BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of AVISTA CORPORATION's Pipe Replacement Program Plan	DOCKET PG-131837 ORDER 01 ORDER APPROVING AVISTA CORPORATION'S PIPE REPLACEMENT PLAN FOR 2013-15

BACKGROUND

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

A. Policy Statement

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

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

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

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

approve a special PRP cost recovery mechanism (CRM) for companies that adopt a PRP plan meeting certain requirements set out in the Policy Statement.[4]

3 Through the Policy Statement, the Commission asked each investor-owned gas pipeline utility company to file a plan every two years for replacing pipe that represents an elevated risk of failure, starting on June 1, 2013.[5] Each company's PRP plan should have three parts:[6]

1) a Master Plan for replacing all facilities with an elevated risk of failure;

2) a Two-Year Plan that specifically identifies the pipe replacement program goals for the upcoming two year period; and, if applicable,

3) a Pipe Location Plan for identifying the location of pipe or facilities that present an elevated risk of failure.

4 The Policy Statement recognized that each company's PRP plan would likely be tied to its existing Distribution Integrity Management Plan[7] (DIMP), the company's Transmission Integrity Management Plan[8] (TIMP), if any, and certain other requirements found throughout the Washington Administrative Code[9] pertaining to pipeline safety.[10]

5 The Commission explained in the Policy Statement that each PRP plan should (1) target pipe or facilities that pose an elevated risk of failure; (2) be a measured and reasonable response in relation to the elevated risk without unduly burdening ratepayers, and (3) be

[4] Policy Statement ¶¶ 37-41.

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

[6] *Id*. ¶ 42.

[7] Title 49 CFR, Part 192, Subpart O.

[8] Title 49 CFR, Part 192, Subpart P.

[9] WAC 480-93.

[10] Policy Statement ¶¶ 9-11 and 47.

in the public interest.[11] Finally, each PRP plan should contain a section analyzing its impact on rates.[12]

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

B. Avista's Pipe Replacement Plan

7 On May 31, 2013, in response to the Commission's Policy Statement, Avista Corporation (Avista or Company) filed with the Commission its "Two-Year Plan for Managing Select Pipe Replacement in Avista Utilities' Natural Gas System" (2013 Two-Year Plan) and its "Protocol for Managing Select Aldyl A Pipe in Avista Utilities' Natural Gas System" (Master Plan). On September 9, 2013, Avista filed with the Commission a supplement to its 2013 Two-Year Plan addressing its potential impact on rates. The Company seeks an order from the Commission approving its 2013 Two-Year Plan, as supplemented by the rate impact filing. Avista did not file a CRM and is not seeking to recover costs associated with its 2013 Two-Year Plan prior to the Company's next general rate case. Avista has already accounted for a number of these costs in its most recent two-year rate plan approved in Docket UG-120437.

8 Avista identified three types of facilities located in Washington posing an elevated risk of failure: pre-1987 vintage Aldyl-A polyethylene mains, Aldyl-A polyethylene service piping where it transitions to rigid steel service tees, and isolated steel mains that may not have adequate cathodic protection. Avista's Master Plan details a 20 year protocol for managing the risks associated with Aldyl-A piping systems across the Company's multi-state service area. Avista's 2013 Two-Year Plan directly applies its Master Plan to Washington and explains the Company's goals for replacing elevated risk pipes in the Greater Spokane metropolitan area.

9 Avista has approximately 2,000 miles of Aldyl-A piping systems in Washington, Oregon, and Idaho. Of these, less than 200 miles represent the highest risk Aldyl-A service made with pre-1973 vintage resins. Another 960 miles of Aldyl-A service lines contain pre-

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[11] *Id*. ¶¶ 44-56.

[12] *Id*. ¶ 55.

[13] *Id*. ¶¶ 63-76.

1984 vintage resins. The Company plans to replace approximately 60 miles of Aldyl-A pipe between 2013 and 2015 and intends to replace all of its isolated steel mains by 2016.

10 Avista estimates that less than 1 percent of its natural gas pipe in its Washington distribution system is of unknown material or age. The Company is in the process of verifying all unknown pipe segments, managing them as if they posed an elevated risk of failure, and expects to complete this audit by late 2016. Due to the very small proportion of unknown pipe location, Avista did not submit a Pipe Location Plan.

11 Avista's main challenge in implementing its pipe replacement strategy is securing qualified contract crews to perform seasonal work. In March 2013, Avista entered a five year contract with Northern Pipeline Construction Company (NPL) to perform Aldyl-A main pipe replacement and Aldyl-A service tee reconstruction work. Avista selected NPL because of its expertise in "pipe splitting" and "keyhole" construction techniques that minimize street-cutting and excavation, making pipe replacement more cost efficient.

12 Avista's 2013 Plan will have no immediate impact on rates because the Company is not seeking to implement a cost recovery mechanism and has no current plans to file a general rate case. The Company's most recent two-year rate plan, approved in Docket UG-120437, has already accounted for $1,129,626 in pipeline replacement costs. According to the Company's supplemental filing, Avista estimates that its capital spending for this program will be approximately $746,500 in 2014 and $737,000 in 2015.

C. Comments of Commission Staff

13 Commission Staff (Staff) reviewed the Company's filing and concluded that Avista's 2013 Two-Year Plan and Master Plan, as supplemented, included all items required by the Commission's Policy Statement. Staff agrees that the Company has such a very small amount of unknown pipe in its system that its filing does not require a Pipe Location Plan. Staff reviewed Avista's DIMP and TIMP and determined that the Company's classification of facilities posing an elevated risk of failure in the Master Plan and the 2013 Two-Year Plan accurately reflects the existing analysis in the DIMP and TIMP. Staff observes that Avista already had replacement and remediation programs in place for all of its pipe facilities known to pose an elevated risk of failure and has been successfully implementing those programs for several years.

14 Staff finds that the Company's plans for replacing Aldyl-A mains and service tees in Spokane and surrounding communities over the next two years is a measured and reasonable response in relation to the risks presented by this type of polyethylene service pipe. Staff is also satisfied with Avista's filings as supplemented and believes the Company's schedule to replace all remaining isolated steel mains by the end of 2016 is reasonable.

15 Staff recommends that the Commission approve Avista's Master Plan and 2013 Two-Year Plan, as supplemented by the rate impact information filed on September 9, 2013.

DISCUSSION

16 The Commission approves Avista Corporation's Master Plan and 2013 Two-Year Plan, as supplemented by the rate impact information filed on September 9, 2013. The Company has extensive Aldyl-A facilities throughout its service area, including Washington, and has taken a measured and reasonable approach to identify, locate, and address the higher risks presented by these vintage plastic lines. Avista will also soon complete its replacement program for isolated steel mains.

17 We agree with Staff that the Company's Master Plan and 2013 Two-Year Plan are consistent with our Policy Statement. The Commission commends Avista for continuing its proactive approach to identifying elevated risk facilities and implementing a cost-efficient replacement program.

FINDINGS AND CONCLUSIONS

18 (1) The Washington Utilities and Transportation Commission is an agency of the state of Washington vested by statute with the authority to regulate the rates, rules, regulations, and practices of public service companies, including natural gas companies.

19 (2) Avista Corporation is a natural gas company and a public service company subject to Commission jurisdiction.

20 (3) Avista Corporation filed its 2013 Pipeline Replacement Plan with the Commission on May 31, 2013.

21 (4) Avista Corporation's Master Plan identified pipeline facilities with an elevated risk of failure and set out a 20-year plan to replace all of its pre-1987 vintage Aldyl-A service lines.

22 (5) Avista Corporation's 2013 Two-Year Plan identifies specific Aldyl-A facilities to be replaced between 2013 and 2015 and indicates that all of the Company's isolated steel facilities will be replaced by the end of 2016.

23 (6) Avista Corporation's 2013 Two-Year Plan will not immediately impact rates because the Company is not requesting a cost recovery mechanism, the Company is not filing a rate case at this time, and much of the costs have already been accounted for in the Company's current two-year rate plan.

24 (7) Avista Corporation's Master Plan and 2013 Two-Year Plan are reasonable and measured approaches to replace pipeline facilities with an elevated risk of failure.

ORDER

THE COMMISSION ORDERS:

25 (1) Avista Corporation's Master Plan and 2013 Two-Year Plan, as supplemented by the rate impact information filed on September 9, 2013, are approved.

26 (2) Avista Corporation's should file an updated Pipeline Replacement Plan for 2015-17 no later than June 1, 2015.

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

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

JEFFREY D. GOLTZ, Commissioner