

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS  
CORPORATION,

Respondent.

DOCKET PG-150120

AMENDED SETTLEMENT  
AGREEMENT

**I. PARTIES**

1           The parties to this amended settlement agreement (Amended Agreement) are Staff of  
the Washington Utilities and Transportation Commission (Commission Staff) and Cascade  
Natural Gas Corporation (CNGC or Company). The parties are filing this Amended  
Agreement as contemplated by paragraph 14 (subsection 1.d.ii) of the December 15, 2016  
settlement agreement (2016 Agreement) previously approved by the Washington Utilities  
and Transportation Commission (Commission) in this docket.

**II. JURISDICTION**

2           The Commission has jurisdiction to approve and enforce this Amended Agreement.

**III. EFFECTIVE DATE**

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

The remainder of this Amended Agreement is effective on the latest date of signature on this Amended Agreement.

#### IV. BACKGROUND

4 The facts leading up to the Complaint filed in this docket are set forth in the “Background” section of the 2016 Agreement and are incorporated by reference into this document. Below are the additional developments leading up to the filing of this Amended Agreement.

5 The 2016 Agreement executed and filed by Commission Staff and CNGC included a Compliance Program, in which CNGC agreed to complete certain tasks by specified dates, including the validation of the maximum allowable operating pressure (MAOP) of pipeline segments operating above 60 psig. However, the Compliance Program recognized that additional information was needed to develop a full MAOP validation plan and that an amended settlement agreement would need to be filed once additional information was obtained. The Compliance Program acknowledged that CNGC had retained TRC Pipelines Service LLC (TRC) to complete an MAOP records review of all remaining high pressure pipeline segments, which would provide a more complete picture of the pipeline segments requiring documentation of MAOP validation.<sup>1</sup> CNGC agreed to incorporate any additional high pressure pipeline segments operating above 60 psig that have been identified by TRC as missing critical information necessary to document the basis for validation of MAOP into the risk matrix to identify mitigation prioritization.<sup>2</sup> The Compliance Program required

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<sup>1</sup> See 2016 Agreement at V.B.1.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.”).

<sup>2</sup> See *id.* at V.B.1.d.

CNGC to submit an updated timeline/plan to Commission Staff by December 31, 2017.<sup>3</sup> In the 2016 Agreement, Commission Staff and CNGC agreed to file an amended settlement agreement with the Commission by March 31, 2018, reflecting 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.<sup>4</sup> The 2016 Agreement provided that “[t]he 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.”<sup>5</sup>

6 CNGC completed the TRC records review by March 31, 2017, as required by subsection 1.c of the Compliance Program in the 2016 Agreement. The TRC review identified 2,553 additional segments and 336 facilities that were missing critical information necessary to document MAOP validation, with a pipe length of 111 miles.<sup>6</sup> On December 29, 2017, CNGC submitted an updated timeline/plan that included the additional segments and facilities identified by TRC, as required by the 2016 Agreement.

7 In early 2018, CNGC and Commission Staff met on multiple occasions to review the plan and develop an approach to addressing MAOP validation based on risk scores rather than mileage completed. This Amended Agreement adopts that approach.

8 This Amended Agreement revises the Compliance Program (Revised Compliance Program) to provide a comprehensive timetable for documenting the validation of the MAOP for all segments and facilities operating above 60 psig. The agreed timetable

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<sup>3</sup> See *id.* at V.B.1.d.i.

<sup>4</sup> See *id.* at V.B.1.d.ii.

<sup>5</sup> *Id.*

<sup>6</sup> The number of segments, facilities and miles identified by TRC, shown here, were provided in the December 2017 MAOP Determination & Validation Plan. They do not reflect additional validation completed as of the date of this filing.

incorporates the additional segments and facilities identified in the TRC records review as well as the remaining 116 segments identified in the Compliance Program. The Revised Compliance Program in the Amended Agreement does not focus on mileage completed. It requires CNGC to validate the MAOP of the higher to moderate risk segments and facilities that have a risk score of 75 or greater by December 31, 2023, and to validate the MAOP of the lower risk segments and facilities that have a risk score below 75 by December 31, 2028. The risk score of 75 or greater encompasses all pipeline segments and facilities over 20% SMYS and addresses most of the pre-code pipeline segments and facilities operating over 10% SMYS.

9           In addition to the tasks related to the TRC record review, CNGC has completed other tasks in the Compliance Program including (i) completion of the MAOP validation of the five segments that had been identified in the Compliance Program as currently operating at 30% specified minimum yield strength (SMYS) or above, by December 31, 2017; and (ii) completion of a third party audit to determine baseline variance from the standards set forth in the American Petroleum Institute (API) Recommended Practice 1173 and submission of a written report by December 31, 2017.

10           Commission Staff and CNGC agree that Section V “Terms of Agreement” in the 2016 Agreement should be amended as set forth below.

## **V.       TERMS OF AMENDED AGREEMENT**

### **A.       Monetary Penalty**

11           In the 2016 Agreement, Commission Staff and CNGC agreed to a total penalty of **\$2,500,000**, with **\$1,500,000** of the penalty suspended on the condition that CNGC completes specific compliance tasks. The Commission approved these penalty amounts in

Order 03. On March 29, 2017, CNGC paid **\$1,000,000**, the full amount of the non-suspended penalties.

12           The parties agree that **\$500,000** of the suspended penalties should be removed to reflect that CNGC complied with the requirement to conduct a third party audit and file a written report documenting CNGC's baseline variance from the API Recommended Practice 1173 standard by December 31, 2017, as well as CNGC's completion of other specified tasks shown in the Revised Compliance Program in Section B. The parties further agree that the remaining **\$1,000,000** in suspended penalties will remain in effect until CNGC completes the compliance tasks as set forth below in the agreed Revised Compliance Program. If CNGC fails to comply with a compliance task, by the agreed deadline associated with that task, the Commission retains discretion to impose any of the remaining **\$1,000,000** suspended penalty as it sees fit. 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. Once CNGC has completed the documentation of the validation of MAOP for its pipeline segments and facilities operating above 60 psig, and has otherwise complied with the Revised Compliance Program, all suspended penalties will be removed.

**B. Revised Compliance Program**

13           The Revised Compliance Program updates and replaces the original Compliance Program set forth in the 2016 Agreement to reflect: (i) updated information from the TRC review with respect to additional segments and facilities that require MAOP validation, and the analysis of this additional information by CNGC and Commission Staff; (ii) tasks

completed by CNGC since the 2016 Agreement; and (iii) the Commission conditions in Order 03 as clarified in Order 04. The Revised Compliance Program follows the same format as the original Compliance Program set forth in the 2016 Agreement.

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CNGC will execute the following Revised Compliance Program:

1. CNGC will document the basis for validation of the MAOP of every pipeline segment and facility 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 all segments and facilities 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 100% of the segments and facilities having a risk score of greater than or equal to 75, as set forth in the MAOP Determination & Validation Plan dated March 2018, by December 31, 2023.
    - ii. CNGC will document the basis for validation of the MAOP on 100% of the segments and facilities having a risk score of less than 75, as set forth in the MAOP Determination & Validation Plan dated March 2018, by December 31, 2028.
    - iii. CNGC has identified eight additional segments currently operating at 30% SMYS or above that are missing critical information needed to document the basis for validation of MAOP. CNGC will complete validation of the eight additional segments by December 31, 2018, unless the percent SMYS of a pipeline segment is reduced below 30% through testing or other approved validation methods, in which case CNGC will schedule the segment for validation based on the total risk score of the segment.
  - b. **COMPLETED:** 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. **COMPLETED:** 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. **COMPLETED:** 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. **COMPLETED:** CNGC will submit an updated timeline/plan that includes the additional segments to Commission Staff by December 31, 2017.
  - ii. **COMPLETED:** 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. **COMPLETED:** 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. **ONGOING:** 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. **ONGOING:** 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. **ONGOING:** 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. **ONGOING:** CNGC will designate a representative who will take responsibility for executing the Amended Agreement. CNGC's designated representative will provide Commission Staff with a written status report every six months at a minimum addressing the progress made towards completion of the MAOP validation. In the event of significant changes or developments in CNGC's progress in validating its MAOP, CNGC will consult with Commission Staff more frequently.
7. **COMPLETED:** 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. **ONGOING:** 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 the 2016 Agreement and Amended 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 Amended 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 Amended Agreement and complies with the terms of this Amended Agreement. Notwithstanding the forgoing, nothing in this Amended Agreement affects the ability of Commission Staff to recommend, or the Commission to impose, penalties and other remedies for intentional violations of any statute, rule, or provision in CNGC's gas safety standards manual, or for unintentional violations of any statute, rule, or provision in Cascade's gas safety standards manual that lead to personal injury, death, or property damage.

### **C. Status of Order 1 and 2016 Agreement**

15            This Amended Agreement will supersede and replace Order 01 and the 2016  
Agreement filed in this docket.

## **VI. GENERAL PROVISIONS**

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

17            Public interest. The parties agree that this Amended 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 Amended Agreement before the Commission. After the Commission accepts this Amended Agreement, no party or its agents, employees, consultants, or attorneys will engage in advocacy contrary to the Amended Agreement.

19            Construction. This Amended Agreement shall not be construed against any party solely because that party drafted any provision of the Amended Agreement.

20            Integrated Agreement. The parties have negotiated this Amended Agreement as an integrated document to be filed with the Commission only upon execution. This Amended Agreement supersedes all prior oral and written agreements on issues addressed herein, if any, including the Stipulated Agreement filed on February 3, 2015, and the 2016 Agreement filed in this docket.

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

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

23            Authorized representatives. Each person signing this Amended 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 Amended Agreement. In the event the Commission rejects all or any portion of this Amended Agreement, or places conditions on this Amended Agreement, each party reserves the right to withdraw from this

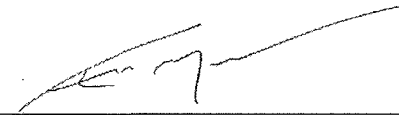
Amended Agreement by written notice to the other party and the Commission. Written notice must be served within 10 business days of the date of the Commission order. In such event, neither party will be bound or prejudiced by the terms of this Amended Agreement. The parties will jointly request a prehearing conference for purposes of establishing a procedural schedule to complete the case.

*For Commission Staff:*



Sean Mayo  
Director, Pipeline Safety  
Washington Utilities and Transportation  
Commission

*For Cascade Natural Gas Corp.:*



Eric Martuscelli  
Vice President of Operations  
Cascade Natural Gas Corporation

**ROBERT W. FERGUSON**  
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Dated: March 29, 2018



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Dated: March 29, 2018