methodology is also in keeping with what Avista presented in the Commission's Senate Bill 32 ("SB 32") workgroup. In 2015, the Oregon Legislature enacted SB 32 to direct the Commission to form a workgroup to study ways of expanding natural gas service to unserved areas in Oregon. Among other things, the workgroup was to evaluate the Commission's policies regarding the extension of natural gas mains, and recommendations by Oregon's natural gas utilities for reforms to expand natural gas service.

Avista, for its part, presented in two of the SB 32 workgroup meetings changes it had recently made to its line extension tariff that were approved in the State of Washington (which are similar to the changes requested in this filing). The Northwest Gas Association, which represented the Oregon natural gas utilities on the SB 32 workgroup, provided several rounds of comments that stated changes to line extension methodologies would be just one of the "levers" the Commission could use to help facilitate natural gas service extensions in Oregon.

Proposed Change in Allowance Methodology

Under the Company's present allowance methodology, the allowance provided to a customer is three times the annual revenue the customer is estimated to provide. For example, if a Schedule 410 residential customer were to provide an estimated $713 in annual revenue[2], the allowance would be $2,139 (or $713 times 3 years). The estimated revenue requirement associated with the $2,139 utility investment (the allowance) is approximately $217 per year. Given that the average annual margin per residential customer, using 46 therms per month, is presently $428 per year, new customers are contributing margin above the annual cost of the line extension.

Changes in the methodology used to calculate the Company's line extension tariff will make natural gas mains more accessible, and customers will be more inclined to connect to the system. Further, the proposed methodology is the same as what the Washington Utilities and Transportation Commission approved for Avista's Washington natural gas service territory in February 2016.

The Company is proposing to use a Perpetual Net Present Value ("PNPV") methodology. The application of this methodology would be relatively straight-forward. As discussed in a report "Line Extensions for Natural Gas: Regulatory Considerations" 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

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[2] Basic Charge of $9 per month, plus 46 therms times volumetric rate of $1.09611 = $59.42 per month, or $713.05 annually.

economical.[3]

In Avista's last general rate case, Docket No. UG-288, the Commission-approved distribution margin revenue per customer for Schedule 410 customers, including the basic charge revenue, was $428 per year. The rate of return approved in Docket No. UG-288 was 7.46%, which adjusted for income taxes is 11.15%. The allowable line extension investment using the PNPV methodology is $428 divided by 11.15%, which is equal to $3,840. The result of the change in methodology is a higher line extension allowance ($3,840) as compared to the Company's current methodology ($2,139).

For commercial customers taking service on Schedule 420, the Company is proposing the same methodology for determining a line extension allowance, with just one modification. Customers served on Schedule 410 tend to be a homogenous group in terms of usage. Customer usage on the Company's other service schedules, however, tends to be less similar. As such Avista believes that it is appropriate to use a "per-therm" allowance. Therefore, instead of providing a fixed dollar amount for an allowance as is proposed for Schedule 410 customers, the Company is proposing a per-therm rate allowance of $5.10 per first-year therm usage for Schedule 420. The derivation of that per-therm allowance, which is based on similar Commission-approved values, is provided in Attachment A to this filing.

Summary

The Company respectfully requests that the proposed tariffs be approved as a pilot program from November 1, 2016 through October 31, 2019. The proposed allowance methodology would provide further natural gas hookups through an economically supported formula. Avista believes that the proposed changes are in line with the findings of the Senate Bill 32 report to the legislature as a way to expand natural gas in the State of Oregon. The line extension allowance under the proposed methodology will be easier to administer for the Company, and easier to audit for the Commission, given that just a few Commission-approved inputs are used in the calculation. Finally, as these inputs to the formula change over time, the Company would simply update the allowances through a tariff filing with the Commission.

The Company has made other language modifications and clarifications to Rule 15, which we believe provide customers with a better understanding of both their responsibilities, and the Company's. Please direct any questions regarding this filing to Patrick Ehrbar at (509) 495-8620.

Sincerely,

Kelly Norwood

Kelly O. Norwood
Vice President, State and Federal Regulation

[3] Line Extensions for Natural Gas: Regulatory Considerations". NRRI, February 2013, p. 20.

RULE NO. 15
GAS MAIN EXTENSIONS

Extensions of gas distribution mains exclusive of meters, regulators and service lines, necessary to furnish permanent gas service to applicants, will be made by the Company in accordance with the following provisions:

A. General - The Company will construct, own, operate and maintain gas distribution main extensions only along public streets, roads and highways which the Company has the legal right to occupy, and on public lands and private property across which rights-of-way satisfactory to the Company may be obtained without cost to the Company.

B. Extensions Rules - Before the start of construction, the Customer must submit a written application for service and pay an extension cost to the Company which is computed as follows: (C)

Total Extension Cost
- Cost Reductions, if any
- Allowance
= Net Extension cost

"Total Extension Cost" is the Company's estimate of the cost of furnishing and installing natural gas facilities.

"Cost Reduction" is a decrease allowed when the Company allows the Customer to do some of the work (i.e., constructing the ditch). All facilities provided by the Customer must meet the Company's specifications.

"Allowance" is a credit to each new Customer. The Allowance shall be the sum of twelve months of the basic or minimum charges plus the decoupled revenue per customer as determined by the Commission and administered through Schedule 475, "Decoupling Mechanism – Natural Gas", divided by the Commission-approved pre-tax rate of return. The allowance for Schedule 420 will be determined in the same manner as for Schedule 410, but will be divided by the average usage for that schedule to determine a per therm allowance rate.

ALLOWANCE

Schedule 410 Customer:	$3,840
Schedule 420 Customer:	$5.10 per first year therm
Schedules 424, 440, 444, 456:	Calculated on a case-by-case basis by Avista

Should the applicant or group of applicants advance in cash to the Company the Net Extension Cost, the amount advanced will be subject to refund, without interest, as provided for in Section C. (C)

(continued)

RULE NO. 15 (continued)

GAS MAIN EXTENSIONS

(M)(D)

C. Method of Refund – If there is a Net Extension Cost paid by the applicant or group of applicants, the amount advanced in accordance with Section B. will be subject to refund in the following manner:

1. A refund will be made for each additional customer connected to an extension for which all advance payments have not been refunded, equal to the amount by which the allowance exceeds the cost of construction to serve such (C) additional customer. Where there is a series of extensions, on any of which (C) an advance is still refundable, and the Company makes succeeding free (C) extensions with excess allowances, refunds will be made to repay in turn each (C) of such advances which remain refundable beginning with the first series from (C) the original point of supply. When two or more parties make a joint advance on the same extension, refundable amounts will be distributed to these parties in the same proportion as their individual advances bear to the total joint advance.

2. No refunds will be made by the Company on advances, or portions thereof, covering extensions which have been in service more than five (5) years.

3. Any assignment by a customer of its interest in any part of a cash advance made as above which at the time remains unrefunded, must be made in writing and endorsed by the Company showing the amount still unrefunded, and a copy of such assignment bearing the signature of both the assignor and assignee must be filed with the Company before it shall be effective and binding upon the Company.

4. Any portion of the cash advance which shall remain in the possession of the (M) Company after the termination of the refunds as above provided for shall (M) become the property of the Company. (M)

(continued)

RULE NO. 15 (continued)

GAS MAIN EXTENSIONS (M)

D. Main Extensions to Serve Subdivisions

1. Advances

a. Gas distribution main extensions to and within subdivisions will be constructed, owned and maintained by the Company in advance of applications for service by ultimate users only when the entire estimated cost of such extensions is advanced to the Company. The payment of the portion of such advance that the Company estimates it would refund after the first six months shall be postponed for six (T) months if the subdivider-builder furnishes to the Company evidence that it had received state and local authorizations to proceed promptly (T) with construction and that it has adequate financing. (T)(D)

b. In lieu of a cash payment of the advance, the Company will accept a (N) letter of credit, a contractor's performance bond, or another credit (N) instrument agreeable to the Company (N)

c. The amount advanced will be subject to refund without interest, as provided in Section C, provided, however, no repayment will be made (T) by the Company in excess of the amount advanced to the Company and further provided that no repayments will be made by the Company after a period of five (5) years from the date of completion of the extension on which the advance was made.

2. Method of Refund

a. Refunds as tabulated hereunder for such permanent installations as may be directly connected to such an extension will be made within sixty (60) days after the date of first service or as soon thereafter as (M) practicable on the following basis: (M)

(continued)

RULE NO. 15 (continued)

GAS MAIN EXTENSIONS

(M)

(1) Each main extension built to serve a subdivision shall serve a defined number of lots.

(2) When any individual lot shall have a permanent and complete building constructed thereon, occupied by one of the Company's bonafide customers, the Company will refund that portion of the sum advanced which bears the same relation to the sum advanced as one lot bears to the total number of lots in the subdivision.

(3) Should a connection for service be made to the main extension other than to serve one of the lots determined in accordance with Section D above, then the refund provisions of Section C. (T)
will apply. (T)

(4) When multi-family dwelling units are included within a subdivision, the refund for these units will be provided as follows:

(a) The first occupied apartment in each multi-family unit will qualify for a refund as if it were one lot, on the basis described in Section D above. Each remaining (T)
apartment, within that unit, as occupied thereafter would quality for a refund of 25% of that amount.

(b) After full occupancy, the refund that would be due for the number of lots upon which the multi-family units are constructed will be made. Refunds in excess of the number of lots may be made provided the total amount advanced for the subdivision is not exceeded.

D. Extensions for Temporary or Speculative Business

Extensions for temporary service or speculative business will be made under the temporary service rule.

E. Exceptional Cases

(M)

If adherence to these rules should be deemed impractical or impossible by either party, the Company or the applicant, prior to commencing construction or installation, may petition the Commission for a special ruling or for the approval of special conditions that have been mutually agreed upon.