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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

SETTLEMENT AGREEMENT

I. NATURE OF THE AGREEMENT

1 This Settlement Agreement (“Agreement”) is entered into between the Staff of the
Washington Utilities and Transportation Commission, Complainant (“Staff”), Respondent
Puget Sound Energy, Inc. (“PSE”), and intervenor City of Bellevue, for the purpose of
resolving all issues raised in the Complaint in these dockets.

2 The Agreement is expressly subject to approval by the Washington Utilities and
Transportation Commission (“Commission”), and it is not effective before such approval.

II. EFFECTIVE DATE

3 The Agreement is subject to approval by the Commission. The Agreement has no effect
until it is approved by the Commission. The effective date of the Agreement is the date of
the Commission’s order approving the Agreement.

III. PARTIES

4 The parties to this Agreement are Staff, PSE, and the City of Bellevue (collectively,
“Parties”).

IV. BACKGROUND

5 PSE is a public service company subject to Commission regulation under Title 80 RCW.
As pertinent to this Settlement Agreement, PSE operates as a “gas company” as that term is
defined in RCW 80.04.010. PSE owns and operates a natural gas distribution system in
Western Washington. PSE serves residential, commercial and industrial customers with
natural gas, under tariffs subject to Commission regulation. PSE is subject to Commission
safety rules applicable to natural gas pipelines. *E.g.*, RCW 80.28.210.

6 Docket No. PG-041624 arose out of a fatal explosion that occurred in Bellevue,
Washington at the residence of a PSE natural gas service customer: Ms. Frances Schmitz.
Natural gas leaked into the Schmitz house and ignited. The Commission issued a
Complaint on September 13, 2004 and promptly conducted an emergency adjudicative
proceeding. As a result of the emergency adjudicative proceeding, the Commission
approved an action plan developed and agreed to by Commission Staff and PSE. That
action plan is set forth in Order No. 1 in this docket, issued September 17, 2004.

7 Among other things, the Complaint alleges that PSE violated RCW 80.28.210 and 49
C.F.R. § 192.463(a), which the Commission has adopted by reference in *e.g.*, WAC 480-
93-010.

8 Prehearing conferences in these dockets were held on October 21, 2004, March 15, 2005
and June 6, 2005. The only parties to these dockets are PSE, the Commission and
intervenor City of Bellevue.

9 Since the Commission issued the Complaint, investigation of this matter has proceeded.
Staff has filed its direct testimony and PSE has filed its direct testimony. The City of
Bellevue elected not to file direct testimony. According to the Commission's Case
Schedule for this docket, August 22 and 23, 2005, were dates for the Parties to hold a
settlement conference, to give the Parties an opportunity to discuss ways to resolve the
remaining issues presented in these dockets, without a hearing.

10 The Parties share the goal that PSE's pipeline facilities be operated in compliance with
Commission laws and rules related to the safe operation of those facilities.

V. AGREEMENT

11 The Parties have reached agreement on how to resolve the issues raised in the Complaint
and wish to present their agreement for the Commission's consideration and approval. The
Parties voluntarily enter this Agreement without hearing or adjudication of any issues of
fact or law to resolve the matters in dispute between them in what each Party believes is an
appropriate manner, and, among other things, to avoid the expense, time and uncertainty of
litigation.

Results of the Investigations

12 On the morning of September 2, 2004, PSE personnel were responding to a reported odor of
gas in the Spiritridge subdivision of Bellevue, Washington. While a PSE employee was
meeting with the concerned neighbors and investigating the source of the odor, an explosion
and fire occurred at the home of Mrs. Frances Schmitz, 16645 S.E. 26th Place, Bellevue,

Washington. After a lengthy, thorough, and collaborative investigation between PSE, Commission Staff, and the City of Bellevue, it was determined that the explosion occurred because gas from a leak on Mrs. Schmitz's service line migrated into the residence and was ignited. As experts for both Staff and PSE would testify, the leak on the service line occurred as a result of severe external corrosion. Cathodic protection systems were first required to be applied by regulations to wrapped-steel pipe (such as the service line to Mrs. Schmitz's residence) in 1971, eight years after Mrs. Schmitz's service line was installed. The predominant cathodic protection current source servicing Mrs. Schmitz's house is the rectifier located near Vasa Park in Bellevue, Washington (also known as the Vasa Park Rectifier). On September 3, 2004, PSE discovered that the Vasa Park Rectifier was cross-wired. PSE promptly corrected the wiring on this same day. PSE and Staff agree, however, that corrosion causing the leak pre-existed the cross-wiring of the Vasa Park Rectifier, and the temporary reversal of the Vasa Park Rectifier did not cause the explosion.

Alleged Violations Cured

13 PSE has cured the specific violations alleged in the Complaint.

Risk Assessment and Mitigation

14 PSE will gather pipeline data for the services of similar vintage construction as Mrs. Schmitz (i.e., no cathodic protection for more than 5 years). The data PSE will gather includes corrosion leak history (LMS), cathodic protection history, Exposed Pipe Condition Reports (EPCR) information, USGS soils information, and information from field personnel interviews with individuals who have had the opportunity to work on existing buried pipe, including Quality Assurance, Corrosion Control, and Construction.

15 PSE Corrosion personnel will then evaluate the data gathered and described in the preceding paragraph in order to identify issues or trends of concern related to services. This effort will

be undertaken in a collaborative effort in conjunction with Commission Staff. Commission Staff will be apprised of these results and PSE will communicate protocols undertaken at each stage. The City of Bellevue will also be provided this information to the extent it applies to services located within the City of Bellevue. Services that are identified as needing further evaluation will undergo further investigation, including as appropriate:

- a. Determination as to the significance of the information, as it relates to the possible condition of the subject services;
- b. Recommendation as to follow up activities such as additional testing, examination of the services, or replacement of the services;
- c. Appropriateness of additional measures such as DCVG and CIS assessments, and additional or more frequent leak surveys;
- d. For any problematic areas that may be identified in services that warrant replacement, PSE will then undertake an investigation of adjoining sections of the main to determine if a main replacement is warranted.

16 If the Commission Staff and PSE disagree as to the appropriate steps to be taken after an assessment is made, they commit to discuss the nature of the disagreement and to work cooperatively to resolve it. If the matter cannot be resolved in this way, either Staff or PSE (or both) may bring the matter to the Commission for decision in a petition to enforce this Agreement.

17 Once protocols are developed to assess which services need further evaluation, PSE and Staff will present a status report to the Commission regarding PSE's collection of data, analysis of the data, development of protocols, and further investigative steps.

18 PSE will maintain system-wide leak surveys in accordance with applicable regulations,
except as modified herein.

19 Additionally, PSE will continue with its bare steel and cast iron replacement program, and
PSE and the WUTC will communicate to the public regarding this replacement program.
That program is being undertaken separately from this Agreement and is not affected by this
Agreement.

Changes to Policies Regarding Rectifiers

20 PSE has complied with WUTC Staff Recommendation Number 2, set forth in Exhibit No.
___ (AER-2) of Staff witness Alan E. Rathbun.

21 PSE has complied with WUTC Staff Recommendation Number 3, set forth in Exhibit No.
___ (AER-2) of Staff witness Alan E. Rathbun, though the training of PSE personnel is
ongoing.

22 PSE has complied with WUTC Staff Recommendation Number 4, set forth in Exhibit No.
___ (AER-2) of Staff witness Alan E. Rathbun.

Return to Normal Operation Procedures

23 PSE is relieved from the requirements of Commission Order No. 1 in this docket, except that
PSE will conduct at least one more leak survey in the area of the Spiritridge neighborhood
(some time between June 20, 2006 and September 20, 2006) for all remaining steel pipe
served by the Vasa Park Rectifier. PSE has communicated to its customers served by the
Vasa Park Rectifier the results of its investigations into the explosion, and has complied in
all other respects with the agreed action items under paragraph 16 of Order No. 1.

24 Following the leak survey referred to in the preceding paragraph, PSE's future leak surveys
in the Spiritridge neighborhood will be evaluated consistent with the protocols developed

herein. WUTC Staff and PSE assert there is no information that would indicate PSE's distribution system is currently unsafe.

Other Matters

25 The Parties stipulate that the Commission will admit into evidence the testimony and exhibits filed on behalf of Commission Staff on July 21, 2005, and on behalf of PSE on August 12, 2005.

26 For expenses incurred by the WUTC investigating the facts associated with this docket and the associated cross-wired rectifier (the standard for cathodic protection prescribed by 49 C.F.R. § 192.463(a) and Appendix D to 49 C.F.R. Part 192, was not met during the time it was cross-wired, but PSE promptly remediated that condition upon discovery, and within 90 days), PSE will remunerate outside consultant costs in an amount currently estimated to be \$90,000. PSE will also reimburse the City of Bellevue for outside consultant costs incurred from the inception of their investigation into this matter to the date of the execution of this Settlement Agreement. PSE shall make such payment within 10 working days from the date it receives an invoice from the City of Bellevue or Commission Staff stating the amount due. If there is an issue as to the amount, PSE may ask the City of Bellevue or Commission Staff for a more detailed accounting of the amount.

27 This docket will be closed but the WUTC will retain jurisdiction of this matter.

28 Staff and PSE will coordinate efforts going forward to ensure disclosure of analysis and issues to assure the process is productive and efficient.

29 PSE will undertake the aforementioned action items upon approval of this Settlement by the WUTC in a good faith and expedited manner. PSE currently estimates a completion date of

September 1, 2006. PSE will provide interim, quarterly updates to the WUTC Staff, Commissioners, and the City of Bellevue.

30 The Parties understand the standards and conditions enumerated herein are compatible with existing Commission rules. Should the standards or conditions enumerated herein be superseded by stricter language in future rules, the stricter standards will apply.

VI. GENERAL PROVISIONS

Nature of the Agreement

31 The Parties agree that this Agreement is an appropriate resolution of all contested issues between them in this proceeding. The Parties understand that this Agreement is subject to Commission approval and it is not effective unless and until it is approved by the Commission.

32 Nothing in this Agreement is intended to limit or bar any other entity from pursuing legal claims, or to limit or bar PSE's ability to assert defenses to such claims.

33 In part, the Parties have entered into this Agreement to avoid further expense, inconvenience, uncertainty, and delay. 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, except in any proceeding to enforce the terms of this Agreement or any Commission Order fully adopting those terms. This Agreement shall not be construed against any Party because it was a drafter of this Agreement.

Integrated Terms of Settlement

34 The Parties have negotiated this Agreement as an integrated document to be filed with the Commission only upon execution. Once the Agreement is executed, the Parties agree to support the Agreement in its entirety. The Agreement supersedes any prior oral and/or written agreements on issues addressed herein, if any.

Manner of Execution

35 This Agreement is considered executed when all Parties sign the Agreement. A designated and authorized representative may sign the Agreement on a Party's behalf. The Parties may execute this Agreement in counterparts. Parties may also authorize a party to sign on its behalf. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. An Agreement signed in counterpart and sent by facsimile or email is as effective as an original document. A faxed or emailed signature page containing the signature of a Party is acceptable as an original signature page signed by that Party. Each Party shall indicate the date of its signature on the Agreement. The date of execution of the Agreement will be the latest date indicated on the signatures.

Procedure

36 Once this Agreement is executed, the Parties agree to cooperate in promptly filing this Agreement with the Commission for approval. The Parties agree to support approval of this Agreement in proceedings before the Commission, through testimony and/or briefing. However, if there is a Commission order, rule or policy statement issued after the date this Agreement is executed but before it is approved, and that order, rule or policy statement, changes the posture of the Agreement in any Party's view, comments may be made to the Commission as to how the Agreement should be viewed in light of that order, rule or policy

statement. The Parties have agreed to request from the Commission a suspension of the existing remaining procedural schedule in these dockets. The Parties understand that the Commission will decide the appropriate procedures for presentation and consideration of the Agreement.

37 At any hearing on the Agreement, each Party is willing to make available a witness or witnesses to answer questions and to support the Agreement.

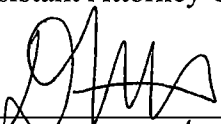
38 In the event that the Commission rejects all or any portion of this Agreement, each Party reserves the right to withdraw from this Agreement by written notice to the other Parties and the Commission. Written notice must be served within 10 business days of the date of the Commission order rejecting all or any portion of this Agreement. In such event, no 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.

No Precedent

39 No Party shall be deemed to have agreed that this Agreement is precedent for resolving any issues in any other proceeding, other than a proceeding for enforcement of this Agreement.

For Commission Staff:


ROB McKENNA
Attorney General
Donald T. Trotter
Assistant Attorney General



Date signed: 8/25/05

For Puget Sound Energy, Inc.:

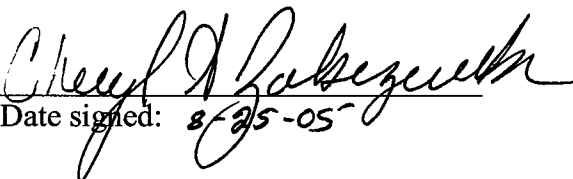
Gerard W. Lehenbauer, Director,
Contractor and Project Management



Date signed:

For City of Bellevue:

LORI RIORDAN
City Attorney
Cheryl A. Zakrzewski
Assistant City Attorney



Date signed: 8-25-05