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REPORT NAME: Notice of 2015 HVAC Filter Program Promotional Concession Campaign

COMPANY NAME: Avista Utilities

DOES REPORT CONTAIN CONFIDENTIAL INFORMATION? [X]No []Yes

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If known, please select designation: []RE (Electric) [X]RG (Gas) []RW (Water) []RO (Other)

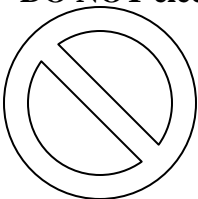
Report is required by: [X]OAR 860-026-0025 and 860-026-0030
[]Statute
[]Order
[]Other Enter reason

Is this report associated with a specific docket/case? [X]No []Yes

If yes, enter docket number:

List applicable Key Words for this report to facilitate electronic search:
HVAC Filter Program

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Avista Corp.

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VIA: ELECTRONIC FILING

July 1, 2015

Public Utilities Commission of Oregon
Attn: Filing Center
201 High St. SE
Salem, Oregon 97301

RE: Notice of Avista's HVAC Filter Program Promotional Concession Campaign

In accordance with OAR 860-026-0025 and OAR 860-026-0030, Avista Corporation, dba Avista Utilities or ("Avista" and/or the "Company"), describes a promotional concession campaign that the Company intends to offer to all its customers.

I. HVAC FILTER PROGRAM OVERVIEW

Avista's HVAC Filter Replacement Program (Filter Program) is designed to educate customers on the value of replacing filters, and offer choices to customers to make it more convenient for them to remember to replace their filters. This is an educational program with the purpose of improved operating performance of the HVAC equipment. A dirty filter restricts air flow into the HVAC system's air handler, and places additional strain on the air handler fan motor. In addition to extending the life of a furnace, improved operating performance results in reduced energy usage, which results in lower energy bills. A dirty air filter causes the fan motor to work harder and consume more energy. The reduced energy usage also results in a reduced carbon footprint for the customer. Furthermore, a dirty air filter reduces the air quality in the home.

The program will be available to all Avista customers in Washington, Idaho and Oregon, both electric and natural gas, and is designed primarily for home central heating and air conditioning systems. Through the Filter Program Avista will communicate to customers the benefits of replacing furnace air filters, and will offer three choices as a convenience for customers, to assist them in remembering to replace their filters on a regular basis. Communications will occur through the Connections newsletter, e-mails (or “e-blasts”), a text box on customers’ bills, and Avista Utilities’ website. The three convenience options to assist customers to remember to replace their filters are:

- 1) Receiving an e-mail reminder from Avista on a periodic basis to replace their filter,
- 2) Receiving an e-mail reminder on a periodic basis with promotional codes from manufacturers and vendors for discounts on filter purchases, and
- 3) The opportunity for customers to order filters directly from a vendor, for delivery to their home or business on a schedule chosen by the customer, e.g., one filter delivered each quarter, allowing the customer to install a new filter four times per year.

Customers may choose more than one of the three options, such as Options 1 and 3, where the customer may order filters for the year, but also elect to receive an e-mail from Avista reminding them to replace their filter. Under Options 1 and 2, the customer can purchase from a local retailer, or purchase directly from a manufacturer using the discount codes provided through the e-mail under Option 2. This is an “opt-in” program, where customers can participate if they choose to do so.

II. FILTER PROGRAM OBJECTIVES

There were a number of reasons that led Avista to propose the Filter Program. People may not fully appreciate the benefits from the replacement of air filters on a regular basis, which provides an opportunity for education. In addition, air filters are “out of sight and out of mind,” and it can be difficult to remember to replace filters on a regular basis, which provides the opportunity for Avista to provide convenient options to assist customers.



Improved operating performance could result in reduced energy usage, which could result in lower energy bills. A dirty air filter causes the fan motor to work harder and consume more energy. The reduced energy usage also results in a reduced carbon footprint for the customer. The replacement of air filters on a regular basis also results in improved operating performance of the HVAC equipment, and extends the life of the equipment. A dirty air filter is a primary reason for HVAC system failure. A dirty filter restricts air flow into the HVAC system's air handler, and places additional strain on the air handler fan motor and could, over time, burn out the motor and cause the system to overheat and ultimately fail. Filter replacement can extend the life of a furnace.

A dirty air filter reduces the air quality in the home. Poor home air quality can aggravate allergies and asthma, particularly in children. Regular replacement of the air filter improves indoor air quality.

For those customers that desire the convenience of air filters delivered directly to their home or business, Option 3 provides that opportunity. Direct delivery relieves the customer from having to remember size of the filter for their equipment, and as well as the occasional disappointment that comes when the retailer either does not carry their size, or they are out of stock.

Air filters also come in different efficiency types, measured by "MERV" ratings. MERV stands for Minimum Efficiency Rating Value. This is an industry standard rating system that allows comparison of filters made by different manufacturers. A MERV rating is a numerical value ranging from 1 (lowest efficiency) to 16 (highest efficiency) and rates how well the filter captures and holds dirt and dust of a specified size range. The information and education provided by Avista through the Filter Program will assist customers in making the right choice for them and their equipment.

The information and options offered by Avista through the Filter Program increases the likelihood that the benefits resulting from the replacement of air filters on a regular basis will be achieved.



III. FILTER PROGRAM DELIVERY

A. Communication/Education

A Marketing Program Manager for Avista will coordinate the outreach and will be responsible for all customer communications, including educational messaging. As mentioned earlier, communications will occur through the Connections newsletter, e-mails (or “e-blasts”), a text box on customers’ bills, and the Avista Utilities’ website.

B. Options 1 and 2 (E-Mail Reminders)

Customers who choose Options 1 or 2 to receive reminders will register electronically on Avista’s website. This service for Options 1 and 2 will be provided by Questline, an established provider of web-associated services. Questline will provide:

- a. A sign-up page to capture email addresses of customers who wish to sign up for the air filter reminder emails;
- b. A welcome email will be sent to the customer as soon as he/she signs up; and
- c. A reminder email to the customer to change their air filter three months after they sign up, and every three months thereafter.

A Customer Engagement Specialist for Avista will provide oversight of the contract and work with Questline.

C. Options 3 (Direct Delivery of Filters)

For customers desiring delivery of air filters on a scheduled basis, there will be a link on Avista’s website to the FilterEasy® website. Customers can order the product directly from FilterEasy through their website. The Filter Program will initially offer direct delivery only through FilterEasy. An explanation of the vendor evaluation process and the selection of FilterEasy is provided later in this document.



FilterEasy's website 1) instructs customers how to determine the size of their air filter, 2) provides a choice of types and costs of filters, and 3) provides choices to customers related to the number of filters and the timing of delivery of the filters.

Avista will include language on our website that customers will be leaving Avista's website and going to a third-party's website (FilterEasy). A "promo code" provided by FilterEasy will be included on Avista's website. A promo code has the effect of a discount coupon (e.g., "10% off the price of the purchase"). The promo code itself is a unique set of numbers that the customer will insert in the promo-code field on FilterEasy's website when ordering; in that manner, the customer receives the discount and FilterEasy knows the recipient is an Avista customer, generated by Avista's communication to that customer. The purchase by the customer and delivery of the product by the vendor is a transaction between FilterEasy and the customer. FilterEasy will include Avista's logo on the packaging to reflect that the filter delivery originated through the Filter Program sponsored by Avista.

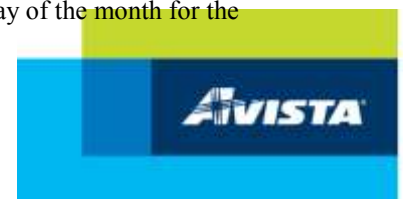
FilterEasy's billing practice is to directly bill the customer after each shipment, with no involvement by Avista. The relationship is between the customer and FilterEasy (or other vendors, if applicable). No prepayment by customers will be requested by FilterEasy. Customers can elect to terminate service at any time (subject to FilterEasy's stated minimum cancellation period).¹

FilterEasy offers several different types and sizes of filters at different costs. As an example, a delivery of four standard air filters (with a dimension of 1"x16"x20") can be ordered for \$48 per year. At the customer's option, this can be one delivery of four filters, or it can be four mailings of one filter four times.

The direct delivery component of the Filter Program is not exclusive to FilterEasy. As other qualifying companies sign agreements with Avista to provide a similar service, links to the websites for those companies will be added to Avista's website as a choice for customers.

FilterEasy will pay Avista \$20 per year per full-year subscription, after 12 months of service. Other vendors that choose to participate in a similar manner will also submit a payment to Avista. These payments will go toward covering the costs to operate the Filter Program. If

¹ FilterEasy's cancellation policy is: "All cancellation requests must be received by the first day of the month for the next scheduled shipment."



the revenues exceed the costs of the Program, the additional revenues will be treated as utility revenues which will reduce overall retail rates to customers. If the costs of the Program exceed the revenues, the additional costs will be included in overall retail rates to customers. Estimated costs to run the program are provided later in this document.

FilterEasy, and any other participating vendors, will provide periodic reports to Avista including details of the transactions. Avista's Director of Products and Services, will provide oversight of the contract and work with FilterEasy.

D. Evaluation and Selection of Filter Delivery Vendors

A search was performed for companies specializing in air filter distribution on a schedule determined by the customer. Based on market research, this resulted in four leads:

1. FilterEasy
2. On-Time Air Filters
3. Clean Filter
4. Discount Filters (aka National Trade Supply or NTSupply)

All were contacted, and two responses were received. Both expressed an interest in participating. FilterEasy can provide a scheduled delivery service. NTSupply stated they no longer offer a scheduled delivery service. On-Time Air Filters has been acquired by FilterEasy, and is no longer a stand-alone operation. Clean Filter did not respond.

Avista's Filter Program is designed for customer education and to allow customers to request delivery on a set schedule. Therefore, Avista proceeded to work with the one vendor, FilterEasy, who provides the desired service. FilterEasy has agreements with other energy companies to provide a similar service.²

The direct delivery component of the Filter Program is not exclusive to FilterEasy. As other qualifying companies sign agreements with Avista to provide a similar service, links to the websites for those companies will be added to Avista's website as a choice for customers. Vendors such as Walmart, Home Depot, Lowes, Ace Hardware, etc., as well as manufacturers, will have the opportunity, upon request, to provide printable coupons and promo codes on

² Such as Touchstone Energy Cooperatives and Entrust Energy



Avista's HVAC Filter Replacement Program landing page, upon approval by Avista. References to these coupons and promo codes will also be provided to customers through the e-mails sent to customers under Option 2 (e-mail reminder with coupons and promo codes). Avista's website will note some general internet retailers, such as Amazon.com, that can provide recurring shipments based on pre-scheduled orders.

IV. CONFIDENTIALITY OF CUSTOMER DATA

Avista will not provide customer data to any vendor associated with this program. If an Avista customer chooses an annual subscription service through FilterEasy, that customer will leave Avista's website and make a purchase directly from FilterEasy. FilterEasy will bill the customer directly, and be responsible for collections.

If an Avista customer chooses to use a discount coupon or promo code provided through this Filter Program, the customer would be in complete control of both the offer and the vendor they choose to use.

V. RELATIONSHIP TO ENERGY EFFICIENCY PROGRAMS

While manufacturers claim that air filters can provide energy savings of up to 10%, the Regional Technical Forum (RTF) has yet to assess energy savings associated with HVAC filter replacement.³ Due primarily to the RTF not having energy savings estimates (or "unit energy savings" or "UES") associated with air filter replacement, Avista's Filter Program will not be funded by the electric and natural gas Demand Side Management Schedules 91 and 191, and any energy savings associated with the Filter Program will not be counted toward Avista's savings targets under Washington's Energy Independence Act. The costs, revenues, and overall operation of the Filter Program will be monitored over time to ensure the Program is operating as intended. The Company will track results and prepare a monthly report.

³ The Regional Technical Forum (RTF) was established by the Northwest Power and Conservation Council to determine the "approved" saving of recognized energy efficiency measures. Regulatory commissions rely on the unit energy savings value established by the RTF for claimed savings.



VI. FILTER PROGRAM REVENUES AND EXPENSES

As indicated above, Avista will receive revenues directly from a vendor or vendors delivering filters through annual customer subscriptions. The agreement with FilterEasy will provide \$20 per customer per year to Avista. This is a common model for e-commerce, with a revenue contribution back to the entity generating the customer interest and subsequent sale. Puget Sound Energy (PSE) has a Contractor Alliance Network (CAN) which provides a 3-6% revenue contribution to PSE for all work performed by contractors who gain the referral through the CAN. Revenue contributions received by PSE go toward covering program administration costs. In a similar manner, revenues received from vendors by Avista will go toward covering the costs associated with running the Filter Program. If the revenues exceed the costs of the Program, the additional revenues will be treated as utility revenues which will reduce overall retail rates to customers. If the costs of the Program exceed the revenues, the additional costs will be included in overall retail rates to customers.

This Filter Program is available to all utility customers, and both participants and non-participants will benefit from the program. Participants will benefit from improved operation and operating life of their equipment, reduced energy bills, and improved air quality. All customers will benefit from the education component, the more efficient use of energy on Avista's system, and the associated smaller carbon footprint.

The initial one-time set-up cost is estimated to be \$23,890, for the items shown in the table below:

	<u>Dollars</u>
System for customer-elected periodic reminders (Questline)	\$13,890
Education/Communication Set-Up via web and social media	<u>\$10,000</u>
Total Set-Up Costs	\$23,890

Annual Program administrative costs are expected to be approximately \$7,000 per year, which will involve tracking, reporting and general administration of the Program, as well as the annual payment to Questline, which will be \$2000.



Avista has approximately 485,000 combined electric and natural gas customers.⁴ The annual administrative costs of approximately \$7,000 would be covered if 350 customers participate in the Option 3 filter subscription, which represents 0.1% of Avista's customers. It would take approximately 1,200 participating customers, or 0.24% of customers, to cover the upfront set-up costs of approximately \$24,000.

We believe the benefits Avista customers will receive from the program, both participants and non-participants, will far exceed the costs of the program.

VII. ACCOUNTING FOR THE FILTER PROGRAM

The Company will record the initial one-time set-up costs in FERC Account No. 909 - Informational and Instructional Advertising Expenses.⁵ On-going program costs, including coordinating outreach and customer communications and vendor oversight will also be recorded in FERC Account No. 909. Since the costs will be minimal and will not be service or jurisdictional specific, the costs will be recorded in a common account allocated to all services and jurisdictions using standard allocation procedures. Revenues will be recorded in FERC Account No. 456 – Other Electric Revenue and FERC Account No. 495 – Other Gas Revenue. The third-party filter vendors will provide Avista with the necessary data so the revenues can be recorded in the appropriate jurisdiction based on customer participation.

If you have any questions regarding this report please contact Bruce Folsom at (509) 495-8706.

Sincerely,
/s/Linda Gervais/
Manager, Regulatory Policy
Avista Utilities
(509) 495-4975
linda.gervais@avistacorp.com

⁴ 360,000 electric customers, plus 330,000 natural gas customers, minus 205,000 combination electric and natural customers, equals 485,000.

⁵As described in the FERC Uniform System of Accounts, FERC Account No. 909 shall include the cost of labor, materials used and expenses incurred in activities which primarily convey information as to what the utility urges or suggests customers should do in utilizing electric and gas service to protect health and safety, to encourage environmental protection, to utilize their electric and gas equipment safely and economically, or to conserve electric and natural gas.

