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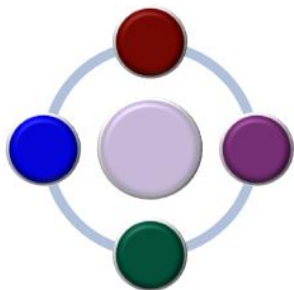
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EXH. HLR-4

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REPRESENTING AVISTA CORPORATION



Avista Utilities Asset Management

Protocol for Managing Select Aldyl A Pipe in Avista Utilities' Natural Gas System

May 2013

Protocol for Managing Select Aldyl A Pipe in Avista Utilities' Natural Gas System

Executive Summary

Avista Utilities (Avista) protocol for managing select Aldyl A pipe proposes a twenty-year program to systematically remove and replace select portions of the DuPont Aldyl A medium density polyethylene pipe in its natural gas distribution system in the States of Washington, Oregon and Idaho. None of the subject pipe is “high pressure main pipe,” but rather, consists of distribution mains at maximum operating pressures of 60 psi and pipe diameters ranging from 1¼ to 4 inches. Further, Avista notes that while there have been concerns with the integrity of steel pipe in other parts of the country in recent years, the steel pipe in its system, including steel service risers, is being managed to protect its long-term reliability and performance and is outside the scope of this program.

In recent years, Avista experienced two incidents on its natural gas system that prompted the Washington Utilities and Transportation Commission and the Company to better understand the potential long-term reliability of Aldyl A pipe. Results of these investigations, which were aided by new tools developed for Avista’s Distribution Integrity Management Plan, corroborated reports for similar Aldyl A piping around the country as supporting the development of a protocol for the management of this gas facility. The following report highlights the history of DuPont’s Aldyl A natural gas pipe and summarizes DuPont and Federal Agency communications that are relevant to this proposed program. The report documents the Aldyl A pipe in Avista’s natural gas system and describes the analysis of the types of failures observed in this pipe, and the evaluation of its expected long-term integrity. Finally, the report describes the results of Avista’s work to establish the framework for the proposed protocol for the management of Aldyl A pipe in its natural gas system.

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History of DuPont Aldyl A Piping Systems

Modern polyethylene pipe products are corrosion-free, lightweight, cost-effective, highly-reliable, and can be installed quickly and efficiently. For these reasons, it has for decades been the ‘standard for the industry’ and is the predominant choice used in natural gas distribution systems. As with any revolutionary product line, polyethylene piping systems have undergone continuous and rigorous testing and product improvement. Such is the case with DuPont’s Aldyl A piping systems, as very briefly summarized below.

DuPont Introduces Natural Gas Polyethylene Pipe – 1965

Along with other manufacturers, DuPont began to use polyethylene resin to produce plastic piping for a variety of purposes. The resin was produced from ethylene molecules combined together in repeating patterns to form larger molecules called ‘polymers’, hence the name ‘polyethylene.’ DuPont’s product designed specifically for use in the natural gas industry was marketed under the name “Aldyl A.” The initial resin used in production of Aldyl A pipe, Alathon 5040, was manufactured from 1965 to 1970. DuPont changed the resin in 1970 to improve Aldyl A’s resistance to rupture during pressure testing. This improved formulation, known as Alathon 5043, was the primary resin used in DuPont’s Aldyl A pipe from 1970 until 1984.

The Phenomenon of “Low Ductile Inner Wall”

Shortly after changing its polyethylene resin in 1970, DuPont detected a manufacturing issue highlighted during laboratory testing of Aldyl A pipe. DuPont learned that its manufacturing process was resulting in some of the pipe having a property described as “low ductile inner wall.” “Ductility” is the ability of a material to withstand forces that alter its shape without it losing strength or breaking. A ‘highly-ductile’ material can be bent, flexed, pressed or stretched without cracking or losing strength because, unlike brittle materials, it can redistribute the forces of stress concentration. Low Ductile Inner Wall, or as it often appears “LDIW,” results when the inner surface of the Aldyl A pipe becomes brittle, promoting the formation of cracks and premature failure. In early 1972, DuPont changed its manufacturing process to eliminate this phenomenon, but estimated that 30 – 40% of the pipe it produced in 1970, 1971 and early 1972 was affected, primarily in pipe diameters from 1¼ inches to 4 inches.

DuPont Communicates Potential Issues to Aldyl A Customers

1982 Letter

In 1982, DuPont sent a letter to its natural gas customers, noting that two of its gas utility customers had reported a low frequency of leaks in Aldyl A pipe manufactured prior to 1973. These leaks were reported as “slits” occurring where the pipe was in “point contact with rocks.” DuPont noted these two utilities had increased the frequency of leak surveys where rock may have been part of the backfill around the pipe, and encouraged other Aldyl A customers to consider the same. This letter was the genesis of what would become a continuing focus on the pipe vintage known as “pre-1973 Aldyl A.”

1986 Letter

DuPont's second letter to its Aldyl A pipe customers was sent in 1986, focusing again on pre-1973 Aldyl A pipe. The letter focused on results of newly-developed (elevated temperature) testing methods that allowed DuPont to more-accurately estimate the longevity of this vintage pipe, in diameters of 1¼ inches and larger. Test results showed that 'Aldyl A pipe manufactured prior to 1973 had certain limitations that were not previously-shown by then-available, state-of-the-art testing methods.' The limitations were described as a reduction in pipe service life caused by: 1) "rock impingement" or pressure from rock points directly on the pipe (as mentioned in their 1982 letter), and 2) the use of squeeze-off practices. The term "squeeze-off" refers to the current and long-standing construction practice of mechanically pressing in polyethylene pipe walls to temporarily stop the flow of gas during work on a line that is in service. DuPont further noted that average ground temperature surrounding the pipe, in the ranges of 60 to 70 degrees (F), had a major bearing on its ultimate expected service life. Finally, DuPont recommended that operators should reinforce the pipe, using clamps that surround the pipe at squeeze points, in order to extend the life of its Pre-1973 Aldyl A.

DuPont Substantially Improves Aldyl A Pipe

DuPont made a significant change to its Aldyl A resin formulation in 1984. The improved resin, known as Alathon 5046-C, was marketed as "Improved Aldyl A", and significantly improved the performance of Aldyl A pipe in its resistance to 'Slow Crack Growth' and overall long-term integrity. Slow Crack Growth, or as it's often abbreviated, SCG, describes the progression of a crack that begins with 'crack initiation' or the formation of a crack in the inner wall of the pipe. The crack then progresses through the pipe wall, usually over period of many years, until it finally breaks through the outer surface of the pipe, resulting in failure.

Again, in 1988, DuPont announced another advance in its Aldyl A pipe resin with the introduction of Alathon 5046-U. This change in resin formulation increased the resistance of the pipe to slow crack growth by another order of magnitude. In addition, because of the high 'molecular efficiency' of this new resin, its density was also reduced, which allowed for much greater ductility in the pipe. This product, the last of the DuPont Aldyl A materials that Avista would install, was also marketed as Improved Aldyl A. A summary of DuPont Aldyl A pipe produced between 1966 and 1992 is presented below in Table 1. Information includes the year of manufacture, resin formulation, relative resistance to slow crack growth (stress rupture testing at 80° C / 120 psig for accelerated life testing), and summary notes.

Table 1. DuPont Aldyl A Pipe 1965 - 1992

Years of Manufacture	Resin	Rupture Resistance*	Notes
1965 - 1970	Alathon 5040		Initial Product Marketed as “Aldyl A”
1970 - 1972	Alathon 5043	10 hours	Resin Improvement and Low Ductile Inner Wall
1970 - 1984	Alathon 5043	100 hours	Resin Improvement
1984 - 1988	Alathon 5046-C	1000 hours	Resin Improvement-- Sold as “Improved Aldyl A”
1988 - 1992	Alathon 5046-U	10,000 hours	Resin Improvement -- “Improved Aldyl A”

*Illustrates the order of magnitude difference found from accelerated life testing of resins

Common Classifications of Aldyl A Pipe

Based on the characteristics of the different vintages of Aldyl A pipe, there would emerge over time, (from DuPont’s 1982 letter going forward), three age-groupings recognized by the manufacturer, natural gas industry, and regulators as relevant in the reliability management of this pipe.

Pre-1973 Aldyl A – Pipe manufactured through 1972, from the first two resin formulations, and including pipe having low ductile inner wall.

Pre-1984 Aldyl A – Aldyl A pipe manufactured from Alathon 5043 resin, but only that pipe manufactured after 1972 and through 1983.

1984 and Later Aldyl A – Pipe manufactured from the improved Alathon 5046-C and 5046-U resins.

Aldyl A Service Pipe - Small-diameter (less than 1¼ inches) Aldyl A service piping is often treated or managed differently than larger-diameter Aldyl A pipe of the same vintage. This is because the small-diameter pipe has been assessed by industry experts as being more resistant to brittle-like cracking than larger-diameter pipe due to its greater flexibility. Further, small-diameter Aldyl A pipe has been confirmed as being free of the Low Ductile Inner Wall properties present in late 1970 through early 1972 vintage piping.

Federal Bulletins on Brittle-Like Cracking in Plastic Pipe

National Transportation Safety Board

In April 1998, twelve years after DuPont's second letter to customers, the National Transportation Safety Board (Board) published a comprehensive safety bulletin describing their investigation of natural gas pipeline accidents involving polyethylene pipe that had cracked in a "brittle-like" manner. The bulletin focused primarily on accidents related to an early plastic pipe manufactured by Century Utility Products (Century), produced from Union Carbide resin. In its review, findings, and in its Safety Recommendations, however, the Board concluded that in addition to the Century pipe, much of the polyethylene pipe produced for gas service from the 1960s through the early 1980s may be susceptible to brittle cracking and premature failure, further noting that vulnerability of this material to premature failure could represent a serious potential hazard to public safety.

The Board's bulletin represented a seminal work on the vulnerability of early plastic pipe to brittle-like cracking because it analyzed and integrated – for the first time – reports from the technical literature, manufacturers' communications, industry expert opinions, the experience of pipeline operators and regulators' accident reports. Because the bulletin provided a clear understanding of the drivers of failure in older polyethylene pipe, we have included a fairly detailed synopsis in this report.

Objectives of the Board's Investigation

Following the Board's investigation of over a dozen serious incidents, it undertook an effort to evaluate whether the existing pipeline accident data was sufficient for assessing the long-term performance of plastic piping. The office of Research and Special Programs Administration of the National Transportation Safety Board compiled the relevant accident data, but found it to be insufficient for this purpose. Lacking adequate data for the larger assessment, the Board instead focused on estimating the likely frequency of brittle-like cracking, focusing on published technical literature, industry expertise, and work with several gas system operators. From this review, the Board launched a special investigation with the objectives to address three safety issues related to polyethylene gas service pipe:

1. Vulnerability of plastic piping to brittle-like cracking
2. Adequacy of available guidance to pipeline operators regarding installation and protection of plastic pipe tapped to steel mains
3. Performance monitoring as a possible way to detect unacceptable performance in piping systems

Phenomenon of Premature Brittle-Like Cracking

The Board's survey suggested that early plastic piping may be "susceptible to premature brittle-like cracking under conditions of stress intensification." The term 'stress intensification' refers to localized pressure on the pipe wall created by such conditions as rock contact or significant bending of the pipe. The phenomenon of brittle-like cracking was characterized by the failure processes described above, beginning with the initiation of cracks on the inner wall of the pipe at the pressure or stress point, followed by slow crack growth that progressed under normal pipeline operating pressures (much lower than the pressure required to rupture the pipe). The process culminated with the crack reaching the outside wall of the pipe, showing up as a very tight, slit-like opening on the surface, running generally parallel with the length of the pipe. Premature brittle-like cracking was believed, at the time of the Board's safety bulletin, to require relatively high and localized stress on the pipe resulting from sharp or excessive bending, soil settling, rock "impingement" (point or contact pressure on the pipe), improperly installed fittings, and dents or gouges to the pipe surface. The term 'brittle-like cracking' was used to describe this failure process because the pipe showed no signs of being bulged or deformed where the cracks occurred.

Board Findings on the Three Identified Safety Issues

Issue 1: Vulnerability of Plastic Piping to Brittle Cracking

Long-Term Strength of Early Pipe was Overrated - In the early 1960s the industry had very little long-term experience with plastic pipe, and consequently, developed laboratory testing procedures to forecast the expected service life of piping. Early testing results suggested that polyethylene pipe would exhibit a relatively constant, or 'straight line' gradual decline in strength over time. These tests and underlying assumptions were subsequently incorporated as standards for the industry and in related federal requirements.

As the industry gained experience, however, the straight-line assumptions of these early procedures began to be challenged through the development of new testing methods, where pipe strength was assessed under conditions of elevated temperature (such as the testing referenced in DuPont's 1986 letter to customers). Results of the elevated-temperature testing showed that the decline in strength of early plastic pipe was not gradual or linear as had been assumed, but instead, began to accelerate or drop below the straight line, especially after twelve years. The Board concluded that the early testing procedures may have overrated the strength and resistance to brittle-like cracking of the polyethylene pipe manufactured for the gas industry from the 1960s through the early 1980s.

Long-Term Ductility was Overrated - Another important assumption about early plastic pipe, based on short-term testing, was that it would retain its ductile properties long term. The assumption of long-term ductility had important safety ramifications since it allowed plastic pipe systems to be designed to withstand stresses generated primarily by internal pressure and to give less consideration to the impacts of external

stresses such as bending. Unfortunately, the early testing methods did not properly identify the evidence of the “ductile to brittle” transition that was occurring early in the life of the pipe. Consequently, the tests did not distinguish pipe failures resulting from a loss in ductility. The Board noted that this loss of ductility was also observed in the older piping of several manufacturers, those other than Century Utility Products.

Pipeline Operators had Insufficient Notification - The Board noted that premature brittle-like cracking was a complex phenomenon that had not been systematically communicated to the industry, and hence, had not been fully-appreciated by pipeline operators. The Board recognized pipe manufacturers as commonly offering technical and safety assistance to operators, and occasionally, formal reports on their materials. But, because the information on the potential weakness of their products was also mixed with information publicizing its best performance characteristics, the message was not clear. The Board also noted that the Federal Government had not provided relevant information to gas system operators, and concluded that operators had insufficient notification that much of their early polyethylene pipe may have been susceptible to premature brittle-like cracking. Finally, the Board went on to recommend that the polyethylene pipe manufacturers’ organization, the Plastics Pipe Institute, advise its members to notify pipeline operators if any of their materials indicate poor resistance to brittle-like failure.

Issue 2: Adequacy of Guidance for Connecting Plastic Pipe to Steel Mains

Critical Understanding of Stress on Pipe - The Board observed that the premature transition of plastic piping from a ductile to a brittle state appeared to have little observable adverse impact on the serviceability of plastic pipe, *except* where the pipe was subjected to external stresses, such as excessive bending, earth settlement, dents or gouges to the pipe surface, and improper installation of fittings, etc. Of those sources of stress, a key factor identified in the Board’s bulletin was earth settlement, but particularly in cases where plastic piping was connected to more rigidly anchored fittings, such as steel main pipe. Because the physical properties of plastic and steel respond differently under the same conditions, such as to temperature change and ground settlement, the slight movements of each type of pipe in the ground will be different. This difference in movement can result in significant stress at the point of connection between the plastic and steel piping.

Much of the Guidance to Operators was Insufficient or Ambiguous - In addition to pipeline operators having insufficient guidance on the overall issue of the vulnerability of plastic pipe to brittle cracking, as noted above, the Board also observed that much of the available guidance to operators on how to limit stress on the pipe during installation was inadequate or ambiguous. This was particularly the case with the stress associated with the tapping of plastic service piping to steel mains, where the Board concluded that many of those connections may have been installed without adequate protection from external stress. The Board went on to identify several instances where safety requirements did not fully incorporate safety recommendations, resulting in ambiguity for pipeline installers and regulators. Other highlights of the Board’s findings were the many cases where the applicable regulations applying to pipeline installation lacked any performance measurement criteria. Noting that the Office of Pipeline Safety considered many of its

safety regulations to be performance-oriented requirements, the Board rebutted this in stating that “many are no more than general statements of required actions that do not establish any criteria against which the adequacy of the actions taken can be evaluated.” A particular example was the regulation that “requires gas service lines to be installed so as to minimize anticipated piping strain and external loading,” and yet it contained no performance measurement criteria for establishing compliance. Finally, the Board went on to note cases where the inadequacy of pipe manufacturers’ instructions also contributed to the lack of a clear understanding of methods to limit stress on plastic pipe during installation.

Issue 3: Monitoring of Plastic Pipe to Determine Unacceptable Performance

The Board’s final objective was focused on performance monitoring of pipeline systems as the key to effectively managing the vulnerable piping types identified in the bulletin. In this discussion, the Board focused on the accident in Waterloo, Iowa in 1994¹, in highlighting the very real challenges of designing effective pipeline monitoring programs. The Board stated that before the accident, the pipeline operator had developed a limited capability to monitor and analyze the condition of its system. It concluded however, that the systems the operator had developed for tracking, identifying, and statistically treating plastic piping failures did not permit an effective analysis of system failures and leak history, noting that their methods of handling of pipe data masked the high failure rates of the subject Century pipe. While the operator did re-evaluate its monitoring data after the accident, and subsequently identified the high failure rates of Century Pipe, the Board opined that the problem could have been detected earlier (before the accident) if the data had been properly analyzed in the first place. Finally, the Board concluded that an effective monitoring program would have allowed the operator to implement a pipe replacement program that might have prevented the accident.

In the second case, the Board noted that while the operator had added capabilities to its pipe-monitoring protocols, it had still not chosen parameters needed to provide adequate analysis of its plastic piping system failures and leak history. The bulletin went on to note examples of the many types of additional parameters needed to enable the effective tracking, identifying, and properly describing system failures and leak history.

The Board concluded that in light of the key findings in its bulletin, that gas system operators may need to be advised once again of the importance of complying with Federal requirements for piping system surveillance and analyses. Regarding the monitoring of older piping, the Board identified the necessity to analyze factors such as piping manufacturer, installation date, pipe diameter, operating pressure, leak history, geographical location, modes of failure, location of failure, etc. Finally, the Board noted that an effective monitoring program would require the evaluation of pipe material and installation practices to provide a basis for the planned and timely replacement of piping that indicates unacceptable performance.

¹ In October, 1994, a natural gas leak and explosion at Midwest Gas Company in Waterloo, Iowa, resulted in 6 fatalities and 7 injuries. The cause of the incident was identified as the failure of a ½ inch diameter service pipe cracking in a brittle-like manner at a connection to a steel main.

Pipeline and Hazardous Materials Safety Administration

1999 Bulletins

The first two of several advisory bulletins related to the Board's 1998 Safety Bulletin (above), were published by the Office of Pipeline Safety, now known as the Pipeline and Hazardous Materials Safety Administration (Administration), in March 1999. The bulletins, which were issued as advisories to pipeline owners and operators, provided an abstract of the findings of the Board's 1998 investigation and advised that much of the plastic pipe manufactured from the 1960s through the early 1980s may be susceptible to brittle-like cracking. The advisories concluded with the recommendation to owners and operators to identify all pre-1982 plastic pipe installations, analyze leak histories, evaluate potential stresses to pipe, and to develop appropriate remedial actions, including pipe replacement, to mitigate any risks to public safety.

2002 Bulletin

This bulletin, as with the prior advisories, reiterated to natural gas pipeline owners and operators the susceptibility of older plastic pipe to premature brittle-like cracking. But, for the first time, this advisory specifically named DuPont's pre-1973 Aldyl A pipe (low ductile inner wall) as being susceptible to brittle cracking. The bulletin also depicted several environmental and installation conditions that could lead to premature, brittle-like cracking failure of the subject pipe, and described recommended practices to aid operators in identifying and managing brittle-like cracking problems.

2007 Bulletin

This bulletin, again, served to review and recap the findings of the prior bulletins, advising natural gas system operators to review the earlier statements. In addition, the advisory recapped results of the ongoing effort of the American Gas Association to identify trends in the performance of older plastic pipe. The advisory reported that the data, at that point, could not assess failure rates of individual plastic pipe materials, but did support what was historically known about the susceptibility of older plastic piping to brittle-like failure, including the addition of specific materials to the list, such as Delrin insert tap tees.

2009 Distribution Integrity Management Program

The Administration published the final rule establishing integrity management requirements for gas distribution pipeline operators in December 2009. Though the effective date of the rule was February 2010, operators were given until August 2011 to write and implement their Distribution Integrity Management Plan (DIMP).

Objectives and Approach

Among other objectives, the program was intended to overcome two key weaknesses in pipeline safety management that were identified in the National Transportation Safety

Board's 1998 bulletin (above): 1) correct weaknesses in federal regulations, particularly in the Office of Pipeline Safety, by establishing true measurement criteria for establishing safety compliance, and 2) establish systematic protocols for pipeline data collection, analysis, and interpretation, that helps ensure accurate integrity assessment and appropriate remediation.

The concept of "Integrity Management" grew out of a demonstration project of the Office of Pipeline Safety designed to test whether allowing operators the flexibility to allocate safety resources through risk management was effective in improving pipeline safety and reliability. Integrity management requires operators, such as natural gas distribution companies, to write and implement Integrity Management Programs (IMPs) to assess, evaluate, repair and validate the integrity of pipeline segments. The program contains the following elements:

- Knowledge
- Identify Threats
- Evaluate and Rank Risks
- Identify and Implement Measures to Address Risks
- Measure Performance, Monitor Results, and Evaluate Effectiveness
- Periodically Evaluate and Improve Program
- Report Results

The Integrity Management approach uses historical leak data and other facility information, along with the input of subject-matter experts, to identify individual threats to a gas system. These threats are then analyzed to predict the likelihood and consequences of failure. Each threat is then ranked by priority, followed by the development of a plan to reduce or remove those risks as deemed necessary.

2011 Call to Action – Transportation Secretary LaHood

Finally, in April 2011, U.S. Transportation Secretary LaHood issued a Call to Action to all pipeline stakeholders in conjunction with the effective application of the Distribution Integrity Management Program. The Call to Action was aimed at the more than 2.5 million miles of liquid and gas pipelines of both federal and state jurisdiction, including transmission and distribution facilities, calling on owners and operators, the pipeline industry, utility regulators and state and federal partners to:

- Evaluate risks on pipeline systems;
- Take appropriate actions to address those risks, and
- Requalify subject pipeline systems as being fit for service.

The centerpiece of the Call to Action is the "Action Plan" of the Department of Transportation and the Pipeline and Hazardous Materials Safety Administration. The focus of the Action Plan is to accelerate the rehabilitation, repair, and replacement of high-risk pipeline infrastructure, calling on pipeline operators and owners to take

“aggressive efforts... to review their pipelines and quickly repair and replace sections in poor condition.” To buttress this Call to Action, Secretary LaHood has asked Congress to increase maximum civil penalties for pipeline violations, to close regulatory loopholes, strengthen risk-management requirements, add more inspectors, improve data reporting and help identify potential pipeline safety risks early.

Avista’s Experience with DuPont Aldyl A Piping Systems

Avista has approximately 12,500 miles of natural gas piping in its service territories in the States of Washington, Oregon and Idaho. Like dozens of other gas utilities, Avista adopted plastic pipe as an excellent alternative to steel, and consequently, the broad majority of Avista’s pipe is polyethylene (about 8,500 miles) of various types, ages and brands, including DuPont’s Aldyl A.

Avista began installing DuPont Aldyl A in 1968 and discontinued its use in 1990 when DuPont sold their production to Uponor. Of the various vintages and formulations of Aldyl A pipe in its system, Avista has estimated quantities in the following amounts, in diameters of ½” to 4”:

Pre-1973 Aldyl A (1965-1972 resins)	190 Miles
1973-1984 resins	960 Miles
1985-1990 resins	919 Miles

Avista noted the advisory bulletins of the Board and Administration in 1998, 1999 and 2002, but since it had no documented trends in the types of failures highlighted, continued to manage its Aldyl A pipe according to established monitoring standards for leak survey and sound operations practices.

Spokane and Odessa Incidents

In recent years, however, Avista experienced two natural gas incidents² resulting in injuries and property damage that signaled possible changes in leak patterns in its Aldyl A piping. The first incident occurred in 2005 at a commercial site in Spokane. This event involved the failure of 1976-vintage Aldyl A pipe caused by bending-stress resulting from poor soil compaction around the pipe that was performed by a non-Avista excavator in 1993. The post-incident investigation judged the resulting leak to be an anomaly that could have been prevented with proper care by that 3rd party excavator.

The second incident, at a residence in the town of Odessa, Washington, in late 2008, was determined to be the result of rock pressure on the 1981-vintage Aldyl A pipe that occurred during the initial installation. Avista signed a settlement agreement with staff of

² The Pipeline and Hazardous Materials Safety Administration defines a natural gas “incident” as a release of gas that results in any of the following: a fatality or personal injury that requires in-patient hospitalization; property damage of \$50,000 or greater, or the loss of greater than 3 million cubic feet of gas.

the Washington Utilities and Transportation Commission as an outcome of the investigation of this incident. Under terms of the agreement, which was subsequently approved by the Commission, Avista increased the frequency of its residential leak survey on pre-1984 resin (pre-1987 installed) Aldyl A natural gas mains in its Washington jurisdiction, from once every five years to annually. In addition, whenever it is excavating in the vicinity of Aldyl A natural gas mains in Washington, Avista will also report on the soil conditions surrounding the pipe, and identify appropriate and reasonable remedial measures, as necessary. Avista retained the consulting services of Dr. Gene Palermo to help develop its approach for managing Aldyl A pipe, in relation to the soil conditions reported.

Expert-Recommended Protocol for Managing Aldyl A Pipe in Relation to Reported Soil Conditions

Dr. Palermo is a nationally-recognized expert on the plastic pipe used in natural gas systems, and in particular, Aldyl A piping. He has worked in the plastic pipe industry for over 35 years, which includes 19 years with the DuPont Corporation in its Aldyl A natural gas pipe division.

Dr. Palermo also served as the Technical Director for the Plastics Pipe Institute from 1996 through 2003 and served on the Institute's Hydrostatic Stress Board for over 20 years. Dr. Palermo has served on a variety of gas industry committees, has trained gas industry practitioners and regulators, and has received numerous awards of merit for his outstanding individual contribution to the natural gas plastic-piping industry. He is the only person to receive both the American Society of Testing and Materials - Award of Merit, and the American Gas Association - Platinum Award of Merit. Dr. Palermo is president of his consulting firm, Palermo Plastics Pipe Consulting.

Dr. Palermo reviewed the content of Avista's agreement with the Commission to become familiar with its requirements, specifically with regard to managing Aldyl A piping found in soils that would currently not meet standard criteria for bedding and backfill. Dr. Palermo's review and expertise provided the basis for his recommended protocol for management of Avista's Aldyl A piping found in rocky soils.

1. All Aldyl A pipe manufactured prior to 1984 should be evaluated for replacement in the following manner:
 - a. If the pipe has Low Ductile Inner Wall properties, Avista should immediately begin a prioritized pipe replacement program.
 - b. If the pipe is installed in soil with rocks larger than $\frac{3}{4}$ inch, Avista should immediately begin a prioritized pipe replacement program.
 - c. If the pipe is installed in sandy soil or in soil with rocks up to $\frac{3}{4}$ inch in size, the pipe should remain in service and normal leak surveys per DOT Part 192 should be followed.

2. All Aldyl A pipe manufactured during or after 1984 should also be evaluated.
 - a. If the pipe is installed in soil with rocks larger than $\frac{3}{4}$ inch in size, Avista should evaluate the pipe and consider replacing it if they begin to experience rock impingement failures, and should conduct leak surveys more frequently than required by DOT Part 192, until replacement.
 - b. If this pipe is installed in sandy soil or in soil with rocks up to $\frac{3}{4}$ " in size, the pipe should remain in service and normal leak surveys should be followed.

Evaluation of Leak Survey Records

Following the Odessa incident, Avista was also asked to review five years of leak survey records in Washington State to look for possible emerging patterns in the health of its Aldyl A piping system. Avista organized the leak survey information and then conducted several evaluations, which were organized under three general objectives, listed below.

1. Analyze the modes or observed types of failures in Aldyl A pipe;
2. Forecast the expected long-term integrity of Aldyl A piping;
3. Identify potential patterns in the overall health of this piping to aid in the design of a more-focused management protocol for Aldyl A pipe.

Avista used newly-available asset-management tools to conduct these assessments, including its recently-implemented Distribution Integrity Management Program (Integrity Management) approach for identifying and analyzing potential threats to its natural gas system. This approach is suited for just such an analysis, having the capability to determine potential patterns in the overall health of a piping system that might not have been otherwise evident through conventional data review. The analysis of the historic leak survey data, including the observation of several new Aldyl A material failures and leaks, did point to the development of a possible trend.

Pipe Replacement Projects in 2011

Another outcome of this heightened focus on Aldyl A leaks was Avista's decision to replace several thousand feet of its Aldyl A main in 2011. In Odessa, Avista increased the frequency of leak surveys on its gas system to once per quarter and mobilized a pipe replacement program that removed all of the pre-1984 Aldyl A main pipe from the gas system in the town. During that project, which was conducted from June to December 2011, nearly 32,000 feet of Aldyl A main pipe were replaced. Other Aldyl A replacement projects in 2011 removed an additional 7,000 feet of this priority pipe. Together, these projects had a capital cost of approximately \$2.7 million.

Avista Distribution Integrity Management Program

As described briefly above, the Integrity Management approach, now required by law, begins with the aggregation of historical leak-survey data and other facility information

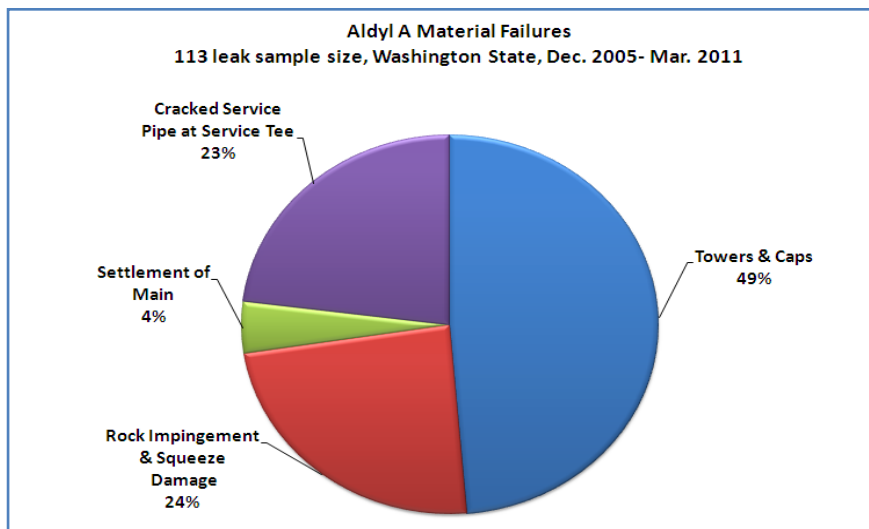
relevant to Avista's natural gas piping system. Then, in conjunction with the input of subject matter experts, individual threats to Avista's gas system are identified. These threats are analyzed to predict the likelihood and consequences of failure associated with each threat, based on the specific operating environment, system makeup, and history of Avista's natural gas system. Each threat is then ranked relative to all others to identify, by priority, those with the greatest hazard potential. From that priority list, measures are developed to reduce or remove those risks as deemed necessary. These mitigating measures are often referred to as "accelerated actions" because they may be above and beyond the minimum requirements of applicable federal and state codes. These accelerated actions can range from increased frequency of maintenance and leak surveys to full replacement programs for certain gas facilities. Finally, the mitigating measures will be reviewed to evaluate their effectiveness in reducing threats to the gas system, and the program will then be adjusted as necessary based on those outcomes.

Integrity Management requires the use of geographically-based analytical software to complete many of the required program elements. Like many utilities, Avista is using the Geographic Information System (GIS) platform developed and supported by Environmental Systems Research, Inc. (ESRI), as the geographic and analytical engine for conducting its gas system evaluations under the Integrity Management program. ESRI is a pioneer and world leader in developing and supporting geographic software products for a broad range of global business sectors, including utilities. Since Avista had already created a comprehensive GIS layer, or database, for its gas facilities, it made sense to add analytical capabilities to this platform in complying with the Integrity Management program requirements.

Analyzing Modes of Failure in Avista's Aldyl A Pipe

In tackling the first objective of the assessment of its Aldyl A piping, Avista aggregated the gas leaks resulting from Aldyl A material failures found in its gas system in Washington State from late 2005 through March 2011. The sample included 113 material failures that were evaluated and summarized by component to offer an understanding of the specific failure modes for Aldyl A pipe. The 'modes' or types of material failures categorized are shown below in Figure 1.

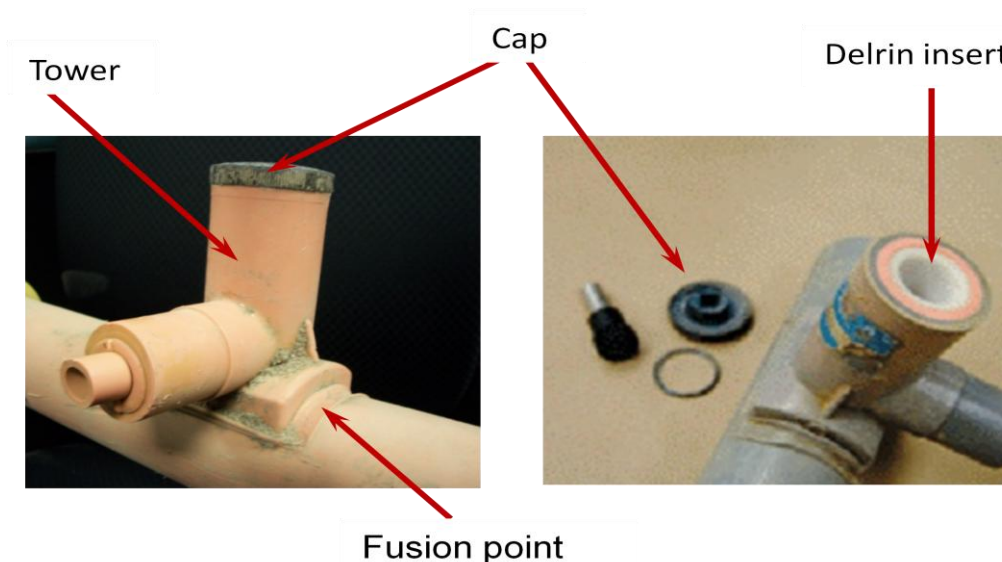
Figure 1. Modes or types of material failures documented in a sample of 113 leaks in Avista’s Aldyl A piping in Washington State, December 2005 through March 2011.



Towers and Caps

The largest percentage of material failures in the sample occurred in Towers and Caps, referring to failure of the service tapping tee itself, shown below in Figure 2. In these cases, the pressure applied to the tee as the cap was tightened onto the body during initial installation has resulted in slow crack growth and failure of the tower body, the cap, or the Delrin[®] insert many years later. Additionally, the saddle fusion point of the tower to the main pipe is another frequent point of failure in this assembly. The unavoidable stresses created during standard installation (using factory recommended procedures) have led to brittle cracking in these components many years later. This phenomenon clearly demonstrates the susceptibility of certain resins of Aldyl A piping to tend to fail by brittle cracking due to the slow crack growth initiated during installation.

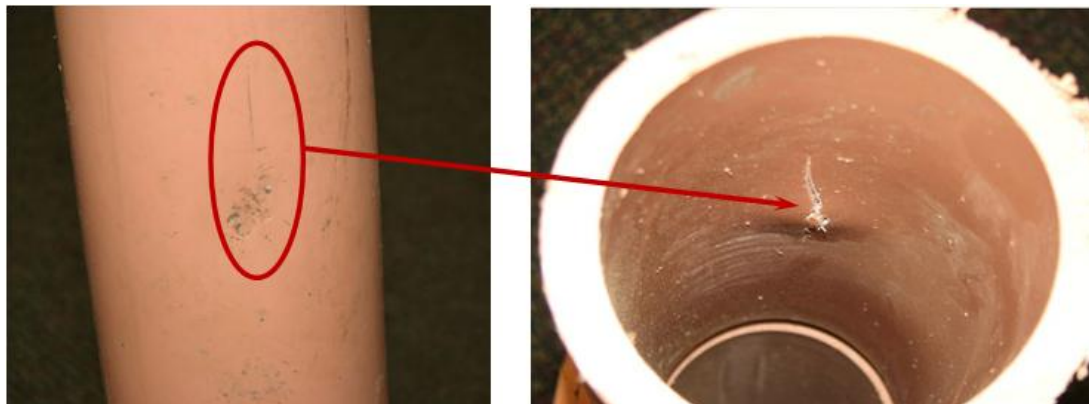
Figure 2. External features and internal components of a typical Aldyl A service tee, as fused to Aldyl A main pipe.



Rock Contact and Squeeze-Off

The second-most common material failure observed in Avista's Aldyl A pipe was due to localized, brittle cracking in Aldyl A mains that resulted from rock impingement – rock pressure directly on the pipe, or places where ‘squeeze-off’ was applied over the pipe's service life. These failures are very typical for certain resins of Aldyl A main pipe, having been consistently reported by other utilities since before the time of DuPont's 1986 letter. As described earlier, when these external stresses (rock impingement or squeeze-off) cause the pipe to fail, it always begins with crack initiation on the inside surface of the pipe wall, eventually resulting in slow crack growth that propagates toward the outer wall of the pipe, and finally, through-wall failure. These failures generally appear as short, tight cracks in the outer wall of the pipe that run either parallel, or slightly off-parallel with the length of the pipe. A typical failure in Aldyl A main pipe, showing a crack through the pipe wall as it appears on both the inner and outer surfaces, is shown below in Figure 3.

Figure 3. Typical brittle-like crack through the wall of Aldyl A pipe, resulting from rock contact directly on the pipe.



Although the duration of the stress caused by rock contact with the pipe is very different from that associated with squeeze-off, they both result the same pattern of crack initiation and slow crack growth leading to failure of the pipe. Other sources of external stress that can result in brittle failure of Aldyl A pipe, as mentioned earlier in the report, include bending of the pipe, soil settlement, dents or gouges to the pipe, and improper installation of fittings.

Services Tapped from Steel Mains

The third most-common failure in Avista's sample occurred where small diameter Aldyl A service pipe is tapped from steel main pipe. In this application, a steel service tee is welded to the steel main pipe and the small-diameter Aldyl A service pipe is then connected to a mechanical transition fitting on the tee, as pictured below in Figure 4.

Figure 4. Typical polyethylene service tapped from a steel main.



It is at this transition point, between the rigid steel fitting and the more-flexible Aldyl A service pipe, that brittle-like cracking has been observed. This failure mode in older plastic pipe is well understood, and was one of the three study objectives reported by the

National Transportation Safety Board in its 1998 bulletin, summarized earlier in this report.

Avista's Aldyl A Services

Avista believes its Aldyl A service piping (apart from cracking at the connection with the tee on steel main pipe) has no greater tendency to fail than its other polyethylene service piping, and at this point in time, should not be managed differently than other plastic service pipe (frequency of leak survey, etc.). Consequently, Avista is not planning to systematically replace Aldyl A service pipe as it replaces main pipe and rehabilitates service connections at steel tees. Avista is using the Integrity Management model, however, to track and analyze service leaks going forward to determine if the reliability of Aldyl A service piping changes in ways that warrant a different approach.

Understanding the Significance of Leaks in Aldyl A Pipe

Frequency and Potential Consequence

Analysis of the material failures of Aldyl A pipe provides the opportunity to put these leaks into perspective with other types of leaks on Avista's natural gas system. As part of the development of the Integrity Management Plan, five years of leak data were analyzed for Avista's three-state service territory. The data included nearly 17,000 individual leaks, which were categorized according to the underlying threats to the natural gas system as required under Integrity Management. As a point of comparison of the significance of leak types, the data included an excess of 2,000 leaks associated with the failure of gas system equipment, such as valves, fittings and meters. But only 153 leaks were identified as resulting from 'material failures' of Aldyl A piping in the three states. Looking simply at Aldyl A leaks as part of the aggregate of all system leaks, it could be easy to conclude that Aldyl A pipe failures pose a limited potential for hazard relative to the threat of other system leaks. In fact, while gas equipment leaks are more likely to occur, their potential consequence is often minimal. A thorough understanding of this difference is one of the most important requirements and outcomes of any effective Integrity Management Plan analysis.

Review of the leak-history data shows the vast majority of equipment leaks as occurring typically with shut-off valves and gas meters, located either above ground or in locations that allow free-venting of gas to the atmosphere. Consequently, these types of leaks have a low potential to result in an incident posing harm. Through public awareness programs, people have become familiar with the odor of venting gas and tend to quickly call Avista to make repairs; this is especially true if the venting gas can be associated with visible gas valves or meters. By contrast, Aldyl A failures and the associated leaks occur almost entirely underground, out of sight, often in populated areas, and occasionally in the proximity of buildings that are not actually connected to the natural gas system. Without visible facilities, natural gas may have an unexpected presence in the environment that allows people to dismiss slight gas odors. This reduced awareness allows gas from these undetected leaks to have the significant potential to migrate into buildings before it can

be identified and reported. This is especially true in winter when the ground is saturated, frozen or snow covered, and in areas of full pavement and concrete finishes. Of the roughly 2,000 equipment leaks reported in the five years of data reviewed, none resulted in gas incidents. By comparison, two of the relatively-small number of Aldyl A material failures resulted in gas migrating into buildings undetected, and upon accidental ignition, resulted in harmful incidents.

The Complication of Brittle Cracking in Aldyl A Pipe

The common mode of failure for Aldyl A materials, brittle-like cracking, can also present special problems compared with leaks in other gas piping, such as corrosion in steel gas pipe. Corrosion leaks tend to begin with the failure of a very minute area in the pipe wall, which then begins to release a very minute amount of natural gas. These leaks then tend to progress very slowly and in a stable and somewhat predicable way over time. These types of leaks, while never positive, are more likely to be detected by modern gas-detection equipment when they are at a stage where the release of gas is relatively minor. By contrast, leaks in Aldyl A piping tend to first appear as substantial (high gas volume) leaks that appear in a very short time period. This is due to the nature of brittle cracking, where the crack can progress very slowly from the inner wall of the pipe toward the outer wall without any release of gas, until the pipe finally splits open, resulting in a substantial failure. Additionally, unlike the prevention or even suspension of corrosion problems in steel pipe through effective protection methods, there is no way to halt undetected progress of slow crack growth in brittle Aldyl A pipe.

Reliability Modeling of Avista's Aldyl A Piping

Avista's Asset Management Group performed reliability modeling for several classes of its natural gas pipe in order to assess the long-term performance of its Aldyl A piping, compared with steel pipe and newer-vintage plastic pipe. Reliability analysis comes from the discipline of 'reliability engineering' and is a foundational asset management tool that provides a forecast or prediction of the future performance of a piece of equipment (pipe, in this instance). The predicted asset performance then provides the basis for the application of other asset management tools, allowing the development of the ultimate maintenance or replacement strategies that optimize asset cost with any number of other factors, such as availability for service or risk avoidance.

Availability Workbench Software

Avista developed reliability forecasts for its Aldyl A and other piping using Availability Workbench™ software. This 'off the shelf software' was introduced by Isograph, Ltd., the world's leader in reliability analysis software. Availability Workbench was first introduced in 1988, and is used to support asset decision making in over 7,000 sites around the world and across a range of industries, including Aerospace, Automotive, Chemical, Defense, Electronics, Manufacturing, Mining, Oil and Gas, Power Generation, Railways, and Utilities. Avista's version of the model was released in 2009.

Reliability Forecasting

Availability Workbench has four modules, one of which, the Weibull module, is used to create reliability forecasts (curves) for an asset. Reliability curves for gas piping are generated from input data that include pipe inventory (type, brand, footage, location, soil conditions, etc.), current age of piping, historic and current failure information and repair data. Avista uses predominantly its own historical data for these inputs, but when they must be estimated, they are vetted by subject matter experts within the company. The model integrates pipe age and failure and repair data, and then by applying a conventional Weibull-curve mathematical model, it produces probability curves that represent the expected failure rates over time for each failure mode, such as the brittle-like cracking associated with Aldyl A services tapped to steel mains. The reliability curves represent how quickly the rest of the pipe is at risk of failing, shown as the percentage of failures expected each year over time.

Forecasting the Reliability of Aldyl A Piping

The objective of Avista's reliability modeling was to forecast expected failures for elements of Avista's Aldyl A piping system, compared with that of steel and latest-generation polyethylene pipe. The observed Aldyl A failure modes, discussed above, including leak data for other types of gas pipe in Avista's system, provided high-quality leak and age information for the reliability modeling. Forecasting was performed for the following pipe 'classes' in Avista's system.

- a. Aldyl A Main pipe of Pre-1984 manufacture (Alathon 5040 and 5043 resins, including low ductile inner wall pipe)
- b. Aldyl A Main pipe manufactured during 1984 and after (Alathon 5046-C and 5046-U resins)
- c. Aldyl A Services Tapped to Steel Main (Bending Stress Services)
- d. Steel Main pipe
- e. Newer Polyethylene Main pipe (1990 and later)

To perform the modeling, the data for these pipe classes must be input as discrete elements, which are described as follows:

Main Pipe - Analyzed using 50-foot segments as discrete modeling elements.

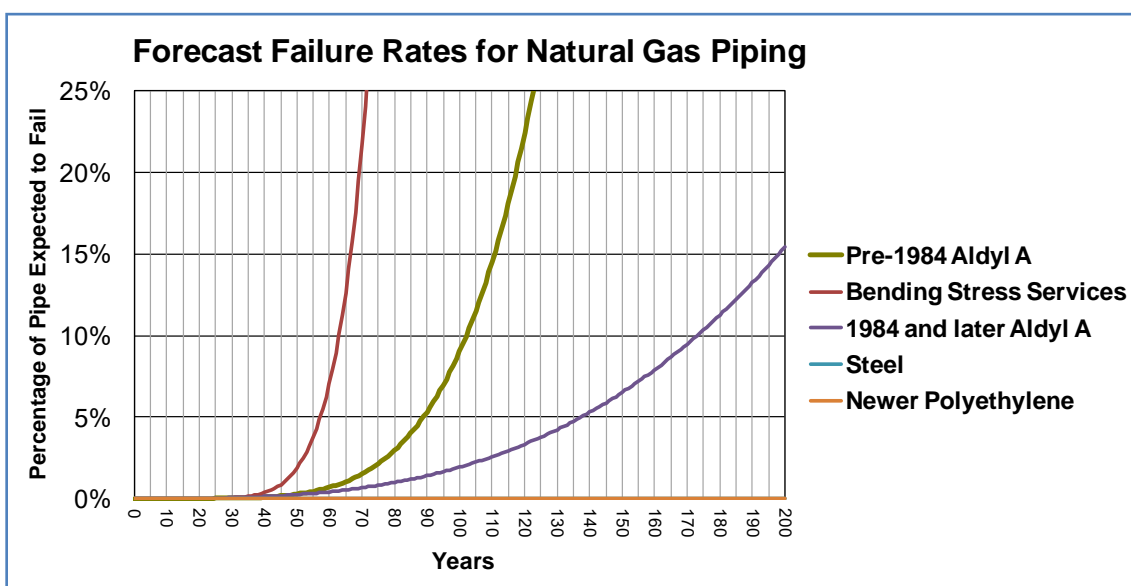
Services Tapped from Steel Mains - Avista identified 16,000 such services in its system, also referred to as 'bending stress tees.' For the reliability modeling, the individual service is the discrete element.

Forecasting Results

Forecast Piping Failures

Results of the forecast modeling, for the pipe classes evaluated, are represented as ‘curves’ showing the percentage of the amount of each pipe class that is projected to fail in each year of the forecast time period. The resulting reliability curves are shown in the graph below in Figure 5.

Figure 5. The expected failure rates for several classes of pipe in Avista’s system, as forecast by Availability Workbench Modeling. The “Steel” curve is obscured by the “Newer Polyethylene” curve, both of which are essentially flat lines.



The failure curves show dramatic differences in the expected life for the pipe classes evaluated. The difference in expected life between the Aldyl A products as a group, compared with that of steel and newer-generation plastic pipe, is particularly evident. Striking also, are the expected performance differences among the classes of Aldyl A pipe evaluated, providing some clear trends useful in designing remediation strategies.

Dependability of Forecasting Future Failures

The reliability forecast is essentially a mathematical calculation of the ‘chance’ of future failure and decisions of significant risk and financial magnitude are based, at least in part, on that result. Importantly though, the forecast has a ‘real numbers’ foundation in the actual leak data, records of material failure and repair, and the relationship of those events with time. For Aldyl A pipe, the model is using observed endpoints in the life of the pipe resulting from a loss in ductility and slow crack growth, for example, and integrating that with other data to forecast future expected failures. Comparatively, the relatively rare observed failures in steel pipe and newer-generation plastic pipe are

reflected in their nearly-flat cumulative failure curves. The value of using proven reliability forecasting approaches and widely-adopted software is derived from their ubiquitous application across reliability-critical industries, and their continuous testing, evaluation, and support. Finally, as Avista adds new data in coming years for pipe failures of all material classes, including Aldyl A, it serves to increase the statistical power of the forecast results.

Understanding the Significance of Cumulative Failure Curves

Although the failure curves for the different classes of pipe differ significantly over the long term, as mentioned, the failure rates also appear to be very close to zero for the first 40 years for Aldyl A services tapped to steel main, and for 75 years for Pre-1984 Aldyl A main pipe. Since the weighted average age for Aldyl A pipe in Avista's system is 32 years, it would appear that we might have ample time before the failure rate would start to rise substantially for Pre-1984 Aldyl A main pipe. The failure curve estimates that when the Pre-1984 Aldyl A main pipe is 80 years old that approximately three percent of it will fail in that single year. Given that Avista has 335 miles of this vintage pipe in Washington, that mileage equals about 35,000 discrete elements (50-ft sections) in the forecast model. The three percent failure, then, translates to 1,050 leaks in that 80th year. To put that failure rate into perspective, consider that Avista documented just 113 leaks over the past five years in Washington state, two of which resulted in injury and property incidents, and dozens more that were categorized as hazardous leaks³, timely repaired. Since it is expected that the number of hazardous leaks and incidents would increase proportionally with the increase in total leaks, then it's easy to imagine just how unacceptable the pipe performance would be at an annual failure rate of three percent.

Prudent Failure Management

To carry this point further, if we “zoom-in” on the curves we can gauge the significance of the change in failure rate that is expected ten years from today. At that point the weighted average age of Aldyl A pipe in Avista's system will be 42 years, and the expected failure rate for that year is just over one-tenth of one percent (0.12%), or 42 leaks in that year. The failure rate in that year, then, will have nearly doubled over the average annual rate for the past five years (22.6). The critical point in this analysis is the understanding that failures in buried natural gas piping can be prudently managed only when they are occurring at very low rates. Otherwise new leaks in the system occur too frequently to be detected by even annual leak surveys of the entire system, resulting in an increase in the likelihood of hazardous leaks and the potential for harmful incidents.

³ The Pipeline and Hazardous Materials Safety Administration defines a “hazardous leak” as an unintentional release of gas that represents an existing or probable hazard to persons or property and requires immediate repair or continuous action until the conditions are no longer hazardous.

Priority Aldyl A Piping

Every pipeline operator strives to install and maintain a safe, reliable and cost-effective system. While the goal is complete system integrity, it is impossible to avoid having any leaks, especially on large systems such as Avista's with over 12,000 miles of mains and several hundred thousand services. Regulators and the industry acknowledge this reality through the adoption of standardized leak-survey methodologies, and recognized pipe remediation practices.

But, while leaks are inherent on a system, there are circumstances where the expected reliability of a particular pipe begins to rise compared with that of other piping and industry norms. We have demonstrated that such is the case for portions of the Aldyl A pipe in Avista's system, and accordingly, we have determined these classes to be at-risk of quickly approaching a level of reliability that is unacceptable and in need of proactive remediation. It's for this reason that Avista refers to these pipe classes as "Priority Aldyl A piping."

Formulation of a Management Program for Priority Aldyl A Pipe

The timely application of Avista's Distribution Integrity Management approach to its recent and ongoing leak analysis and its reliability modeling results, including Dr. Palermo's review, and the experience gained in three priority pipe-replacement projects in 2011, has prompted Avista to formulate a protocol for systematically managing its Aldyl A pipe. The following categories are useful classifications for Avista's definition of "priority Aldyl A pipe"⁴:

1. Aldyl A gas services tapped to steel main pipe
2. Pre-1973 Aldyl A main pipe
3. Pre-1984 Aldyl A main pipe

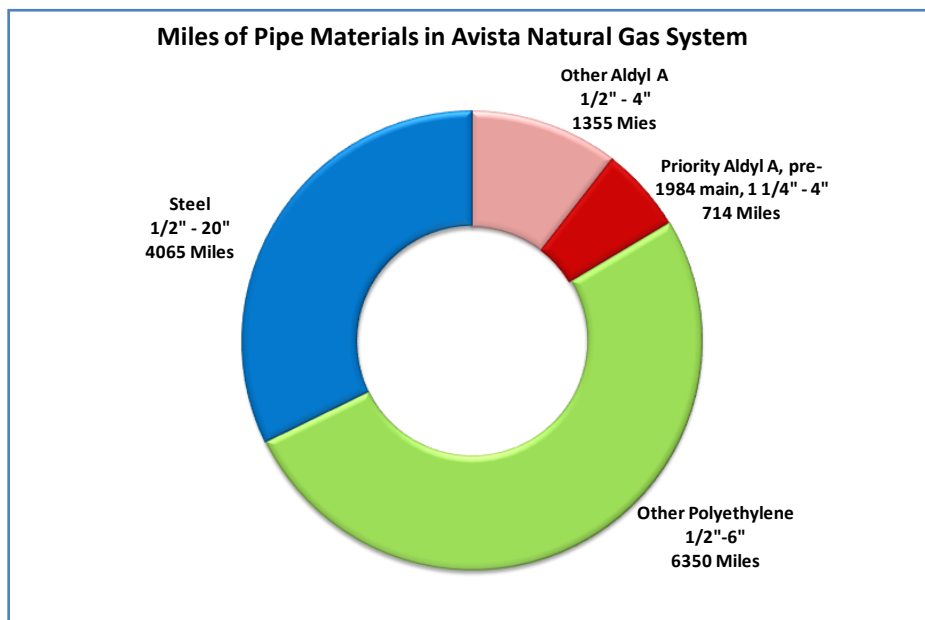
Avista has determined these classes of pipe are at risk of approaching unacceptable levels of reliability without prompt attention. Accordingly, Avista believes the decision to formulate a management program for its priority Aldyl A pipe is both timely and prudent, and is consistent with results of our leak investigations, Integrity Management principles and the recent Call to Action of Secretary LaHood. The decision is also consistent with the prior federal bulletins on this subject and with the decisions of other similarly-situated utilities that have implemented similar pipe-replacement programs. Finally, given the significant amounts of priority Aldyl A pipe on Avista's system, commencing a protocol now provides us greater opportunity to manage this facility in a prudent and cost-effective manner.

⁴ Each class noted above is subject to material failures due to concentrated stresses such as rock impingement, bending stresses, squeeze off, and failures of service towers and caps.

Priority Aldyl A Piping in Avista’s System

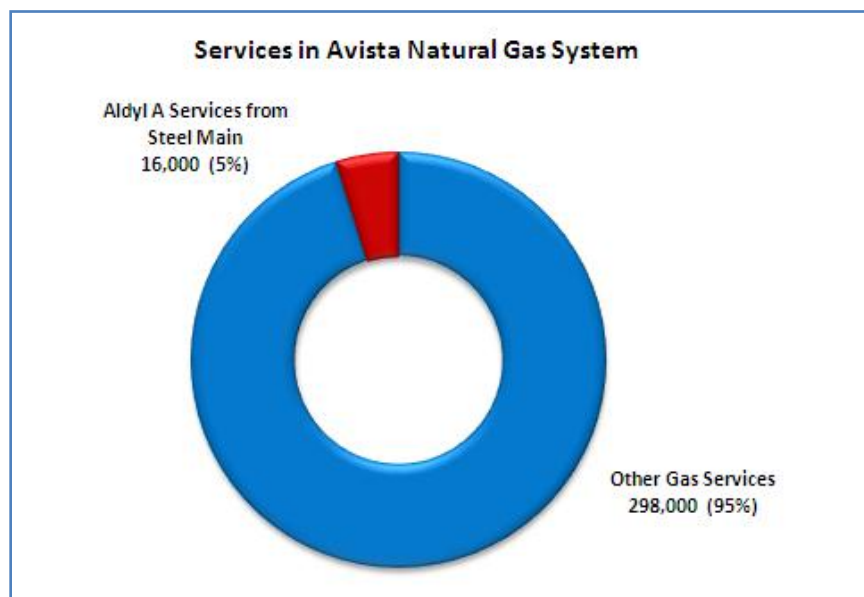
Main Pipe - Avista has approximately 12,500 miles of natural gas main pipe in its service territories in the States of Washington, Oregon and Idaho. Approximately seventeen percent of this total, or 2,000 miles, is Aldyl A pipe of all classes and sizes. Proportions of various classes of piping in Avista’s system, including priority Aldyl A pipe (pre-1973 and pre-1984 mains) is shown below in Figure 6.

Figure 6. Avista’s priority Aldyl A pipe, shown as a proportion of the different pipe classes in Avista’s natural gas system (items 2 and 3 from the list above).



Gas Services - Avista has approximately 314,000 natural gas services, of which approximately 16,000, or five percent, are Aldyl service pipe tapped to steel main pipe, shown below in Figure 7 as priority Aldyl A services.

Figure 7. Avista's priority Aldyl A gas services (tapped from steel mains), shown as a proportion of Avista's total gas services.



Other Aldyl A Pipe Replacement Programs

Aldyl A Pipe in the Pacific Northwest

Through general conversation with our colleagues in western gas utilities, Avista believes it has a substantially greater proportion of Aldyl A pipe in its system than do our neighboring Pacific Northwest gas utilities. The proportions of Aldyl A in Avista's system (or of any other brand of early polyethylene pipe), however, is not a reflection of the unique purchasing practices of Avista, since plastic pipe quickly became the standard of the industry and the predominant pipe installed by utilities across the country. But, the proportions of early plastic pipe in a system do tend to track with the amount of system growth that gas utilities experienced during the 1970s and early 1980s. For Avista, this was a time of particularly rapid expansion of its natural gas system (from the Spokane metro area to outlying communities in its Washington and Idaho service territories), and consequently, the proportion of early Aldyl A pipe in our system reflects this period of expansion.

Established and Emerging Programs for Aldyl A Pipe Replacement

Two western utilities, Southwest Gas and Pacific Gas & Electric, have significant Aldyl A pipe management programs either well underway or anticipated, which are very briefly summarized below.

Southwest Gas – Responding to a fatality incident in the early 1990s, Southwest Gas entered into a settlement agreement with the Corporation Commission of Arizona to conduct additional leak monitoring and pipeline remediation. By the late 1990s, Southwest Gas had replaced 74 miles of Aldyl HD (high density) main pipe covered by the agreement, and had replaced another 648 miles of Aldyl A pipe based on its leak survey monitoring results. In 2005, Southwest Gas had another injury and property incident on their system involving Aldyl A pipe, and implemented an additional pipe replacement program in the vicinity of the incident. Southwest Gas has also worked closely with staff of the Public Utilities Commission of Nevada in the monitoring and replacement of what the Commission refers to as “aging” and “high risk” natural gas pipe, including Aldyl A pipe.

Pacific Gas & Electric - After some very high-profile natural gas incidents in 2011 that involved Aldyl A piping, Pacific Gas & Electric has announced plans to replace all the Pre-1973 Aldyl A pipe in its system. The utility reportedly has 7,907 miles of Aldyl A pipe of all classes in its system, which is about 19 percent of its gas system inventory. By comparison, Avista’s Aldyl A pipe stock is about 16 percent of its system. Pacific Gas & Electric’s planned replacement of its Pre-1973 Aldyl A pipe represents a massive effort because the utility plans to remove and replace the 1,231 miles of pipe in a proposed timeframe reported as in the range of three years, and at a cost said to exceed \$1 billion, but that has not yet been formalized. There is some question regarding the selection of only pre-1973 Aldyl A for replacement in PG&E’s system, since at least one recent high-profile incident was reported on newer vintage (still pre-1984) Aldyl A.

Developments of Interest

US Congresswoman Jackie Speier of California has been raising the awareness of Congress and Transportation Secretary, LaHood, in two separate actions. First, in May 2011, Speier sponsored House Resolution 22 entitled the “Pipeline Safety and Community Empowerment Act of 2011.” The legislation provided for citizens being able to easily access pipeline maps and safety-related information from pipeline owners, prescribed certain changes in pipeline monitoring requirements, and called for the addition of physical safety devices to existing pipelines. The bill is currently under consideration by the House Committees on Transportation and Infrastructure, and Energy and Commerce.

In October 2011, Speier wrote to Secretary LaHood calling on him to direct the Pipeline and Hazardous Materials Safety Administration to “take immediate action to address the long-known safety risks associated with pre-1973 Aldyl-A plastic pipe manufactured by DuPont.” She went on to advocate for the removal of this pipe from use in the U.S., and to commend Pacific Gas & Electric for its planned removal of all of its pre-1973 Aldyl A pipe. Citing the DuPont letters to customers, federal safety bulletins, and the Waterloo incident, she chided Congress for not taking action, and urged the Secretary to immediately do so.

Designing Avista's Replacement Protocol for its Priority Aldyl A Pipe

Avista modeled two different approaches to the replacement program, one that was systematic, based on an established timeframe and one that was responsive to problem areas as they were identified.

Systematic Replacement Program

Time Horizon

Determining the appropriate length of time over which to replace the Priority Aldyl A pipe involves the optimization of several factors, including: 1) the overall urgency from a reliability and safety perspective, both present and forecast; 2) potential consequences; 3) the impact of more intensive leak survey methods to better identify priority facilities in need of replacement and in helping reduce the potential for harmful incidents; 4) the ability to effectively prioritize specific projects to better ensure facilities in greatest need are addressed earliest; 5) the availability of equipment and labor resources needed to conduct the work, and the ability to coordinate the work with Avista's ongoing construction programs; 6) program efficiency, and 7) the degree of rate pressure placed on customers, both in absolute terms and in relation to other reliability and safety investments required across the natural gas and electric business. Ultimately, Avista must ensure that management and removal of its Aldyl A pipe is conducted in a way that shields our customers from imprudent risk, while at the same protecting them from the burden of unnecessary costs.

Prudent Management of Potential Risk

Avista believes it is important to establish for our customers and other stakeholders that while there can never be 'zero risk' associated with the program, the potential risk can be prudently managed. On one hand, a replacement program carried out over a very short timeframe cannot prevent the occurrence of all leaks forecast to occur over the course of the program. But at the other extreme, it's clear that setting a replacement timeline that's too lengthy would likely result in safety, reliability and financial consequences for our customers and our business that could be regarded as imprudent. Avista believes the timeline for the replacement program should optimize the factors mentioned above in a way that reduces the risk associated with Aldyl A pipe to the range of 'prudent risks' associated with the myriad other electric and gas facilities and practices that are used to serve the energy needs of utility customers. Said differently, there is no possible way to eliminate the risks associated with energy infrastructure, but there is a range of limited risk that's deemed prudent in the conduct of our business. Avista's treatment of its Aldyl A pipe will be managed to comport with these sound business practices.

Prioritizing the Work

As important as the replacement timeline in prudently managing the reliability of Avista's Aldyl A piping, is the ability of the Asset Management and Distribution Integrity Management staff to partner in effectively prioritizing the pipe-replacement activities in a way that minimizes the potential for hazardous leaks. Results of the Availability Workbench modeling provide some support in prioritization but do not take into account factors such as soil conditions or the proximity to buildings or people. Obviously, a leak occurring in a vacant field will have little, if any, consequence and will likely be detected and repaired during the next leak survey. By contrast, the potential hazard of a leak increases with its proximity to people and structures, so replacing pipe that has a high probability of leaking and is located in populated areas is first priority.

Avista's Integrity Management approach provides the analytical tools that integrate key knowledge and information needed to effectively prioritize replacement activities based on the potential hazard. In the prioritization process, each segment of Aldyl A pipe in Avista's system is assigned a relative risk ranking, based on its age, material, soil conditions, construction methods, and its maintenance and leak history. This information is then loaded into Avista's GIS database containing the gas system maps. These maps contain a "layer" of grid squares (50 feet per side) that correspond with sections of the Aldyl A pipe. Each square is known as a "raster" and each raster contains all of the risk-related information that was loaded into the GIS system, as associated with the Aldyl A pipe, at that precise geographic location.

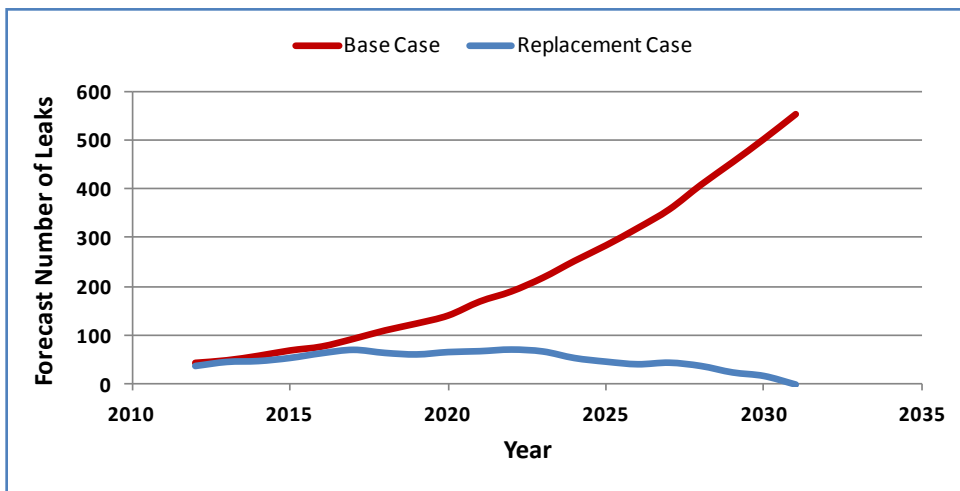
Next, the software integrates the historic leak information for Aldyl A pipe on Avista's system with the risk data associated with each of the Aldyl A pipe segments, and predicts the geographic areas (via the risk rasters) where Aldyl A pipe failures are expected to be greatest. In the last step, the software integrates the results for expected failures with information for each risk raster that identifies the potential consequence of a leak on that segment (i.e. the proximity of that raster to buildings and people, and the population density/sensitivity of those structures). The end result is a color-coding of the rasters that provides a visual picture of where on the gas system that both the potential likelihood of a leak, and the potential consequence of a leak, are greatest. This approach provides Avista with a comprehensive and objective means of identifying Aldyl A pipe that has the highest priority for replacement.

Twenty-Year Proposal

Avista modeled various time horizons for the replacement program, up to a timeline of 30 years, and determined a replacement horizon in the range of twenty years to represent an optimum timeframe for removing and replacing its priority Aldyl A pipe. Shortening the timeline was found to have increasing cost impacts to customers but with little improvement in the numbers of expected facility failures. Lengthening the timeline past twenty years, however, was found to result in a substantial increase in the number of material failures expected. A replacement timeline of 25 years, for example, resulted in more than a doubling of the number of leaks expected when compared with the twenty year horizon. Under the twenty year replacement program, the number of material

failures each year is expected to increase slightly until 2017, at which time the cumulative effect of priority piping replaced since 2012 begins to check the failure count and then drive it toward zero over the remaining course of the program (Figure 8).

Figure 8. Expected numbers of material failures in Avista’s priority Aldyl A piping in two cases: Replacement Case - piping replaced over a twenty year horizon in the manner proposed by Avista in this report, and Base Case – assumed that priority piping was not remediated under any program.



Importantly, Avista is not saying that experiencing an increase in leaks on our system is “acceptable” per se, in particular, after having had two harmful incidents in the past few years. What we are saying, however, is that by using the Integrity Management model to prioritize work activities in the manner described above, Avista believes it can manage the forecast Aldyl A leaks in a way that significantly reduces their potential occurrence in areas that could result in harm. Under this approach, Avista believes it can prudently manage the replacement of priority Aldyl A pipe with the goal to avoid harmful incidents altogether, and at a reasonable rate impact for our customers.

Initial Optimization

Importantly, Avista’s proposal for a 20-year replacement program represents an optimization based on the information we have available today. Any number of factors could change as the work proceeds over the first few years that could result in a ‘new’ optimum time horizon. Avista will be collecting new leak survey and other information each year, and will continue to use its Asset Management models to further refine expected trends and potential consequences, making program adjustments as appropriate.

Responsive Replacement Program

Avista also modeled a very-different pipe replacement strategy to provide a further measure of the efficacy of the systematic replacement program. This scenario, referred to as the Responsive Case, was essentially a reactive approach where pipe remediation and replacement activities would be driven by leak survey results and the magnitude of leak consequences. Under this case, it's expected that pipe replacement activity would commence at a lower level than in the systematic case, but would also vary significantly from year to year, depending on patterns of detected leaks and their consequences. Ultimately, however, the expected activity and spending levels would far exceed both the annual and cumulative costs of the systematic approach. This is because pipe segments are not replaced ahead of actual material failure (as happens in the structured case) and so the resulting work activity more-generally follows the geometrically-increasing numbers of material failures expected over time. This scenario was easily judged as failing to provide an appropriate measure of prudence, including system safety, reliability, cost-efficiency, or business risk. Without a prioritized replacement protocol in place Avista would be resigned to replacing pipe in response to serious leaks and potential incidents, after-the-fact, rather than with foresight. Such was the case with the Aldyl A replacements Avista completed in 2011.

From a practical standpoint, Avista believes that by managing the replacement of its priority Aldyl A pipe in a systematic way it can prudently manage potential risks and impacts to its customers and other stakeholders, plan for and use construction resources most efficiently, and plan more effectively for the capital and expense requirements necessary for the effort. This is clearly the case when compared with a responsive approach.

Dr. Palermo's Assessment of the Proposed Protocol for Managing Avista's Priority Aldyl A Piping

Following Avista's Integrity Management evaluations of failure trends in its Aldyl A piping, and the development of its proposed protocol, we invited Dr. Palermo to review the completed protocol and to judge, from his expert perspective, the overall effectiveness and adequacy of the program. Dr. Palermo completed his review in February 2012, and judged Avista's protocol to be highly responsive and appropriate to the management needs of the priority Aldyl A pipe in Avista's system. In particular, he noted his support for Avista's priority focus on pre-1973 Aldyl A pipe, and on the plan to remove and replace its pre-1984 Aldyl A mains. He further noted his agreement with Avista's priority for remediating Aldyl A services tapped to steel main pipe, and to the protocol of "managing in place" existing Aldyl A service piping between the mains and meters. Finally, Dr. Palermo agreed with the proposed twenty-year replacement time horizon for Avista's priority Aldyl A pipe, noting the reliability modeling results, and the effectiveness of Avista's increased leak survey and application of Integrity Management information, tools and analysis in prioritizing pipe replacement activities. Dr. Palermo reviewed and approved this affirmation prior to the finalization of this report.

Application of Avista's Washington State Study Results to Aldyl A Pipe in the States of Oregon and Idaho

Forty-six percent of Avista's Aldyl A main pipe is currently in service in the State of Washington, and coincidentally, so are 46% of Avista's Aldyl A services tapped to steel mains. Since Avista's leak survey study and subsequent modeling results are based on Washington State data, then it follows that the expected results are most applicable to this jurisdiction. The degree to which the reliability modeling results are applicable to Avista's Aldyl A pipe in the States of Oregon and Idaho depend on factors such as the age of the at-risk pipe and on the known similarity of conditions under which the pipe was installed, including method (trenching or plowing), backfill material, compaction and squeeze-off practices, soil conditions and ambient soil temperature, etc. Avista is aware of at least some general differences among state jurisdictions, including more favorable soil conditions in Oregon, newer pipe materials, and construction techniques potentially more favorable to low-ductility pipe. A contributing complication, too, is the relatively large amount of pipe of unknown age and material in services in Oregon. This territory was acquired by Avista from a utility that did not have a consistent practice of mapping services, and some existing maps were lost before the purchase. As a result, Avista is conservatively managing this 'unknown' pipe as if it was priority Aldyl A pipe, until the time that these segments are verified by records review and possible field verification.

Most important to this discussion, however, is the fact that Avista is using its Integrity Management model to integrate leak survey and other data to develop the priority pipe replacement activities for each year of the program. Since comparable leak survey data from priority Aldyl A pipe in Idaho and Oregon will be included in the prioritization analysis, then regardless of any differences that do affect the expected reliability of the Aldyl A pipe, that inherent reliability will be automatically integrated into the modeling, ensuring that Avista is systematically replacing the pipe at greatest risk, regardless of the jurisdiction. Finally, since the Medford and Grants Pass, Oregon, service territory offers a 12-month construction season, Avista will be able to continuously mitigate priority Aldyl A piping within that area when northern territories are effectively unable to continue working.

Resource Requirements and Expected Cost

Staffing

Avista's proposed Aldyl A pipe replacement project represents a major undertaking, even when spread over a twenty-year horizon. In addition to the scope of the effort, there's added complexity in efficiently managing the project, since Avista's territory extends from Bonners Ferry, Idaho to Ashland, Oregon, a distance of over 650 miles. Each year, the deployment of equipment and inspection and construction personnel will have to be adjusted across this service area in response to the sites identified for highest-priority pipe replacement in any given year. Avista is planning to coordinate with contractors to manage much of this construction, and since this project represents a long-term

construction commitment, it is expected that the pool of contractors bidding for this work will be substantial, resulting in advantageous pricing and flexibility of field labor.

Though much of the physical construction will be accomplished through the use of contractors, there will still be a need to increase Avista's internal staffing to manage the flow of information, quality assurance, mapping, and related project documentation. Quality assurance is a critical project element that Avista will rigorously control. Effective remediation of Avista's priority Aldyl A pipe is a critically-important corporate objective, and we must continually ensure that sound inspection, training and auditing delivers the results we expect. Finally, the pipe replacement activities themselves will often have disruptive effects on our customers and others. Avista will carefully coordinate customer and community communications and notifications in an effort to minimize the effects of any disruptions.

Capital Costs

Avista's analysis and planning effort is projecting capital costs just over \$10 million annually from the year 2013 – 2032. Actual costs will vary somewhat depending on the prioritization of piping to be replaced each year, among other factors, and the calculated amounts will also be subject to an estimated 2.3% annual inflation. Avista is planning to spend approximately \$5 million in capital on this program in 2012, allowing for effective planning with contractors, hiring Avista staff, and developing a solid project management foundation for years 2013 and beyond.