

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET PG-041624

SUBSTITUTE SECOND SETTLEMENT
AGREEMENT

1 As explained in detail below, this Second Settlement Agreement proposes to resolve
certain issues arising from Paragraphs 14 and 15 of the Revised Settlement Agreement
previously approved by the Commission in this docket.

I. NATURE OF THE AGREEMENT

2 This Second Settlement Agreement (“Agreement”) is entered into between the Staff
of Complainant Washington Utilities and Transportation Commission (“Staff”), Respondent
Puget Sound Energy, Inc. (“PSE”), and the City of Bellevue, for the purpose of resolving
certain issues addressed by the Commission in Order 07 in this docket.

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

II. EFFECTIVE DATE

4 The effective date of the Agreement is the date of the Commission’s order approving
the Agreement.

III. PARTIES

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

IV. BACKGROUND

6 PSE is a public service company subject to regulation by the Commission under
Title 80 RCW. As pertinent to this 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.

7 Commission Docket PG-041624 arose as a result of a fatal explosion that occurred in
Bellevue, Washington at the residence of a PSE natural gas service customer, Mrs. Frances
Schmitz.¹ The Commission issued a Complaint on September 13, 2004, initiating Docket
PG-041624, and promptly conducted an emergency adjudicative proceeding.

8 Staff, PSE and the City of Bellevue, Washington, entered into a Revised Settlement
Agreement to resolve all contested issues between them in Docket PG-041624. On October
7, 2005, the Commission approved the Revised Settlement Agreement pursuant to Order 07,
“Order Approving Settlement Agreement.”²

9 Paragraph 14 of the Revised Settlement Agreement requires PSE to gather pipeline
data for certain services, including corrosion leak history (“LMS”), cathodic protection
history, Exposed Pipe Condition Reports (“EPCR”) information, USGS soils information,

¹ A detailed explanation of the facts of this case is contained in the testimony and exhibits in the record in this docket.

² On October 19, 2005, the Commission issued Order 08, Order Modifying Order No. 7 Approving Settlement Agreement. The modifications are not pertinent here.

and information from interviews with field personnel who have had the opportunity to work on existing buried pipe, including Quality Assurance, Corrosion Control, and Construction.

10 Paragraph 15 of the Revised Settlement Agreement further requires PSE Corrosion personnel to work in a collaborative effort with Staff to evaluate the data gathered and described in Paragraph 14 of the Revised Settlement Agreement to identify issues or trends of concern related to services.

11 PSE has gathered pipeline data in accordance with Paragraph 14 of the Revised Settlement Agreement and collaborated with Staff in accordance with Paragraph 15 of the Revised Settlement Agreement to identify issues or trends of concern related to services.

12 PSE and Staff have identified approximately 100,000 services and categorized them into one of the following four Wrapped Steel Service Assessment Program mitigation categories: (i) standard mitigation (lowest priority); (ii) increased leak survey; (iii) scheduled replacement; and (iv) priority replacement (highest priority). Set forth immediately below is a chart showing PSE’s current categorization of the 100,000 services. The Parties expect that the number of services in each category will change over time, and services will be added to or be taken out of these categories.

Summary of Wrapped Steel Service Assessment Mitigation Categories based upon December 27, 2006 WSSAP risk model results

Mitigation Category	Action	Approximate Number of Services
Priority Replacement	Service Replacement	516
Scheduled Replacement	Identify Replacement Projects and Twice Annual Leak Survey (until service is replaced)	8,470
Increased Leak Survey	Annual Leak Survey	23,100
Standard Mitigation	No Additional Action Required	69,281
	Total	101,367

V. AGREEMENT

13 The Parties have reached agreement on the issues raised in paragraphs 14 and 15 of the Revised Settlement Agreement and present their agreement for adoption by the Commission. 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, in light of the circumstances and the risks associated with litigation.

Replacement of Services

14 PSE shall replace all of the services in the two highest Wrapped Steel Service Assessment Program mitigation categories (priority replacement and scheduled replacement) on or before December 31, 2010. In this effort, PSE shall replace all services identified in the priority replacement mitigation category on or before December 31, 2007. PSE shall replace all services identified in the scheduled replacement mitigation category on or before December 31, 2010. Should circumstances beyond the control of PSE preclude replacement of certain of these services within the prescribed time frame, PSE will document the relevant services, the circumstance precluding replacement within the time frame, and the estimated replacement date. Such documentation will constitute a waiver of the obligation to complete replacement of services by December 31, 2010. The Parties agree that additional services in the Wrapped Steel Service Assessment Program mitigation categories may migrate into alternate mitigation categories over time. As PSE's Wrapped Steel Service Assessment Program matures, more data will be added to allow for better discrimination between service lines and the type of remediation they require. Specifically, PSE's goal is to realign those services currently identified in the "increased leak survey"

category into either the standard mitigation or scheduled replacement categories.

15 PSE shall replace any service that migrates into the priority replacement category by December 31 of the calendar year that immediately succeeds the calendar year in which such service migrated into the priority replacement category.

Leak Surveys

16 PSE shall conduct leak surveys on each service in either the priority replacement mitigation category or the scheduled replacement mitigation twice per calendar year until such service is replaced. PSE shall conduct these surveys at a frequency of not less than four months and not greater than eight months between surveys.

17 PSE shall conduct leak surveys on each service in the increased leak survey mitigation category once per calendar year until such service is replaced. PSE shall conduct these surveys at a frequency of not more than fifteen months between surveys.

18 PSE shall respond to, grade and repair each service that is discovered to be leaking in accordance with PSE's then-current Operating Standards and Procedures. PSE shall identify and rate each service with new, active or repaired leaks in subsequent runs of the Wrapped Steel Service Assessment Program model.

Cathodic Protection Electrical Surveys

19 In order to enhance the reliability of PSE's Wrapped Steel Service Assessment Program, PSE shall conduct no less than 1,000 cathodic protection electrical surveys of a random sample of services in the standard mitigation and annual leak survey mitigation categories on or before December 31, 2010. Further, PSE shall investigate all indications from these surveys that: (i) meet the threshold criteria identified in Exhibit A; and (ii) are viably accessible. PSE will provide Staff a copy of its sample and sampling methodology

before PSE conducts any of these surveys. PSE will also give Staff prior notice of field investigations of findings from these surveys to allow for Staff to observe the field investigations if Staff wishes to do so.

Potential Expansion of Replacement of Services

20 As PSE develops plans for the replacement of services in the priority replacement and scheduled replacement mitigation categories pursuant to paragraphs 13 and 14 of this Agreement, PSE shall: (i) identify if such replacement projects should be expanded to include replacement of additional services in accordance with the Wrapped Steel Service Assessment Program Gas Infrastructure Replacement Process; and (ii) investigate adjacent mains for evidence of corrosion. In investigating adjacent mains for evidence of corrosion, PSE may review construction and operation and maintenance records; conduct electrical surveys; or perform excavations and direct examination.

Updates to Wrapped Steel Service Assessment Program Model

21 PSE will continue to update the Wrapped Steel Service Assessment Program model to better assess the validity of the model and the ongoing propriety of PSE's service replacement strategies. If any annual status report provided pursuant to paragraph 24 of this Agreement demonstrates that the number of leaks in the standard mitigation category exceeds 2.76 percent of the services within such category (six (6) times the historic PSE leak rate (0.46 percent)), then PSE shall recalibrate the Wrapped Steel Service Assessment Program model to more accurately reflect the risk of failure of services within such category.

22 PSE shall submit to the Commission on or before September 15 of each calendar year an updated Wrapped Steel Service Assessment Program model run and explain any changes in the mitigation category population.

Reports to the Commission and City of Bellevue

23 PSE has submitted to the Commission a histogram illustrating the number of Wrapped Steel Service Assessment Program services installed by year of installation.

24 PSE shall submit to the Commission on or before April 1 of each calendar year a status report that identifies the number of leaks discovered, by cause, in the Wrapped Steel Service Assessment Program population during the previous calendar year. PSE shall submit the first such status report on or before April 1, 2008.

25 PSE shall submit to the Commission on or before April 1 of each calendar year a status report that identifies the number of Wrapped Steel Service Assessment Program services replaced during the previous calendar year. PSE shall submit the first such status report on or before April 1, 2008.

26 PSE shall submit to the City of Bellevue on or before of April 1 of each calendar year a status report that identifies the number of leaks discovered, by cause and location, in the Wrapped Steel Service Assessment Program population within the City of Bellevue during the previous calendar year. PSE shall submit to the City of Bellevue on or before April 1 of each calendar year a report that identifies, by location, Wrapped Steel Service Assessment Program services replaced within the City of Bellevue during the previous calendar year. PSE also shall submit to the City of Bellevue on or before September 15th of each calendar year an updated Wrapped Steel Service Assessment Mitigation Program

model run for services in the City of Bellevue and explain any changes in the mitigation category population.

Review by the City of Bellevue, Washington

27 PSE has periodically briefed the City of Bellevue on the matters addressed in this Agreement. Prior to the filing of this Agreement with the Commission, PSE provided a copy of this Agreement to the City of Bellevue for its review and input. In addition, the City of Bellevue will be notified of any Commission proceedings related to this Agreement.

VI. GENERAL PROVISIONS

Nature of the Agreement

28 The Parties agree that this Agreement is an appropriate resolution of all contested issues between them with respect to the Revised Settlement Agreement, given the unique facts and circumstances surrounding this matter and the risks of litigation. 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.

29 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.

30 The Parties recognize that this Agreement represents a compromise of each Party's 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.

31 Each Party agrees to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other Party intends to make about the Agreement (with the right of review to include a reasonable opportunity to request changes to the text of such announcements). Each Party also agrees to include in any news release or announcement a statement to the effect that the Commission Staff's recommendation to approve the Agreement is not binding on the Commission itself.

Integrated Terms of Settlement

32 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

33 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

34 Once this Agreement is executed, the Parties agree to cooperate in promptly filing this Agreement with the Commission for approval, but after PSE provides a copy of the Agreement to the City of Bellevue. 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 understand that the Commission will decide the appropriate procedures for presentation and consideration of the Agreement.

35 In the event 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

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

For Commission Staff:

For Puget Sound Energy, Inc.:

ROBERT M. McKENNA
Attorney General

Donald T. Trotter
Assistant Attorney General

Susan McLain
Senior Vice President of Operations

Date signed:

Date signed:

For City of Bellevue

LORI RIORDAN
City Attorney
Cheryl A. Zakrzewski
Assistant City Attorney

Date signed: