CASCADE NATURAL GAS CORPORATION
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VIA Electronic Mail

June 13, 2012

Mr. David W. Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. SW
PO Box 47250
Olympia, WA 98504-7250

RE: Commission Investigation into the Need to Enhance the Safety of Natural Gas Distribution Systems, Docket UG-120715
Comments of Cascade Natural Gas Corporation

Dear Mr. Danner:

In response to the Washington Utilities and Transportation Commission (Commission) request for comments issued on May 18, 2012, to consider the need to enhance the safety of natural gas distribution systems. Cascade Natural Gas Corporation (Cascade) submits the following comments.

I. Pipeline Replacement Programs

A. For each gas company, what are the types of pipe that are currently in service that need to be replaced to enhance the safety of the company's natural gas distribution system (*e.g.*, pre-1986 polyethylene pipe, wrapped steel main, and wrapped steel services)? For each type of pipe identified, please provide the following information:

1. **A description of the pipe;**
2. **The nature and quantification of the safety risks associated with the pipe;**

3. **The extent to which the pipe is deployed in the company's natural gas distribution system;**
4. **The actions the company is currently taking to replace the pipe;**
5. **The company's future plans to replace the pipe; and**
6. **An estimate of the cost and time required to replace the pipe.**

Response: Cascade is currently targeting replacement of bare steel and pre-cng piping systems. Pre-cng is vintage gas pipe distribution systems supplied by manufactured gas plants that were originally installed, owned, operated and maintained by others prior to 1955 before natural gas was introduced to the Pacific Northwest. Cascade purchased and acquired a number of these systems in the late 1950s and throughout the 1960s. The condition of the pre-cng pipe is coal tar wrapped. This pipe is of concern since it is at least 60 years old and lacked cathodic protection until the early 1970s, leaving the pipe suspect to corrosion risk. The extent of this pipe varies throughout Cascade systems and depends on the history of the system and how it was acquired by Cascade. Gas distribution system's in Washington where the majority of this pre-cng pipe resides is in the towns of Longview, Anacortes, and Shelton. Actions Cascade is currently taking to eliminate risk concerns in their distribution system is large scale replacement projects in Bend, OR, Anacortes, and Longview totaling approximately 30,000 ft of main and over 500 services starting in the summer of 2012. Cascade has created comprehensive engineering costs estimates and will have actual pricing information during the 3rd and 4th quarter of 2012. It is expected that constructing replacement systems in existing infrastructure will be challenging for the following reasons:

1. Underground space is tight with other existing utilities
2. Strict and high volume vehicular traffic areas
3. Substantial and unique restoration requirements in older parts of town
4. Minimize impacts to business and residents

These challenges and additional requirements will be reflected in contractor bid prices.

B. Please provide a detailed explanation of the impediments, if any, to replacing pipe that needs to be replaced to enhance the safety of each company's natural gas distribution system, including but not limited to the following:

1. **Cost recovery;**
2. **Shortage of personnel or equipment;**
3. **Access, e.g., rights-of-way or government permitting issues.**

Response: Cascade has never taken on replacement projects of this scale and the main impediments we have faced is getting a grasp on required resources, costs, and city permits/requirements. As Cascade refines this process with the more replacement projects we complete, we will be more efficient at replacing pipe and have a full understanding of what large replacement projects entails for Cascade. A big challenge to these replacement projects is

construction in existing infrastructure and all the steps necessary to adequately protect our mains and choose main installation locations that minimize impacts to the surrounding communities. Pipe replacement projects must be phased over time in sizable proportions to maintain quality projects while achieving company goals.

C. Risk assessment criteria and methodology

1. **Describe and summarize the risk assessment methodology used by the Company to evaluate pipeline infrastructure.**
2. **What are some of the key assumptions used in such methodology, which may change over time, and what process is used to update these?**
3. **What are some of the important criteria, such as high consequence areas (HCAs), and how are they used as criteria in development the priority schedule for pipe replacement schedules?**
4. **How often do you update the risk assessment methodology?**

Response: To assess risk Cascade uses a GIS based DIMP model which assigns risk to pipe based on risk factors including pipe age, condition, population density, and leak history. Cascade's DIMP model evaluates all of Cascades mains and services from GIS mapping data and assigns a risk score which allows engineering to identify pipe with the highest risk. As part of Cascade's DIMP program our DIMP model is run annually and evaluated to determine necessary accelerated actions.

II. Interim Cost Recovery Mechanism

A. Would allowing the company to recover its pipeline replacement costs sooner than those costs are recoverable through traditional ratemaking principles provide a financial incentive to expedite such replacement? If so, please describe in detail how an interim cost recovery mechanism would result in accelerated pipeline replacement.

Response: Allowing recovery of pipeline replacement costs sooner than traditional ratemaking principles does provide an incentive to expedite the investment. An interim cost recovery mechanism helps mitigate company's budget constraints. Companies would have a two-fold incentive to increase investment if; 1. The investment receives earlier than traditional rate recovery and 2. The investment improves the level of safety within the system.

B. If an expedited cost recovery mechanism is proposed, should it replace the Commission's conventional regulatory cost recovery structure for all pipeline replacement projects, or should it be limited to certain circumstances? Examples of such circumstances include, but are not limited to, discretionary

projects, capital spending in excess of a pre-determined amount, and special projects.

Response: Any mechanism put in place should be easy to understand and simple to administer and monitor. If the Commission determines that expedited replacement of specific pipe types is warranted then the mechanism should be, for simplicity sake, for all projects focused on the specifically identified pipe types. However, the projects should be limited to focus on just the target pipe and not include other expanded scopes within a project.

Companies have and will continue to replace pipe as it becomes a safety concern. Implementing a mechanism to replace certain types of pipe because it has a tendency to be more susceptible to problems than other more current vintage types of pipe allows companies to focus its financial budget on other areas of concern as identified in the DIMP and associated replacement programs.

C. What is an appropriate interim cost recovery mechanism, and how should it be structured? Please describe in detail how each of the following interim cost recovery alternatives could be implemented in a manner that would provide a financial incentive to accelerate pipeline replacement and would result in a rate that is fair, just, reasonable, and sufficient:

1. A deferred accounting mechanism, such as, but not limited to, one comparable to the mechanism authorized in RCW 80.80.060(6);

Response: See number 3 below.

2. A ratepayer surcharge/expense mechanism to be used exclusively for pipeline replacements;

Response: See number 3 below.

3. Some combination of 1 and 2 above;

Response: Companies have limited amount of capital to invest. The idea of implementing a mechanism to focus on replacing certain specific pipe is to encourage additional investment beyond what would normally be invested. To that end the mechanism has to have the benefit of covering the costs as well as provide financial benefits in order to elevate the level of investment to achieve the goal of replacing the target pipe as well as meet the remaining needs identified in the DIMP and associated replacement plan. A surcharge mechanism based on budgeted investment and costs identified in RCW 80.80.060(6) on target projects as well as a deferral component for true-up provides that incentive.

4. **An attrition adjustment mechanism;**

Response: Not necessary as a separately identified component for this issue if mechanism identified above is adopted.

5. **Pilot program or permanent mechanism (if a pilot program is approved, how long would it need to be in effect to accomplish the priority pipe replacements identified in response to question I.A.?); or**

Response: A permanent mechanism is recommended and the duration should be based on goals established with the Commission. The Commission can modify as necessary if and when needed.

6. **Other.**

D. Process

1. **What should the role of the Commission's pipeline safety staff be at stages in this process, including risk assessment methodology review, review of priority replacement, and budget review?**

Response: Pipeline safety staff could be involved in verifying that the costs included in the budget for targeted projects are focused and reasonable and don't include scope creep (include additional work beyond intended measures).

2. **Does the Company envision any issues about the use or sharing of confidential information? What procedures should the Commission impose to protect any confidential information?**

Response: Not at this time.

3. **Depending on the type of mechanism, must the filing be synchronized with other filing dates, such as the PGA (purchased gas adjustment)?**

Response: The filing should be its own docket, but should be filed coincidently with the PGA to minimize the number of rate changes customers see but allow for separate tracks if necessary.

4. **If the proposal is to include an annual budget for priority pipe replacement, when should it be submitted? How much time should Commission staff be given to review the plan and budget?**

Response: The filing would include a budget component identifying prospective spending for the upcoming year and a true-up component for actual spending over the previous year. Thirty days for pipeline safety to review the budget and regulatory services to review the true-up component seems adequate. The filing can be suspended if more time is required.

5. **If the mechanism calls for an annual plan or budget and for Commission review of such plan or budget, by what process should the Commission undertake those functions? Would an open meeting process suffice, or should the process be more formal?**

Response: An open meeting process seems adequate.

Cascade appreciates the opportunity to submit comments and participate in the workshops on this topic. Please direct any questions regarding these comments to the Mike Parvinen at (509)734-4593.

Sincerely,

Michael Parvinen
Manager, Regulatory Affairs