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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET NO. PG-041624

NARRATIVE SUPPORTING
SETTLEMENT

I. PRELIMINARY MATTERS

1 Pursuant to WAC 480-07-740(2) (a), the Commission Staff (“Staff”), Puget Sound
Energy Company (PSE), and the City of Bellevue (collectively, the “Parties”) present this
Narrative Supporting Settlement Agreement (“Narrative”).

2 The settlement is unanimous: PSE, Staff and the City of Bellevue are the only parties
to this docket. This Narrative relates to the Settlement Agreement (“Agreement”) filed by
the Parties in the above docket.

3 This Narrative summarizes many aspects of the Agreement. It is not intended to
modify any terms of the Agreement.

4 At this time, the Parties do not intend to file supporting documentation in addition to
this Narrative, and the documents already in the Commission files in this matter. The

Parties are willing to provide additional supporting documents if the Commission deems that necessary or appropriate.

5 The Agreement is the product of settlement discussions between PSE, Staff, and the City of Bellevue. Those discussions took place on August 22 and 23, 2005, as scheduled on the Commission's Case Schedule order. The settlement discussions were conducted under the auspices of the Commission's Administrative Law Division. Chief Administrative Law Judge C. Robert Wallis was the mediator.

II. SCOPE OF THE UNDERLYING DISPUTE

6 On September 2, 2004, a house owned and occupied by Mrs. Frances Schmitz exploded, leading to the death of Mrs. Schmitz. On September 10, 2004, the Commission issued a complaint in this docket.

7 The Complaint alleges violations of cathodic protection rules contained in 49 C.F.R. § 192.463(a) and violations of RCW 80.28.210, alleging PSE did not maintain its system in a safe and efficient manner. *Complaint*, ¶¶ 18-22 and 31. The Complaint states the Commission should consider whatever improvements or other changes are appropriate, and the Complaint seeks monetary penalties. *Complaint*, ¶¶ 30-34 and 37.

8 On September 15, 2004, the Commission entered Order No. 1, which was an emergency order. In that order, the Commission implemented an action plan that had been agreed to between Staff and PSE, and supported by the City of Bellevue, in order to address issues in the area of explosion, while the investigation was undertaken. *Order No. 1*, ¶ 16.

9 The investigation ensued, and Staff and PSE have now filed their direct testimony and exhibits. The City of Bellevue elected not to file direct testimony and exhibits.

III. SCOPE OF THE SETTLEMENT AND ITS PRINCIPAL ASPECTS

10 The Agreement settles all issues in this docket as to all parties. *Agreement ¶ 11*,
though the Commission retains jurisdiction to implement and enforce the Agreement.
Agreement ¶ 27.

11 The principal aspect of the settlement, based on the results of Staff and Company
investigations, and the result of settlement, is:

12 PSE agrees to implement a program under which it will a) inventory its service lines
that consist of steel pipe installed more than 5 years before the installation of impressed
current cathodic protection; b) systematically assess the condition of that pipe in
collaboration with Staff based on existing data; and c) take appropriate action based on the
results of that assessment. *Agreement ¶¶ 14-16.*

13 PSE will report its progress to the Commission on a regular basis. *Agreement ¶ 17.*

14 Other aspects of the Agreement are that PSE has cured each of the violations at issue
in the Complaint. *Agreement ¶13*. PSE agrees it did not meet the standard for cathodic
protection in 49 C.F.R. § 192.463(a) and Appendix D to 49 C.F.R. Part 192. *Agreement ¶*
26. PSE agrees to pay the cost incurred by the Commission and the City of Bellevue in
retaining outside consultants to assist in the investigation. *Id.* The amount has not been
determined, but the total is believed to be in the area of \$100,000.

15 The Agreement resolves all issues in these dockets, and the Agreement is the entire
agreement between the parties. *Agreement ¶¶ 31, 34.* The Parties agree to support the
Agreement before the Commission, pursuant to the process the Commission deems
appropriate. *Agreement ¶¶ 36-38.* The Parties also stipulate that the evidence filed by Staff
and PSE be admitted into evidence. *Agreement ¶ 25.*

IV. THE PROPOSED SETTLEMENT IS IN THE PARTIES' AND PUBLIC INTERESTS

A. Statement by Staff

16 Commission Staff believes the Agreement is fair and just, and in the public interest,
when the Agreement is viewed as a whole.

17 First, among the main concerns of Commission Staff in this case, the causes of the
explosion itself, was the integrity of the pipe in the Spiritridge neighborhood where the
explosion occurred. Based on the investigation results, the primary recommendation of
Staff in this case was for PSE to implement a program under which it would inventory,
prioritize, assess and remediate as appropriate, the coated steel service lines in its territory
that were installed more than 5 years before impressed current cathodic protection was
implemented. *See, e.g., Exhibit No. ___ (AER-2), Recommendation No. 1.* The settlement
accomplishes that. *Agreement ¶¶ 14-16.* Dr. Bell, the consulting expert retained by the
Commission in this docket, has reviewed the program and believes it is appropriate.

18 Second, PSE has agreed to implement Staff Recommendation Nos. 2-4 in Exhibit
No. ___ (AER-2). *Agreement ¶¶ 23-24.* This includes changes to PSE's Operating Manual
including requirements of: a) remediation without undue delay when a "zero" or "positive"
cathodic protection reading is taken; b) standardized procedures for taking cathodic
protection, instruction on the significance of such readings; c) training on these Operating
Manual changes. It also includes PSE securing its rectifiers against unauthorized access.

19 Commission Staff has reviewed the Operating Manual changes made by PSE and
agrees PSE has done what Staff recommended.

20 Third, the Agreement substantially satisfies Staff's Recommendation No. 5 in
Exhibit No. ___ (AER-5), in which Staff recommended the Commission lift the continuing

requirements contained in Order No. 1, but retain annual leak surveys in the portion of the Spiritridge neighborhood served by the Vasa Park rectifier. The Agreement calls for one additional leak survey of the steel pipe in that area, in the summer of 2006. *Agreement* ¶ 23. After that, the inventory and assessment program PSE agrees to implement will include the Spiritridge neighborhood, so it will be part of the future process by which PSE will be assessing the integrity of such systems. *Agreement* ¶ 24. Accordingly, the annual leak survey requirement is not necessary.

21 The Agreement does not call for PSE to pay a penalty. Staff's testimony recommended a \$125,000 penalty, based on 5 days in which PSE did not maintain adequate levels of cathodic protection, *i.e.*, a period when the Vasa Park rectifier was cross-wired. *See Exhibit No. ___ (AER-1T) pages 7-11.* However, PSE agrees to pay the out of pocket cost of the outside consultants retained by the Commission and the City of Bellevue. *Agreement*, ¶ 26. PSE also agrees the system in question did not satisfy the standards for cathodic protection. *Id.*

22 Accordingly, when viewed as a complete package, Staff believes the Agreement represents a proper resolution of the Complaint.

B. Statement by PSE

23 PSE believes that this Agreement will further enhance the safety and peace of mind of its gas customers and represents a proper and just resolution of the Complaint.

24 PSE's gas distribution system is safe, well maintained and operating in accordance with federal and state gas regulations and utility industry standards. Due to the unique factual circumstances, PSE could not predict the chain of events that led to the September 2, 2004, explosion and ultimately the tragic death of Mrs. Frances Schmitz. After the tragic

explosion, PSE thoroughly investigated the incident, both independently and in conjunction with Staff and the City. PSE used its own internal experts and an outside consultant, a preeminent expert in corrosion control. Staff and PSE agree that those investigations conclude that the cross-wired rectifier did not cause the explosion. Rather, the leak was caused by corrosion that pre-existed the cross-wiring of the rectifier and pre-existed the application of cathodic protection to the service line, which was not required by regulations until 5 years after the service line was installed.

25 PSE has agreed to undertake certain risk assessment and mitigation steps outlined in the Agreement. PSE has agreed to inventory all service lines that were installed five year or more before the regulations required cathodic protection. Once that inventory is complete, PSE will use available corrosion, soil, and cathodic protection data to assess these areas and determine if any trends or cause for concern is apparent. PSE will then determine further appropriate investigatory steps and will mitigate, if necessary. These steps are to be undertaken in conjunction with Staff and keeping the Commission periodically informed.

26 PSE has adopted the recommendations of Staff regarding securing rectifiers against unauthorized access, updating manuals regarding the appropriate response if certain reads come from rectifiers that could indicate a polarity reversal, and training staff. PSE has already implemented these steps in its efforts to ensure the public safety.

27 PSE has complied with all of the agreed action items as stated in Commission Order No. 1. Specifically, throughout this process, PSE has kept the neighborhood of Spiritridge informed about its investigation and remediation process. PSE has distributed final communications to the neighborhood regarding the results of its investigations. PSE therefore believes it is appropriate that it is now be relieved from this order, except that it

has agreed to undertake one more leak survey in the summer of 2006 for that portion of the Spiritridge neighborhood that still has wrapped-steel pipe.

28 The safety of its customers is and will always be PSE's highest priority. PSE believes that this Agreement sets forth appropriate and efficient steps to ensure that the public's level of safety is enhanced.

C. Statement by City of Bellevue

29 The City of Bellevue believes this Agreement adequately and fairly addresses its major concern, which is the ongoing safety of its residents.

30 The tragic explosion that occurred on September 2, 2004 in the Spiritridge neighborhood left the City of Bellevue with concerns regarding the integrity of all the pipe in the Spiritridge neighborhood, as well as the operation of PSE's gas distribution system. It also left the City of Bellevue with concerns about the integrity of other coated service lines in the City of Bellevue which had been installed more than 5 years prior to the implementation of cathodic protection. The terms of this settlement address all of these concerns.

31 The City of Bellevue has been very pleased with the level of responsiveness and cooperation exhibited by PSE throughout this process. PSE acted promptly to replace many of the service lines in the Spiritridge neighborhood and has agreed, through this settlement, to implement a number of operational changes which are intended to insure that adequate cathodic protection is continually supplied to all coated steel services lines in Bellevue. PSE also has agreed to inventory its remaining services lines in Bellevue which were installed five years or more before the requirement of cathodic protection and to undertake a risk assessment of those lines. This settlement provides that the City of Bellevue will be kept

informed of the results of that risk assessment and of any mitigation steps proposed by PSE or Commission staff. The terms of this agreement will allow the City of Bellevue to ensure that the ongoing safety of its citizens is fully addressed and enhanced.

V. SUMMARY OF LEGAL POINTS THAT BEAR ON THE PROPOSED SETTLEMENT

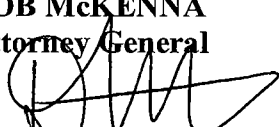
32 The Parties do not believe there is anything significant to discuss under this topic listed in WAC 480-07-740(2) (a).

VI. CONCLUSIONS

33 The Parties respectfully request the Commission approve the Settlement Agreement between PSE, Commission Staff and the City of Bellevue in this docket.

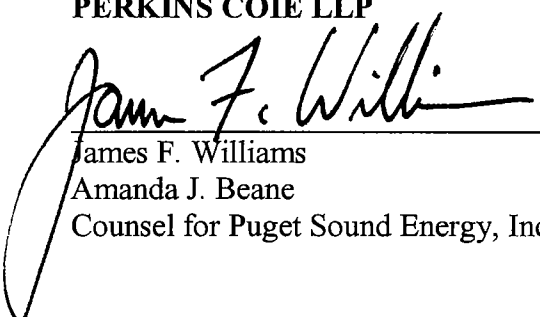
DATED this 25th day of August, 2005.

ROB McKENNA
Attorney General



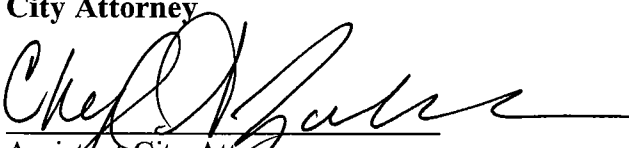
DONALD T. TROTTER
Senior Counsel
Counsel for Washington Utilities and
Transportation Commission Staff

PERKINS COIE LLP



James F. Williams
Amanda J. Beane
Counsel for Puget Sound Energy, Inc.

CITY OF BELLEVUE
LORI RIORDAN
City Attorney



Assistant City Attorney
Cheryl A. Zakrzewski
Counsel for City of Bellevue