

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKET PG-160924

SETTLEMENT AGREEMENT

I. PARTIES

1 The parties to this settlement agreement (Agreement) are Staff of the Washington
Utilities and Transportation Commission (Staff) and Puget Sound Energy (PSE or
Company). This Agreement is a “multiparty” settlement under WAC 480-07-730(3). For
purposes of this Agreement, the term Parties means Staff and PSE.

2 The Public Counsel Unit of the Washington State Attorney General’s Office
currently has no formal position on the Agreement. The Parties acknowledge that Public
Counsel may seek to join or oppose the Agreement at a later date.

II. JURISDICTION

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

4 PSE is a corporation that owns, maintains, and operates natural gas pipelines and
appurtenances in Washington State. PSE is a “pipeline company” and a “gas pipeline
company” as those terms are used throughout RCW 81.88.

5 WAC 480-93-007(3) provides, “If the gas pipeline company’s contractor (or any of
its subcontractors) engages in conduct that violates commission rules applicable to the gas
pipeline company, the gas pipeline company is subject to penalties and all other applicable
remedies, as if the gas pipeline company itself engaged in that conduct.”

III. EFFECTIVE DATE

6 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).

IV. STIPULATED FACTS

7 On March 9, 2016, at approximately 1:43 a.m., a natural gas explosion occurred in
the vicinity of 8411 Greenwood Avenue North, Seattle, Washington. The explosion caused
property damage and injured first responders.

8 Staff’s investigation found that the immediate structural cause of the escaping gas
and resulting explosion was external or “outside force” damage to a threaded coupling in the
above-ground portion of a ¾-inch service line attached to the north-facing wall of 8411
Greenwood Avenue North. The damage allowed natural gas to escape and migrate into or
under the structure at 8411 Greenwood Avenue North, where it subsequently ignited.

9 One factor in the explosion was PSE’s improper abandonment of the service line.
PSE’s records indicate that the service line was retired and abandoned in 2004, as part of a
plan to relocate certain gas services fed from the main under Greenwood Avenue North to
the alley behind the 8411 and 8415 buildings. A PSE Gas Service Order (D-4 card) dated
September 1, 2004, states that PSE’s contractor (Pilchuck Contractors Inc.) “cut and
capped” (i.e., deactivated) the service line on that date. During its investigation, Staff

located the below-ground portion of the service line after PSE excavated sections of the sidewalk and southbound lane of Greenwood Avenue North. Contrary to PSE's D-4 card, the line had not been cut and capped. The line remained active until deactivated shortly after the explosion.

10 Another factor in the explosion was human activity. Witness interviews and physical evidence revealed that transient trespassers regularly accessed the narrow space between the 8411 and 8415 buildings of Greenwood Avenue North and had physical contact with the service line. Interviewees acknowledged storing items on top of and/or near the service line. Interviewees also acknowledged that they sometimes tripped on or bumped the service line.

11 On September 20, 2016, the Commission issued its Complaint in this docket. The Complaint alleged violations of gas pipeline safety rules with respect to improper deactivation of a pipeline, failure to follow internal procedures, and failure to conduct gas leak surveys and corrosion tests. The Commission found probable cause to issue the Complaint based on Staff's Investigation Report, also issued on September 20, 2016.

12 On October 3, 2016, PSE filed an Answer to the Complaint. PSE admitted certain allegations and denied certain allegations.

13 The Commission held a prehearing conference in this docket on November 1, 2016. Staff, Public Counsel, and PSE entered appearances.

V. **AGREEMENT**

14 The Parties have settled all matters related to the March 9, 2016, explosion and now present their Agreement for the Commission's consideration and approval under WAC 480-07-740. The Parties voluntarily enter this Agreement without hearing or adjudication of any

issues of fact or law, to resolve all disputed matters, and to avoid the expense, time and uncertainty of litigation.

15 As a full resolution of the Complaint, the Parties agree to the following terms:

16 1. PSE will implement a Deactivated Gas Line Inspection and Remediation Program, attached hereto as Appendix A. The Inspection and Remediation Program represents a collaborative effort designed to identify and mitigate any other improperly deactivated service lines that may exist within PSE's system.

17 2. For settlement purposes, PSE does not contest that it committed the following violations, as alleged in the Complaint: 49 C.F.R. § 192.727(b) (improper deactivation of pipeline), WAC 480-93-180 (failure to follow internal procedures related to deactivation of pipeline), WAC 480-93-188 (failure to perform gas leak surveys); 49 C.F.R. § 192.481(a) (failure to perform atmospheric corrosion tests); and 49 C.F.R. § 192.465(a) (failure to perform external corrosion tests). This acknowledgement is subject to the jurisdictional and evidentiary limitations described in the General Provisions below.

18 3. PSE agrees to a total monetary penalty of \$2,750,000, of which \$1,250,000 will be suspended on the condition that PSE completes the Deactivated Gas Line Inspection and Remediation Program, attached hereto as Appendix A. Within 10 days of the Effective Date of this Agreement, PSE will pay \$1,500,000 to the Commission.

VI. GENERAL PROVISIONS

Nature of the Agreement

19 The Parties agree that this Agreement is an appropriate settlement of all issues 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.

20 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. The Parties expressly acknowledge that the Commission's jurisdiction regarding the Greenwood incident is limited to enforcement of its statutes and regulations regarding natural gas pipelines and pipeline safety (RCW 81.88, WAC 480-90, and WAC 480-93) and does not extend or create any new authority regarding laws outside its jurisdiction, including tort liability. The Parties further acknowledge that, apart from evidence supporting this Agreement before this administrative tribunal, any evidence resulting from this proceeding is subject to ER 408/FR 408. Any admission in this proceeding is limited for the purpose of settling this proceeding only and should not be construed as an admission in any context or proceeding outside the Commission's jurisdiction.

21 Nothing in this Agreement limits or bars the Commission from pursuing penalties for violations of Commission statutes or rules unrelated to the subject matter of this Agreement.

22 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 in any other proceeding, except in any proceeding to enforce the terms of this Agreement or in 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

23 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. This Agreement supersedes all prior oral and written agreements on issues addressed herein, if any.

Manner of Execution

24 This Agreement is considered executed when the 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. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. An Agreement signed in counterpart and scanned and sent by email as a .pdf is as effective as an original document. A scanned 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 signature page(s).

Procedure

25 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 a narrative statement and, if required by the Commission, with testimony and briefing. However, if there is an applicable provision of law (e.g., statute, ordinance, order, or rule), effective after the date this Agreement is executed but before it is approved, and that provision of law changes the posture of the Agreement in either 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, for as long as this Agreement is effective, if an applicable

provision of law imposes upon PSE a requirement more stringent than a requirement in this Agreement, the more stringent requirement applies.

26 The Parties understand that the Commission will decide the appropriate procedures for presentation and consideration of the Agreement.

27 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 Party and to the Commission. Written notice must be served within 10 business days of the Commission order rejecting all or any portion of this Agreement. 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.

For Staff:

For PSE:

ROBERT W. FERGUSON
Attorney General

PUGET SOUND ENERGY



Julian H. Beattie, WSBA #45586
Sally Brown, WSBA #17094
Assistant Attorneys General

Kendall J. Cammermeyer, WSBA #28855
Assistant General Counsel

Date signed _____

Date signed 3/28/17

PERKINS COIE LLP

James F. Williams, WSBA #23613
Donna L. Barnett, WSBA #36794
David S. Steele, WSBA #45640

Date signed _____

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For Staff:

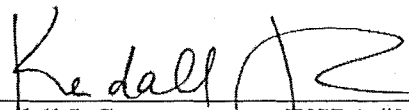
ROBERT W. FERGUSON
Attorney General

Julian H. Beattie, WSBA #45586
Sally Brown, WSBA #17094
Assistant Attorneys General

Date signed _____

For PSE:

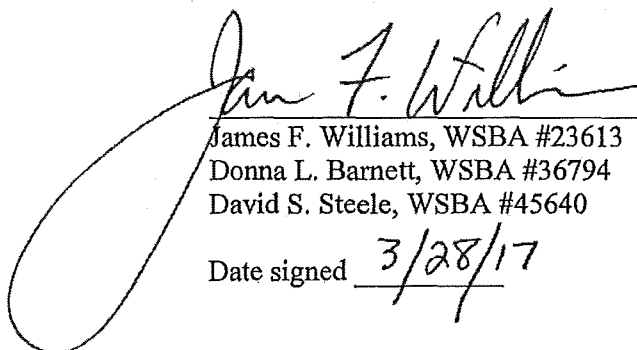
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APPENDIX A

Deactivated Gas Line Inspection and Remediation Program

The objective of PSE's Deactivated Gas Line Inspection and Remediation Program ("Inspection and Remediation Program") is to identify, inspect, and remediate two categories of gas service piping: (1) retired services that may still be active due to improper abandonment; and (2) active aboveground services that are susceptible to damage due to their location. For purposes of this Inspection and Remediation Program, "PSE" means PSE, or its contractor, or both.

DEFINITIONS

1. "Business District" means an area where the public regularly congregates or where the majority of the buildings on either side of the street are regularly utilized for financial, commercial, industrial, religious, educational, health, or recreational purposes.
2. "High Occupancy Structure" or "HOS" means a building or an outside area (such as a playground, recreation area, outdoor theater, or other place of public assembly) that is occupied by 20 or more persons on at least 5 days a week for 10 weeks in any 12-month period. (The days and weeks need not be consecutive.)
3. "Hard to Reach Location" or "H2RL" means a facility that requires special equipment to obtain access to complete the inspection required by Operating Standard 2600.1800, including (but not limited to) services or mains that are installed under docks/piers, services with rooftop meter set assemblies, inside services, and services or mains installed on bridges.
4. "GIS" means Geographic Information System.
5. "DIMP" means PSE's Distribution Integrity Management Program.
6. "Continuing Surveillance Annual Report" means the PSE report on inspection results and mitigation plans that is submitted annually, no later than July 1, to WUTC staff.

i. Retired Service Pipe Inspections

PSE will identify, inspect, and remediate retired services that may still be active due to improper abandonment.

- 1) **Identification.** PSE has utilized GIS to identify a total population of 40,789 retired service pipe locations.
- 2) **Inspection.** PSE will prioritize and perform its inspections as follows: Inspections will be performed by individuals specifically trained for the inspection of retired services that may still be active due to improper abandonment. This inspection activity together with any necessary mitigation shall be reported to WUTC staff as part of the daily reports of construction and repair required in WAC 480-93-200(12), or other such mechanism, as mutually agreed, that

facilitates the identification of where daily inspections are occurring for purposes of observation by WUTC pipeline safety staff. This activity shall be identified in the daily report as “Retired Service Pipe Inspection.”

- a. **Population 1:** Services retired by Pilchuck Contractors, Inc. (“Pilchuck”) during 2000-2010 and located in Business Districts where insertion into retired low-pressure gas facilities was common (3,060 Locations).
 - i. Initial inspections will cover 100% of the population.
 - ii. PSE will complete initial inspections within 18 months of the Commission’s order approving the settlement agreement in WUTC Docket PG-160924.

- b. **Population 2:** Services retired by Pilchuck during 2000-2010, which includes facilities that may have served High Occupancy Structures, or Hard-to-Reach Locations, in all other locations (10,907 Locations).
 - i. Initial inspections will cover locations identified for a sample size with a confidence level of 99%, population percentage of 50 % and precision or confidence interval of 1%. The resulting sample size is 6578. The sample selected will include all locations that may have served public schools and hospitals, with any remaining locations randomly selected.
 - ii. Inspection of the selected sample will prioritize schools and public buildings, followed by Business Districts.
 - iii. PSE will complete initial inspections within 24 months of the order approving the settlement agreement in WUTC Docket PG-160924.
 - iv. If PSE discovers a gas-carrying “retired” service, PSE will inspect all locations within Population 2. PSE will file with the Commission in WUTC Docket PG-160924 an amended plan for completion of all inspections within the Population.

- c. **Population 3:** Services retired prior to 2000, which includes facilities that may have served High Occupancy Structures (15,131 Locations).
 - i. Initial inspections will cover locations identified for a sample size with a confidence level of 99%, population percentage of 50% and precision or confidence interval of 2%. The resulting Sample Size is 3263. The sample selection will include all locations that may have served public schools and hospitals, with any remaining locations randomly selected.
 - ii. Inspection of the selected sample will prioritize schools and public buildings, followed by Business Districts.
 - iii. PSE will complete initial inspections within 36 months of the order approving the settlement agreement in WUTC Docket PG-160924.
 - iv. If PSE discovers a gas-carrying “retired” service, PSE will inspect all locations within Population 3. PSE will file with the Commission in WUTC Docket PG-

106924 an amended plan for completion of all inspections within the Population.

- d. **Population 4:** Services retired after 2010, which includes services that may have served High Occupancy Structures (11,691 Locations). PSE will inspect locations in Population 4.
 - i. Initial inspections will cover locations identified for a sample size with a confidence level of 99%, population percentage of 50% and precision or confidence interval of 2%. The resulting sample size is 3069. The sample selection will include all locations that may have served public schools and hospitals, with any remaining locations randomly selected.
 - ii. PSE will begin inspections following the completion of inspections for populations 2 and 3 and complete the inspections within 36 months of initiation.
 - iii. If PSE discovers a gas-carrying “retired” service, PSE will inspect all locations within Population 4. PSE will file with the Commission in WUTC Docket PG-160924 an amended plan for completion of all inspections within the Population.

- 3) **Remediation.** The type of remediation required, if any, will be determined by the characteristics of the identified facility. Remediation will be determined based on the inspection results and could include excavation to confirm whether a facility is deactivated.
 - i. Upon discovery of a gas-carrying “retired” service, the service will be properly deactivated in accordance with then-current rules, practices, policies, and procedures, as revised and in effect. If one or more permits are required, PSE will apply for such permit(s) within ten (10) business days of identification. Within ten (10) business days after receiving such permit(s), PSE will begin required construction work.
 - ii. Upon discovery of an aboveground, non-gas-carrying service pipe that was deactivated, but not removed, the deactivated aboveground pipe, including any risers, will be scheduled to be removed. Such removal will be performed within ninety (90) days of discovery. If one or more permits are required, PSE will apply for such permit(s) within ten (10) business days of identification. Within ninety (90) days after receiving such permit(s), PSE will begin required construction work.
- 4) **Documentation.** PSE will document inspection results and mitigation plans for each service such that the documentation can be reviewed to confirm the results. PSE will also investigate to determine how the situation came to exist and evaluate any process and/or procedural deficiencies that need improvements to prevent future recurrences. These improvements will follow PSE’s Change Management, Quality Management, or other management oversight structure to ensure no recurrences.

- 5) **Reporting.** PSE currently prepares a Continuing Surveillance Annual Report (“CSAR”). PSE will include the Greenwood report on the inspection results and mitigation plans in its CSAR every year until the inspections are completed.

ii. PSE Quality Management

- 1) PSE will review the following current standards and practices and update, as necessary, the required documentation by March 30, 2017:
 - a. Job completion records responsibility such as D-4.
 - b. Temporary and permanent deactivation of service lines considering the removal of all above ground pipe unless altered gas service agreement is in effect.
 - c. Continuing surveillance.
- 2) PSE will implement training of personnel on any changes made to the relevant standards. Training to be completed by June 30, 2017.

iii. Aboveground Service Pipe Inspections

Aboveground service piping will be evaluated as part of PSE’s DIMP. PSE will continue to perform visual inspections in the course of construction, inspection, operation, and maintenance activities for conditions that may impact the serviceability of aboveground service piping, with an enhanced focus on susceptibility to outside force damage, including tampering and vandalism by unauthorized individuals.

a. Metered Services

PSE will inspect aboveground service piping for items stored around or activities occurring near gas pipe that PSE, in its sole discretion, determines may make the pipe susceptible to outside force damage and develop a remediation plan to address any unsatisfactory condition identified.

- 1) **Inspection.** PSE will conduct initial inspections in conjunction with routine survey and patrols consistent with the existing priority as established in the Gas Operating Standards.
 - a. The following locations will be inspected within 12 months of the Commission’s order approving the settlement agreement in WUTC Docket PG-160924:
 - i. Hard-to-Reach Locations (H2RL) sites
 - ii. Business Districts
 - iii. High Occupancy Structures (HOS) including schools and public buildings
 - b. All other remaining locations will be inspected within 36 months of the Commission’s order approving the settlement agreement in WUTC Docket PG-160924

- 2) **Remediation.** Results of initial inspections and any subsequent routine inspections will be routed to PSE's Gas System Integrity department and will be evaluated for follow up using processes and methods established by DIMP. PSE will evaluate the necessity to relocate above ground service piping to more suitable locations or install other protection measures responsive to the condition identified.
- 3) **Reporting.** PSE will include the Greenwood report on the inspection results and mitigation plans in its CSAR every year until the inspections are completed. . PSE will retain records of inspection results and mitigation plans for each service inspected. Said records will be available for WUTC staff inspection at their convenience.

b. Unmetered Services

PSE will identify, inspect unmetered services for situations that PSE, in its sole discretion, determines may increase susceptibility to outside force damage, and remediate, as necessary, unmetered aboveground service piping (customer not yet connected, or previously-served customer not currently using gas).

- 1) **Identification.** PSE used GIS to identify 4,381 unmetered services. A records review is underway to confirm the population. PSE will complete this review by April 1, 2017.
- 2) **Inspection.** PSE will conduct initial inspections in conjunction with routine survey and patrols consistent with the existing priority as established in the Gas Operating Standards.
 - a. The following locations will be inspected within 12 months of the Commission's order approving the settlement agreement in WUTC Docket PG-160924:
 - i. Hard-to-Reach Locations (H2RL) sites
 - ii. Business Districts
 - iii. High Occupancy Structures (HOS) including schools and public buildings
 - b. All remaining locations will be inspected within 36 months of the Commission's order approving the settlement agreement in WUTC Docket PG-160924
- 3) **Remediation.** Results for the initial inspections and any subsequent routine inspections will be routed to PSE's Gas System Integrity department and will be evaluated for disposition (including retirement) using methods established by PSE's DIMP.
- 4) **Reporting.** PSE will include the Greenwood report on the inspection results and mitigation plans in its CSAR every year until the inspections are completed. PSE will retain records of inspection results and mitigation plans for each service inspected. Said records will be available for WUTC staff inspection at their convenience.