

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKET PG-160924

NARRATIVE SUPPORTING
SETTLEMENT AGREEMENT

I. INTRODUCTION

1 Staff of the Washington Utilities and Transportation Commission (Staff) and Puget
Sound Energy (PSE or Company) (collectively, Parties) have settled all issues in
Docket PG-160924, which concerns PSE's compliance with pipeline safety regulations
related to a natural gas explosion that occurred in the Greenwood neighborhood of Seattle
on March 9, 2016.

2 This Narrative is intended to provide the evidentiary basis for Commission approval
of the settlement agreement (Agreement) entered into by the Parties in this case. Nothing in
this Narrative modifies the Agreement. The Parties respectfully request that the
Commission approve the Agreement without conditions, pursuant to WAC 480-07-750.

II. PROPOSAL FOR REVIEW

3 The parties understand that the Commission intends to review the Agreement at a
public settlement hearing. Consistent with WAC 480-07-740(2)(b), the parties will present
one or more witnesses each to testify in support of the Agreement and to answer questions
concerning its terms, costs, and benefits.

III. APPLICABLE LAW

4 PSE is a public service company under Title 80 RCW and a gas pipeline company
within the meaning of RCW 81.88.010(4), WAC 480-93-005(13), and WAC 480-93-223.
PSE is subject to Commission regulation pursuant to the Commission's natural gas safety
rules. RCW 81.88.065 gives the Commission authority to "develop and administer a
comprehensive program of gas pipeline safety" in accordance with RCW 81.88.

5 The Commission has authority to issue complaints under RCW 81.04.110. Under
WAC 480-93-223, the Commission may impose a civil penalty of up to two hundred
thousand dollars for each violation of any Commission order or rule in WAC 480-93,
including federal regulations adopted therein by reference.

6 WAC 480-93-007(3) provides, "If the gas pipeline company's contractor (or any of
its subcontractors) engages in conduct that violates commission rules applicable to the gas
pipeline company, the gas pipeline company is subject to penalties and all other applicable
remedies, as if the gas pipeline company itself engaged in that conduct."

7 WAC 480-07-750 provides, "The commission will approve settlements when doing
so is lawful, when the settlement terms are supported by an appropriate record, and when the
result is consistent with the public interest in light of all the information available to the
commission."

IV. AGREED STATEMENT OF THE CASE

8 On March 9, 2016, at approximately 1:43 a.m., a natural gas explosion occurred in
the vicinity of 8411 Greenwood Avenue North in Seattle. The explosion and resulting fire
destroyed several buildings on the block. There were no fatalities, but nine firefighters were

treated for non-life-threatening injuries. The fuel source of the explosion and fire was natural gas.

9 Prior to the explosion, at approximately 1:04 a.m., the Seattle Fire Department received a 911 call about a natural gas leak in the 8400 block of Greenwood Avenue North. Upon arrival, firefighters smelled a natural gas odor. The 911 caller led firefighters to an alley behind the buildings on the west side of Greenwood Avenue North. The caller then directed firefighters to a narrow space between the buildings located at 8411 and 8415 Greenwood Avenue North. There, firefighters determined that gas was escaping from a threaded coupling along the above-ground portion of a steel service line attached to the north-facing wall of the structure located at 8411 Greenwood Avenue North. The gas ignited at 1:43 a.m. PSE deactivated the service line at 7:28 a.m.

10 PSE promptly notified the Commission of the explosion and fire. Staff immediately initiated an investigation. PSE cooperated with Staff's requests for production of records and access to physical evidence. PSE also conducted its own investigation of the incident.

11 The investigations determined that the portion of the service line where the gas escaped ("Greenwood Service Line") was located on private property and concealed in a narrow gap between the two buildings located at 8411 and 8415 Greenwood Avenue North. A façade on the front and back of the buildings prevented public access to the gap.

12 Witness interviews and physical evidence indicated that transient individuals had broken into the gap by removing the façade at the back of the buildings. The individuals lived in and around the gap and used the space as a place to store personal belongings and stolen goods. The individuals acknowledged that they sometimes tripped on or bumped the service line.

13 Forensic examination of the Greenwood Service Line determined that the pipe was structurally sound and was physically broken by outside (external) force. The force resulted in the release of natural gas, which subsequently ignited. The investigations found that the outside force damage was most likely caused by the activity of transients in the narrow gap between the 8411 and 8415 buildings.

14 Staff's investigation determined that PSE intended to retire and abandon the Greenwood Service Line in September 2004. A service record (D-4 Card) prepared by PSE's contractor, Pilchuck Contractors, Inc., states that the service line was cut and capped in the public right of way portion of the line, near the main line under Greenwood Avenue, on September 1, 2004. For unknown reasons, Pilchuck failed to execute the cut-and-cap, leaving the service line fully active until it was shut off shortly after the explosion.

15 The Parties agree that PSE did not know that Pilchuck's service record was inaccurate and, accordingly, committed no intentional violations of the Commission's decommissioning or periodic monitoring regulations. PSE acknowledges, however, that it is responsible for the conduct of its contractors under WAC 480-93-007(3), and that Pilchuck's improper abandonment of the Greenwood Service Line was a factor in the explosion.

16 On September 20, 2016, the Commission issued its Complaint in this docket. The Complaint alleged two causes of action related to improper abandonment and three causes of action related to periodic monitoring.

17 On October 3, 2016, PSE filed its Answer and Affirmative Defenses to the Complaint, in which PSE admitted certain allegations in the Complaint and denied certain other allegations in the Complaint. In the Agreement, PSE concurs there were violations of the Commission's gas safety rules.

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The Commission held a prehearing conference on November 1, 2016. Following the prehearing conference, discovery ensued, including the exchange of data requests and responses, and PSE's depositions of Staff's pipeline safety director and lead investigator.

V. AGREED DESCRIPTION OF SETTLEMENT AGREEMENT

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The Agreement settles all issues in this docket between the Parties. The principal aspects of the Agreement are described below:

A. Monetary Penalty

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PSE agrees to a total monetary penalty of \$2,750,000, of which \$1,250,000 will be suspended on the condition that PSE completes specific compliance tasks as set forth in the agreed Deactivated Gas Line Inspection and Remediation Program. PSE must pay the non-suspended penalty amount of \$1,500,000 within ten business days after the effective date of the order approving the Agreement.

B. Deactivated Gas Line Inspection and Remediation Program

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PSE will implement a Deactivated Gas Line Inspection and Remediation Program, attached to the Agreement as Appendix A. The Inspection and Remediation Program represents a collaborative effort designed to identify and mitigate any other improperly deactivated service lines that may exist within PSE's system. The Program also places enhanced focus on investigating aboveground service lines that may be susceptible to outside force damage, including tampering and vandalism.

VI. THE PROPOSED SETTLEMENT SERVES THE PUBLIC INTEREST AND THE PARTIES' INTERESTS

A. Joint Statement of the Parties

22 The parties submit that their Agreement advances the public interest. Within the meaning of WAC 480-07-750(1), the Agreement is lawful, contains terms that are supported by an appropriate record, and achieves a result that is consistent with the public interest in light of all the information available to the Commission. The Commission should approve the Agreement without conditions.

23 The Commission has, by rule, affirmed its support for “parties’ informal efforts to resolve disputes without the need for contested hearings.” WAC 480-07-700. If the Commission adopts the Agreement, the Parties will benefit by avoiding the expense, inconvenience, uncertainty, and delay inherent in a litigated outcome. The public will similarly benefit if this dispute concludes without further expenditure of public resources.

24 The Parties were represented by counsel during the settlement process. Negotiations proceeded in good faith. The end result reflects a compromise of litigation positions. The parties agree that the Agreement is consistent with the Commission’s Enforcement Policy.

B. Statement by PSE

25 PSE respects and supports the Commission’s important responsibilities in enforcing pipeline safety with respect to the companies it regulates. PSE is responsible for the construction and maintenance of an extensive natural gas pipeline system and has numerous programs and procedures in place to seek to ensure that its system is safe. PSE is committed to safety, and PSE believes its system is safe. PSE is also committed to operational

excellence and full compliance with federal and state regulations—by its employees and by the independent contractors who work on its gas system.

26 The circumstances surrounding the natural gas explosion were highly unusual. The pipe involved in the incident was thought to have been deactivated and capped in 2004. As stated above and in Staff’s investigation report, it was structurally sound and was physically broken by outside, external force, caused by human activity. The damage to the pipe caused the release of natural gas, leading to the explosion. It is, and always has been, PSE’s policy to disconnect all abandoned gas lines from the natural gas distribution system.

27 PSE upgraded its natural gas and electric mapping system to current electronic standard approximately three years ago. This has improved PSE’s ability to quickly identify where deactivated lines are located. In addition, immediately following the Greenwood incident, PSE began to survey its natural gas records to identify service lines that should be inspected to confirm that they were deactivated properly. PSE then worked with Staff and Public Counsel to develop a comprehensive Deactivated Gas Line Inspection and Remediation Program. The objective of the collaborative Deactivated Gas Line Inspection and Remediation Program is to identify, inspect, and remediate two categories of gas service piping: (1) retired services that may still be active due to improper abandonment; and (2) active aboveground services that are susceptible to damage due to their location. PSE will identify, inspect, and remediate retired services that may still be active due to improper abandonment. The Deactivated Gas Line Inspection and Remediation Program employs a broad and robust sampling methodology to identify and repair any service lines that may have been deactivated improperly. It also calls for PSE to document inspection results and mitigation plans for each service line that PSE inspects. PSE believes that the program

identifies the appropriate targets, requires inspection and mitigation activities in an ambitious, yet achievable timeframe, and demands thorough documentation regarding the plan's implementation.

28 PSE and Staff hold different views on an appropriate monetary penalty, but the parties have reached agreement as a compromise of positions in this matter. It is important to note that the incident occurred because of external damage caused by human activity from trespassers. While PSE has improved, and will continue to improve its maintenance recordkeeping and mapping systems, PSE cannot prevent all vandalism or other human activity that may cause or contribute to gas pipeline incidents. The monetary penalty is significant and in fact would be one of the highest penalty amounts imposed by the Commission, despite the fact that the incident was caused by outside, external forces from unauthorized human activity.

29 Suspended penalties are consistent with the Enforcement Policy because they will further the Commission's overall goal of compliance and better enable the Company to take all steps necessary to achieve full compliance. PSE is committed to complying with the timelines set forth in the Agreement, and the \$1.250 million in suspended penalties will serve as a significant incentive for PSE to comply with these deadlines. The Agreement also provides for the Commission and Staff to stay apprised of the progress PSE is making towards completion of the Deactivated Gas Line Inspection and Remediation Program, through regular, written reports.

30 In summary, PSE recognizes the importance of properly deactivating and capping its abandoned gas service lines and of maintaining accurate records. PSE views the Agreement

as a compromise of the parties' positions, but one that assures public safety and allows PSE to achieve compliance.

C. Statement by Staff

31 Staff recommends that the Commission approve the Agreement without modification. The Agreement is consistent with the principles expressed in the Commission's Enforcement Policy adopted in Docket A-120061.

1. How Serious or Harmful the Violations are to the Public

32 Staff considers PSE's violations to be very serious. A factor of the Greenwood explosion was PSE's improper abandonment of the service line in September 2004. The service line remained active until it was shut off shortly after the explosion. The explosion caused extensive property damage and injuries to first responders. It also caused Staff to question whether other improperly abandoned service lines exist within PSE's system. The Agreement is a necessary step toward restoration of the Commission's trust and, by extension, the public's. It imposes a severe monetary penalty, requires acknowledgement of past mistakes, and directs the company to take immediate, detailed measures to prevent recurrence.

2. Whether the Violation is Intentional

33 Staff does not contend that PSE intentionally failed to cut and cap the service line. The Agreement accounts for this fact by imposing a total penalty that is less than the statutory maximum and by suspending a portion of the total penalty contingent upon PSE's compliance with the Deactivated Gas Line Inspection and Remediation Program.

3. Whether the Company Self-Reported the Violation

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PSE did not self-report the violations alleged in the Complaint. Staff is satisfied, however, that PSE ultimately accepted responsibility for its role in the incident. In the Agreement, PSE concurs that the violations occurred. Importantly, PSE acknowledges that, pursuant to WAC 480-093-007(3), PSE is responsible for the conduct of its contractors in this proceeding.

4. Whether the Company was Cooperative and Responsive

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PSE was cooperative and responsive during Staff's investigation. PSE answered Staff's data requests and provided access to physical evidence. The Agreement accounts for this fact by imposing a total penalty that is less than the statutory maximum and by suspending a portion of the total penalty contingent upon PSE's compliance with the Deactivated Gas Line Inspection and Remediation Program.

5. Whether the Company Promptly Corrected the Violations and Remedied the Impacts

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PSE has agreed to a detailed Deactivated Gas Line Inspection and Remediation Program. In accordance with the Program, PSE will identify and remediate other improperly abandoned service lines, if any, and active aboveground service lines that are susceptible to outside force damage due to their location. Staff is satisfied with PSE's willingness to investigate the full extent of the issue and to initiate remedial action as necessary.

6. The Number of Violations

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A factor in the incident was PSE's improper abandonment of a single service line. Although the number of violations is small, the result was extremely damaging. The Agreement properly imposes a severe monetary penalty, requires acknowledgement of past mistakes, and directs the company to take immediate, detailed steps to prevent recurrence.

7. The Number of Customers Affected

38 Staff perceives that many customers are concerned about the possibility of
recurrence. Staff believes that the Agreement reflects a necessary step in restoring the
public's trust.

8. The Likelihood of Recurrence

39 Neither Staff nor PSE can state whether the Greenwood explosion was an aberration.
The Deactivated Gas Line Inspection and Remediation Program will corroborate previous
deactivation efforts by PSE and give confidence moving forward that the possibility of
similar incidents is very remote.

40 In Staff's view, the Deactivated Gas Line Inspection and Remediation Program
appropriately calls for sampling of deactivated services within Populations 2-4 (which are
lower risk). Staff has applied statistical analyses and has concluded that the sampling rates
within each population give assurance that each population is free of similar non-successful
deactivations. Importantly, if PSE discovers a gas-carrying service while sampling within
Populations 2-4, it must inspect all locations within the affected population.

**9. The Company's Past Performance Regarding Compliance, Violations,
and Penalties**

41 PSE has had previous issues assuring the quality of work performed by Pilchuck (the
PSE contractor that failed to cut and cap the Greenwood Service Line). In 2005, in Docket
PG-041209, the Commission approved a settlement requiring PSE to pay a \$15,000 penalty
to remedy a violation committed by Pilchuck that injured a crew member. And in 2008, in
Docket PG-060215, the Commission approved a settlement requiring PSE to pay a
\$1,250,000 penalty after Pilchuck falsified pipeline leak inspection records. In the current

docket, the proposed Deactivated Gas Line Inspection and Remediation Program properly requires PSE to prioritize inspection and remediation of service lines retired by Pilchuck. It also appropriately requires PSE to review its practices relative to job completion records.

10. The Company's Existing Compliance Program

42 PSE has internal procedures to ensure compliance with code requirements. Those procedures failed in September 2004, when the improper abandonment at issue in this case occurred. The Deactivated Gas Line Inspection and Remediation Program is a necessary supplement to existing procedures.

11. The Size of the Company

43 PSE is the state's largest regulated natural gas utility. The company operates a 12,000-mile distribution system that serves approximately 785,000 customers. The agreed monetary penalty is severe but not disproportionate to the size of the company.

VII. CONCLUSION

44 The parties agree that the Agreement is lawful, that its terms are supported by an appropriate record, and that the result is consistent with the public interest in light of all the information available to the commission. Consistent with WAC 480-07-750, the parties respectfully request that the Commission approve the Agreement without conditions.

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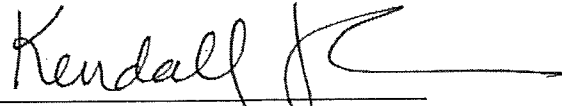
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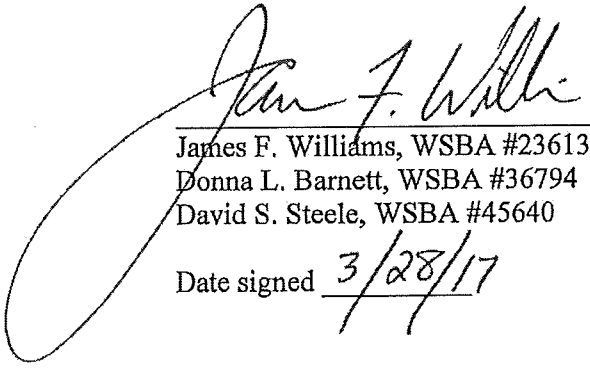
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