

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET PG-150120

SETTLEMENT AGREEMENT

I. PARTIES

1 The parties to this settlement agreement (Agreement) are Staff of the Washington
Utilities and Transportation Commission (Staff) and Cascade Natural Gas Corporation
(CNGC or Company). The parties agree to resolve the Complaint in this docket as follows:

II. JURISDICTION

2 The Washington Utilities and Transportation Commission (Commission) has
jurisdiction to approve and enforce this Agreement.

III. EFFECTIVE DATE

3 Section V of this Agreement is effective on the service date of a final Commission
order approving this Agreement, or on the date that an initial order approving this
Agreement becomes a final order pursuant to WAC 480-07-825(7). The remainder of this
Agreement is effective on the latest date of signature on this Agreement.

IV. BACKGROUND

4 In 2013, Staff conducted standard natural gas pipeline inspections in CNGC's
Washington service territory. During these inspections, Staff requested that CNGC provide

documentation sufficient to confirm the Maximum Allowable Operating Pressure (MAOP) of randomly-selected high pressure pipeline segments. CNGC failed to provide sufficient documentation for certain randomly-selected segments. As a result, Staff opened an investigation into CNGC's compliance with applicable MAOP regulations.

5 To address CNGC's lack of documentation, Commission Staff and CNGC agreed to a systematic process designed to provide Staff detailed information regarding CNGC's high pressure pipeline system and to establish a timeline by which CNGC would determine the MAOP of all its high pressure pipelines in Washington.

6 On February 2, 2015, Staff and CNGC executed a Stipulated Agreement under which the Company agreed to "submit to the Commission a written plan that Cascade intends to implement for the purpose of determining the MAOP of all its high pressure pipelines in Washington for which there is insufficient documentation to confirm the current MAOP."¹ The Commission approved the Stipulated Agreement on February 12, 2015, in Order 01 in Docket PG-150120. Pursuant to Order 01, CNGC was required to submit its MAOP compliance plan by August 12, 2015.

7 CNGC failed to submit its MAOP compliance plan by August 12, 2015.

8 On January 29, 2016, CNGC submitted its initial MAOP Determination & Validation Plan.

9 On April 29, 2016, CNGC submitted its revised MAOP Determination & Validation Plan. The revised MAOP Determination & Validation Plan demonstrated that CNGC had operated, and was continuing to operate, 116 high pressure pipeline segments without compliant MAOP documentation.

¹ *In the Matter of the Investigation of the Gas Pipeline System of Cascade Natural Gas Corporation*, Docket PG-150120, Order 01, Order Accepting Agreement and Closing Docket, Attachment A ("Stipulated Agreement") (Feb. 12, 2015).

10 On July 12, 2016, the Commission issued a formal complaint against CNGC. The
Complaint alleged two causes of action, summarized as follows: (1) violation of a
Commission-ordered compliance deadline; and (2) failure to maintain compliant MAOP
records for at least 116 pipeline segments. CNGC filed an answer to the complaint in which
CNGC admitted some allegations in the complaint and denied some allegations in the
complaint. CNGC does not contest that it missed the deadline for filing its MAOP plan or
that it lacks compliant MAOP records for at least 116 pipeline segments. CNGC further
responded in the answer that it had commenced a systematic process designed to provide the
necessary information regarding CNGC’s high pressure pipeline system.

11 On September 2, 2016, the Commission issued a prehearing conference order.² The
order stated, among other things, “Parties are encouraged to consider means of resolving
disputes informally.”

12 Following issuance of the prehearing conference order, the parties engaged in good
faith negotiations to resolve the Commission’s allegations. This Agreement resulted.

V. TERMS OF AGREEMENT

A. Monetary Penalty

13 As authorized by RCW 81.88.040 and WAC 480-93-223, the Commission will
impose a total penalty of **\$2,500,000**. The Commission will suspend **\$1,500,000** of the total
penalty on the condition that CNGC completes specific compliance tasks as set forth below
in the agreed Compliance Program. If CNGC fails to substantially comply with a
compliance task by the agreed deadline associated with that task, the suspended penalty
associated with that task will become due and Staff will seek an order of the Commission for

² *In the Matter of the Investigation of the Gas Pipeline System of Cascade Natural Gas Corporation*, Docket PG-150120, Order 02, Prehearing Conference Order (Sept. 2, 2016).

immediate imposition of suspended penalties. In such event, CNGC reserves the right to maintain that substantial compliance has been met, or to request adjustment of the suspended penalties due to delays in compliance caused by Force Majeure or actions of parties beyond the control of CNGC, or to seek mitigation of the penalty. If necessary, the Commission will decide issues of substantial compliance. CNGC must pay the non-suspended penalty amount of **\$1,000,000** within ten business days after the effective date of the Commission Order approving this Agreement.

B. Compliance Program

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CNGC will execute the following compliance program:

1. CNGC will document the basis for validation of the MAOP of every pipeline segment operating above 60 psig. Such documentation will be completed in accordance with the provisions of 49 C.F.R. § 192.619 as it currently exists, or as it may be amended by PHMSA. CNGC will meet the following timelines:
 - a. For the 116 pipeline segments currently identified as missing critical information necessary for documenting the basis for validation of MAOP:
 - i. CNGC will document the basis for validation of the MAOP on at least 50% of the mileage by December 31, 2018. **The Commission will impose a \$250,000 suspended penalty if CNGC fails to comply.**
 - ii. CNGC will document the basis for validation of the MAOP on 100% of the mileage by December 31, 2023. **The Commission will impose a \$250,000 suspended penalty if CNGC fails to comply.**
 - b. Validation of highest risk pipeline segments: CNGC has identified five segments currently operating at 30% specified minimum yield strength (SMYS) or above that are missing critical information necessary to document the basis for validation of MAOP. CNGC will complete validation of all five segments by December 31, 2017.
 - c. CNGC has retained TRC Pipelines Service LLC (TRC) to complete a records review of all remaining pipelines operating above 60 psig. The TRC MAOP records review will be completed by the end of first quarter 2017.
 - d. CNGC will incorporate any additional pipeline segments operating above 60 psig that have been identified by TRC's review as missing critical information

necessary to document the basis for validation of MAOP into the risk matrix to identify mitigation prioritization.

- i. CNGC will submit an updated timeline/plan that includes the additional segments to Commission Staff by December 31, 2017.
- ii. CNGC and Commission Staff will file an Amended Settlement Agreement with the Commission by March 31, 2018, that reflects a completion date by which CNGC will document the basis for validation of all the high pressure (greater than 60 psig) MAOP for the additional segments identified by TRC. **The Amended Settlement Agreement will include a \$500,000 suspended penalty, imposed in full if CNGC fails to comply with the completion date associated with any new high pressure segments identified by TRC.**

If CNGC and Staff disagree on a completion date, they commit to discuss the nature of the disagreement and to work cooperatively to resolve it. If agreement on the timeline cannot be reached in this way, either Staff or CNGC (or both) may bring the matter to the Commission for decision in a petition to enforce this Agreement.

2. CNGC will prioritize the work set forth in No. 1 above, with priorities established for pipeline segments based on risk to public safety. Risk considerations will include but are not limited to:
 - a. Segment class location;
 - b. Location of high consequence areas;
 - c. Segment SMYS percentage based on the most stringent criteria for missing pipe characteristics;
 - d. Pipe vintage with special consideration for pre-code pipe with unknown characteristics;
 - e. Pipe material, installation characteristics, or maintenance records that indicate increased risk; and
 - f. Low frequency electric resistance welded (ERW) and unknown seam types when SMYS >25%.
3. All unvalidated pipeline segments with preliminary SMYS calculations of 20% or greater will be leak surveyed a minimum of four (4) times annually. Once information is available to substantiate SMYS below 20% or to validate the MAOP of a pipeline segment, that pipeline segment will return to leak survey intervals prescribed by code. CNGC will notify Commission Staff when a pipeline segment returns to code-based survey intervals and will make available for Commission Staff inspection documentation of the basis for the action.

4. All unvalidated pipeline segments with low frequency seam welds or unknown seam types, with preliminary SMYS calculations of over 30%, shall be maintained at a 20% pressure reduction. Once information becomes available to identify seam type as not low frequency ERW or to substantiate SMYS below 30%, pipeline segments will return to previous operating pressure. CNGC will notify Commission Staff when a pipeline segment returns to a previous operating pressure and will make available for Commission Staff inspection documentation of the basis for the action.
5. Line segments preliminarily calculated at greater than 20% SMYS will be incorporated into CNGC's transmission integrity management program (TIMP). Baseline assessments for said pipe will be completed by December 31, 2020. Upon completion of MAOP validation, CNGC's TIMP and distribution integrity management program (DIMP) will be re-evaluated and updated as required.
6. CNGC will designate a representative who will take responsibility for executing the settlement agreement. CNGC's designated representative will provide Commission Staff with written status reports every six months at a minimum addressing the progress made towards completion of the MAOP validation.
7. CNGC will submit to a third party audit to determine baseline variance from the standards set forth in American Petroleum Institute (API) Recommended Practice 1173, Pipeline Safety Management Systems (PSMS). Commission Staff will provide input on the selection of the consultant. At a minimum, the audit will review the following company elements:
 - a. Leadership and management commitment
 - b. Stakeholder engagement
 - c. Risk management
 - d. Operational controls
 - e. Incident investigation, evaluation and lessons learned
 - f. Safety assurance
 - g. Management review and continuous improvement
 - h. Emergency preparedness and response
 - i. Competence, awareness, and training
 - j. Documentation and record keeping

Upon completion of the audit, CNGC will submit the consultant's report to the Commission. The third-party audit and written report will be completed by December 31, 2017. **The Commission will impose a \$500,000 suspended penalty if CNGC fails to submit the consultant's report by December 31, 2017.** The results of the third-party audit shall not be the basis for Staff recommendations of additional penalties against CNGC and if the third-party audit identifies violations of code, CNGC shall have a reasonable opportunity to correct such violations.

8. CNGC will commence a program to align its operations with the standards of API Recommended Practice 1173. Commission Staff will review CNGC's progress in

implementing these operational changes. API 1173 is a recommended practice and, as such, compliance with API 1173 may be subject to audit but shall not be the basis for penalties.

9. CNGC will not seek recovery of penalties paid by CNGC as part of this settlement but may seek recovery of its costs to comply with the terms of this Agreement including but not limited to recovery through deferral and amortization, general rates, and a tracker.
10. The current and suspended penalties imposed by the Commission as part of this Agreement include penalties for any continuation of the violations during the period of correction. Commission Staff agrees to forbear recommending penalties to the Commission if it discovers similar violations relating to MAOP validation pertaining to CNGC's high pressure pipe (greater than 60 psig) while CNGC performs the actions set forth in this Agreement and complies with the terms of this Agreement.

C. Status of Order 01

15 The Commission's final order approving this Agreement will supersede and replace
Order 01 in this docket.

VI. GENERAL PROVISIONS

16 Settlement of all claims. The parties agree that this Agreement is an appropriate
settlement of all contested issues between them in this proceeding.

17 Public interest. The parties agree that this Agreement promotes the public interest,
and that it is appropriate for unconditional Commission acceptance under WAC 480-07-750.

18 Advocacy. The parties agree to advocate for acceptance of this Agreement before the
Commission. After the Commission accepts this Agreement, no party or its agents,
employees, consultants, or attorneys will engage in advocacy contrary to the Agreement.

19 Construction. This Agreement shall not be construed against any party solely
because that party was a drafter of the Agreement.

20 Integrated Agreement. The parties have negotiated this Agreement as an integrated
document to be filed with the Commission only upon execution. This Agreement supersedes

all prior oral and written agreements on issues addressed herein, if any, including the Stipulated Agreement filed on February 3, 2015, in this docket.

21 Other proceedings. This Agreement is executed for settlement purposes only and shall have no precedential or preclusive effect in other proceedings. The parties recognize that this Agreement represents a compromise of the parties' positions. As such, conduct, statements, and documents disclosed during negotiations of this Agreement shall not be admissible as evidence in this or any other proceeding.

22 Counterparts. The parties may execute this Agreement in counterparts. Copies of signature pages sent by email or facsimile are effective as original documents.

23 Authorized representatives. Each person signing this Agreement warrants that he or she has authority to bind the party that he or she represents.

24 Procedure in the event the Commission rejects this Agreement. In the event the Commission rejects all or any portion of this Agreement, or places conditions on this Agreement, each party reserves the right to withdraw from this Agreement by written notice to the other party and the Commission. Written notice must be served within 10 business days of the date of the Commission order. In such event, neither party will be bound or prejudiced by the terms of this Agreement. The parties will jointly request a prehearing conference for purposes of establishing a procedural schedule to complete the case.

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Dated: December 15, 2016.

For Cascade Natural Gas Corp.:

Eric Martuscelli
Vice President of Operations
Cascade Natural Gas Corporation

Dated: December 15, 2016.

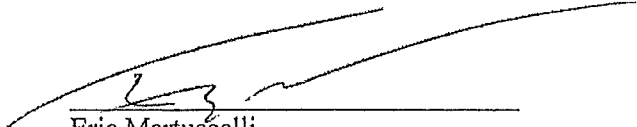
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Dated: December 15, 2016.

For Cascade Natural Gas Corp.:



Eric Martuscelli
Vice President of Operations
Cascade Natural Gas Corporation

Dated: December 15, 2016.