

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of

PUGET SOUND ENERGY, INC.'S

Pipe Replacement Program Plan

DOCKET PG-131839

ORDER 01

ORDER APPROVING PUGET SOUND
ENERGY, INC.'S 2013 PIPE
REPLACEMENT PROGRAM PLAN

BACKGROUND

¹ On May 17, 2012, the Washington Utilities and Transportation Commission (Commission) opened an investigation into whether to require gas pipeline utility companies to enhance the safety of their natural gas distribution systems and, if so, what steps were necessary to accomplish that goal. The Commission found as a result of that investigation that gas pipeline utility companies in Washington have very little of the highest risk pipe in service, but the companies reported that they have other types of elevated-risk gas infrastructure in service.¹ The Commission investigation identified three main barriers to the companies replacing elevated-risk pipe expeditiously: lack of sufficient information about the location of the pipe, construction limitations,² and cost.

A. Policy Statement

² On December 31, 2012, the Commission issued Commission Policy on Accelerated Replacement of Pipeline Facilities with Elevated Risk (Policy Statement).³ The Commission determined it is in the public interest for all gas companies to take a proactive approach to replacing pipe that presents an elevated risk of failure. The Commission stated its expectation for each gas company to have a pipe replacement program (PRP) plan in place. Further, the Commission indicated a willingness to approve a special PRP cost recovery mechanism (CRM) for companies that adopt a PRP plan meeting certain requirements set out in the Policy Statement.⁴

³ Through the Policy Statement, the Commission asked each investor-owned gas pipeline utility company to file a plan every two years for replacing pipe that represents an

¹ These include plastic mains and services manufactured before 1986 and coated steel mains and services that may not have had adequate corrosion protection throughout their service lives.

² Construction limitations include access to an adequate workforce and public rights-of-way.

³ Docket UG-120715 (December 31, 2012).

⁴ Policy Statement ¶¶ 37-41.

elevated risk of failure, starting on June 1, 2013.⁵ Each company's PRP plan should have three parts, consisting of a:⁶

- 1) Master Plan for replacing all facilities with an elevated risk of failure,
- 2) Two-Year Plan that specifically identifies the pipe replacement program goals for the upcoming two year period, and, if applicable,
- 3) Pipe Location Plan for identifying the location of pipe or facilities that present an elevated risk of failure.

4 The Policy Statement recognized that each company's PRP plan would likely be tied to its existing Distribution Integrity Management Plan⁷ (DIMP), the company's Transmission Integrity Management Plan⁸ (TIMP), if any, and certain other requirements found throughout the Washington Administrative Code⁹ pertaining to pipeline safety.¹⁰

5 The Commission explained in the Policy Statement that each PRP plan should (1) target pipe or facilities that pose an elevated risk of failure, (2) be a measured and reasonable response in relation to the elevated risk without unduly burdening ratepayers, and (3) be in the public interest.¹¹ Finally, each PRP plan should contain a section analyzing its impact on rates.¹²

6 Companies seeking to recover costs must simultaneously file a proposed CRM with their PRP plan. The CRM must document costs invested to replace elevated-risk pipe, use a normalized accounting treatment, and include an operations and maintenance offset.¹³

⁵ *Id.* ¶ 43. Subsequent PRP plan filings should be filed by June 1 every two years thereafter (*i.e.*, June 1, 2015, 2017, 2019, etc.)

⁶ *Id.* ¶ 42.

⁷ 49 C.F.R. pt. 192, subpt. O (2013).

⁸ *Id.* subpt. P.

⁹ WAC 480-93.

¹⁰ Policy Statement ¶¶ 9-11 and 47.

¹¹ *Id.* ¶¶ 44-56.

¹² *Id.* ¶ 55.

¹³ *Id.* ¶¶ 63-76.

B. PSE's Pipe Replacement Program Plan

7 On May 31, 2013, in response to the Commission's Policy Statement, Puget Sound Energy, Inc. (PSE or Company) filed with the Commission its "Pipeline Replacement Program Plan" for 2013 (2013 PRP Plan), which included a separate Master Plan, Two-Year Plan, and Pipe Location Plan for each category of PSE's elevated-risk facilities. PSE asked the Commission for additional time to submit a CRM, pending the outcome of certain proceedings before the Commission that might impact the Company's rates. On September 13, 2013, PSE filed with the Commission a supplement to its 2013 PRP Plan addressing its potential impact on rates.

8 On October 17, 2013, PSE filed with the Commission an updated 2013 PRP Plan to incorporate this supplemental information and adopt an addendum discussing the Company's ongoing evaluation and mitigation efforts on materials and construction methods that were not included in the 2013 PRP Plan. The Company seeks an order from the Commission approving its updated 2013 PRP Plan. PSE did not file a CRM and is not currently seeking to recover costs associated with its Two-Year Plan prior to the Company's next general rate case.

9 PSE identified four types of facilities located in Washington posing an elevated risk of failure: bare steel, larger diameter older vintage DuPont Aldyl HD plastic pipe, older vintage wrapped steel mains, and older vintage wrapped steel services. The Company's 2013 PRP Plan separately addresses each type of elevated-risk facility with its own Master Plan, Two-Year Plan and, as applicable, Pipe Location Plan.¹⁴

10 *DuPont Aldyl HD Plastic Pipe.* PSE has approximately 400 miles of Aldyl HD pipe systems in Washington. The Company's Master Plan for Aldyl HD pipe sets out a 20-year protocol for managing the risks associated with this type of pipe. PSE plans to replace approximately 100 miles of Aldyl HD pipe in the first five years of its protocol, 150 miles in the second five years, and the remainder over the second decade of the protocol. The Company estimates total expenditures of \$600 million for Aldyl HD replacement over 20 years. PSE's 2013 Two-Year Plan for Aldyl HD replacement identifies and prioritizes specific projects for the remainder of 2013, all of 2014, and all of 2015.

11 PSE's construction records contain the location of its Aldyl HD pipe, including material, size, and date of installation, but its records do not always specify the manufacturer.¹⁵

¹⁴ In compliance with an existing settlement agreement, PSE is already on target to complete replacement of all bare steel piping by the end of 2014. Accordingly, the Company's 2013 PRP Plan does not address bare steel replacement.

¹⁵ During the 1970s and early 1980s, PSE purchased and installed this type of pipe from two companies: DuPont and Phillips. Only the DuPont product is considered to be of elevated risk.

PSE's records are currently complete with regard to approximately 166 miles of its Aldyl HD pipe. The Company will perform up to 5,000 targeted excavations to complete its records for the remaining Aldyl HD facilities. The Company expects to complete this process by the end of 2016.

- 12 *Wrapped Steel Mains.* PSE's distribution system relies extensively on wrapped steel mains. Most of these mains are performing very well and will continue in service, but some portion of the system is showing an increased risk of failure due to corrosion or damage to the pipe coating, welds, or valves. PSE's ongoing review of its distribution system identifies those segments of the mains that require replacement.
- 13 The Company's Master Plan for wrapped steel mains projects that approximately 20 miles of this pipe may present an elevated risk of failure over the next five years. PSE expects to spend approximately \$30 million replacing wrapped steel mains and associated services during that period. The Company's Two-Year Plan for wrapped steel mains identifies known replacement projects to be completed in the remainder of 2013 and those prioritized for 2014 and 2015.
- 14 *Wrapped Steel Services.* PSE's distribution system has over 100,000 wrapped steel services, the majority of which are performing very well and are expected to continue in service. The Company has discovered that some portion of these services can present an elevated risk of failure when the gas-carrying pipe within the casing is not adequately protected from corrosion or when such lengths of pipe are associated with inactive risers or a buried meter. In those cases, PSE is replacing the wrapped steel services as the Company discovers an elevated risk situation.
- 15 The Company's Master Plan for wrapped steel services projects that approximately 1,100 of these services will need to be replaced over the next five years. PSE expects to spend approximately \$10 million replacing wrapped steel services during that period. The Company's Two-Year Plan for wrapped steel services identifies known replacement projects to be completed in 2013 and projects that another 250 services per year will be replaced in 2014 and 2015.
- 16 In the addendum to its 2013 PRP Plan, PSE acknowledges that its distribution system also contains some other facilities that present a lower level of risk but that did not merit inclusion in the Plan. For instance, the Company has only three remaining copper services, all of which will be replaced by the end of 2013. The Company is continuing to investigate whether its programs for monitoring safety issues with Celcon service tee caps, bolt-on service tees, and mechanical couplings merit additional mitigation measures. PSE is also working to reduce the incidence of problems that may arise from gas services that intersect sewer lines in a cross bore.

17 The Company estimates that its projected spending on replacement of DuPont Aldyl HD pipe, older vintage wrapped steel mains, and older vintage wrapped steel services could result in an average annual increase of 0.75 percent in overall customer rates beginning in the 2014 period. However, PSE's 2013 PRP Plan will have no immediate impact on rates because the Company is not seeking to implement a cost recovery mechanism and has no current plans to file a general rate case.

18 The Company states that its 2013 PRP Plan is in the public interest because it improves the safety of PSE's distribution system, minimizes replacement costs, and minimizes impacts to municipalities and the general public.

C. Comments of Commission Staff

19 Commission Staff (Staff) reviewed the Company's filing and concluded that PSE's updated 2013 PRP Plan included all items required by the Commission's Policy Statement. Staff determined that the Company's classification of facilities posing an elevated risk of failure in the 2013 PRP Plan accurately reflects the existing analysis in PSE's DIMP and TIMP. Staff observes that PSE already had replacement and remediation programs in place for all of its pipe facilities and services known to pose an elevated risk of failure and has been successfully implementing those programs for several years.

20 Staff finds that the Company's plans for replacing Aldyl HD pipe, wrapped steel mains, and wrapped steel services over the next two years is a measured and reasonable response in relation to the risks presented by these categories of pipe and services. Staff is also satisfied with PSE's updated filing and believes the Company's schedule to replace all remaining isolated steel mains by the end of 2016 is reasonable.

21 Staff reviewed the Company's work papers associated with the cost projections for work included in PSE's Master Plans. Staff notes that between 2014 and 2032, the average annual increase in revenue requirement ranges from a low of \$3 million (0.16 percent) to a high of \$8.5 million (0.78 percent), with higher requirements occurring in earlier years. Staff believes these rate impact estimates are likely to change as newer information becomes available, but no rate impact can occur until the Company makes the required filings to implement a rate change.

22 Staff recommends that the Commission approve PSE's updated 2013 PRP Plan.

DISCUSSION

23 The Commission approves PSE's updated 2013 PRP Plan. The Company has extensive Aldyl HD facilities throughout its service area and has taken a measured and reasonable approach to identify, locate, and address the higher risks presented by these vintage DuPont plastic lines. Additionally, PSE's program for identifying and replacing those

wrapped steel mains and wrapped steel services that present an elevated risk appears practical and cost-effective.

24 We agree with Staff that the Company's 2013 PRP Plan is consistent with our Policy Statement. The Commission commends PSE for continuing its proactive approach to identifying elevated risk facilities and implementing an effective but economical replacement program.

FINDINGS AND CONCLUSIONS

- 25 (1) The Washington Utilities and Transportation Commission is an agency of the state of Washington vested by statute with the authority to regulate the rates, rules, regulations, and practices of public service companies, including natural gas companies.
- 26 (2) Puget Sound Energy, Inc. is a natural gas company and a public service company subject to Commission jurisdiction.
- 27 (3) Puget Sound Energy, Inc. filed its 2013 PRP Plan with the Commission on May 31, 2013.
- 28 (4) Puget Sound Energy, Inc.'s Master Plan identified pipeline facilities with an elevated risk of failure and set out a 20-year plan to replace all of its vintage DuPont Aldyl HD service lines and a five-year plan to replace wrapped steel mains and wrapped steel services presenting an elevated risk.
- 29 (5) Puget Sound Energy, Inc.'s 2013 Two-Year Plan identifies specific DuPont Aldyl HD pipe, wrapped steel mains, and wrapped steel services to be replaced between 2013 and 2015.
- 30 (6) Puget Sound Energy, Inc.'s 2013 Two-Year Plan will not immediately impact rates because the Company is not requesting a cost recovery mechanism and the Company is not filing a rate case at this time.
- 31 (7) Puget Sound Energy, Inc.'s 2013 PRP Plan, including its component Master Plans and Two-Year Plans, are reasonable and measured approaches to replace pipeline facilities with an elevated risk of failure.

ORDER

THE COMMISSION ORDERS:

- 32 (1) Puget Sound Energy, Inc.'s updated 2013 PRP Plan is approved.
- 33 (2) Puget Sound Energy, Inc., should file an updated Pipeline Replacement Program Plan for 2015-17, no later than June 1, 2015.

DATED at Olympia, Washington, and effective October 30, 2013.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

JEFFREY D. GOLTZ, Commissioner