

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET NO. PG-000576

NARRATIVE SUPPORTING
SETTLEMENT

I. Preliminary Matters

¹ Pursuant to WAC 480-07-740(2) (a), the Commission Staff ("Staff") and Puget Sound Energy, Inc. ("PSE" or the "Company") (collectively, the "Parties") present this Narrative Supporting Settlement Agreement ("Narrative").¹

¹ ¶ 14 of the Stipulated Agreement to Close Docket, which is filed with this Narrative, states that the Parties would make reasonable efforts to have this matter addressed at a Commission open meeting. However, it was agreed that a settlement hearing would be more conducive to Commission review of this matter.

2 This docket is a Commission investigation of PSE’s gas pipeline facilities. No
complaint has yet been issued by the Commission in this docket. However, the
Staff’s investigation is complete, and Staff has reached an agreement with PSE on
the appropriate basis upon which this docket can be closed. That basis is reflected
in the Stipulated Agreement to Close Docket, which is filed with this Narrative.

3 This Narrative summarizes many aspects of the “Stipulated Agreement to
Close Docket” (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 pleadings 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.

II. Scope of the underlying dispute

5 In this docket, the Commission, through its Staff, conducted a safety
inspection of certain new construction facilities of PSE located in the area of
Puyallup, Auburn and Lacey, Washington. The field work took place in April 2000.

6 The Staff issued a “Non-Compliance Report” (Report) alleging several
violations of Commission statutes and rules regarding the installation, construction
and inspection of polyethylene natural gas lines by PSE. Included in the Report
were allegations that some violations were repeat violations.

7 PSE responded to the Report in good faith by investigating, remediating, re-
stating the Company's policies and procedures, and identifying corrective actions
taken by PSE in an attempt to ensure compliance with the regulations.

8 The Commission's rules contain some basic requirements on the installation
of underground gas service lines. The object of these rules is to prevent damage to
the pipe that could result in a gas leak or rupture. For example, the service lines
must be buried to a depth of at least 12 inches, and the backfill must be free of
materials that could damage the pipe.² The Commission has adopted the CFR rules
by reference in WAC 480-93-999.

9 PSE's Gas Operating Standards Manual (O & M) reflects the same 12-inch
depth requirement, and requires the backfill to contain no sharp rocks or rocks
larger than one-half inch in diameter, no objects over six inches in diameter, and no
construction debris.³ Commission rules require PSE to adopt and follow its
Operating Standards Manual.⁴

10 PSE has made programmatic changes in its outside plant installation
practices. PSE has instituted a "Quality Assurance Program" that will address on a
company-wide basis the sorts of problems that were discovered by Staff. PSE has

² 49 CFR Part 192.361(a), (b).

³ PSE O&M Manual, Parts 6.33.521, 6.33.6.1, 6.33.6.3.

⁴ 49 CFR Part 192.13(c).

created new positions for a construction inspector, and PSE created a construction review board to oversee compliance.

III. Scope of the settlement and its principal aspects

11 The Agreement provides a sufficient and proper basis for closing this docket. The principal aspects of the settlement are itemized in the following “bullets.” The programs PSE agrees to implement are discussed in more detail following the bulleted items.

- PSE agrees to amend its Gas Operating Standards Manual to be in substantial conformity to the language in Appendix A to the Agreement, which contains the text of certain operating standards for “Continuing Surveillance” and “Examining Buried Pipelines.”⁵
- PSE will continue leak surveys at the current five-year interval (*i.e.*, each service line will be leak surveyed once every five years) through 2005. By the end of 2005, all services installed between 1996 and 2000 will have been leak surveyed at least one time. Beginning in 2006, PSE will perform service and main leak surveys on an accelerated, three-year interval schedule. By 2008, all services will have been leak surveyed at least twice since installation. Following the completion of the leak surveys in 2008, PSE will review the leak survey data from

⁵ Agreement ¶ 8.

1996 to 2008. If there has been no statistically significant increase in leaks in polyethylene pipe over that period, PSE may return to the five-year leak survey interval for services.⁶

IV. Statement why the proposed settlement is in the Parties' interest and the public interest

12 The following support statements of Staff and PSE are provided pursuant to
WAC 480-07-740(2)(a).

A. Statement by Staff

13 Staff believes overall the Agreement is in the public interest because it is fair
and just, when viewed as a whole.

14 Over a period of five years (1996-2000), Commission Staff conducted 5
separate inspections of PSE's underground gas service line installations at different
locations in PSE's service area. In each investigation, Staff found probable
violations pertaining to inadequate depth of coverage of service lines and/or the use
of inappropriate material in backfilling the trench.

15 The programs PSE has implemented reflect a *bona fide* effort to address
problems company-wide that Staff has found on a more limited geographic basis in
its investigations. These programs substantially enhance the safety of PSE's system
and improve the Company's overall pipeline safety efforts.

⁶ Agreement ¶ 9.

16 Staff believes the changes PSE made in its construction inspection standards are appropriate and have a good chance of addressing what Staff believes were systematic problems in PSE's service line installation practices. Staff believes, subject to later verification, that the problems Staff observed are not likely to recur if the program PSE instituted continues to be executed as planned.

17 Staff's principal remaining concern regards the time period before PSE's new programs were implemented and fully functioning. PSE's programs do not address plant that was already "in the ground" before those program improvements were made. Thousands of natural gas services were installed during this time period and are subject to possible damage. In particular, Staff is concerned that prior installations of PSE natural gas service lines in areas of its service territory that have adverse soil conditions (*e.g.*, rocky soil), pose a potential safety concern that needs to be addressed.

18 The Settlement Agreement specifically addresses these Staff concerns by requiring PSE to inspect the trenching of any service line that is exposed for other reasons (*e.g.*, construction or repair) and to remediate if substandard conditions are found, and to conduct leak surveys to detect any problems with existing pipe.

B. Statement by PSE

19 PSE joins Staff in recommending that the Commission accept the Stipulated Agreement to Close Docket No. UG-000576.

20 This Agreement would put to a close a matter that has been open for five years and has roots extending back approximately ten years. Initially, the WUTC issued a "Non-Compliance Report" in the 2000 King County New Customer Construction Audit. This report alleged violations of pipeline safety regulations regarding the installation, construction and inspection of polyethylene (PE) natural gas services by PSE. The report also referenced earlier audit reports provided to Washington Natural Gas on deficiencies in this area since the middle 1990s.

21 At the time the WUTC Staff advised PSE of their formal concerns (May 2001), PSE began discussions with Staff, advising them of steps the Company had already taken and to consider additional steps Staff might believe were warranted. Most of the issues identified by Staff revolved around PSE's quality control for the new customer construction aspect of its business. In the intervening time period, those issues were resolved through implementation of programmatic changes. Audit results by both PSE and Staff after March of 2001 showed dramatic improvement in the quality and consistency of PSE's new customer construction work.

22 Part of the opportunity for the Company to make systemic improvement surrounded PSE's transition of its remaining construction work including new customer construction from Company crews to contract Service Providers beginning in April 2001. Perhaps more importantly, at that same time PSE created a Quality Assurance and Inspection department that directly addresses the kinds of

issues raised by Staff. PSE's QA&I program includes 20 full-time employees, of which 12 are dedicated to directly auditing and inspecting gas construction work on PSE's distribution system on a daily basis. The position of Quality Assurance Inspector was developed from the original Construction Inspector and an operating committee was developed to deal with construction issues and dealings with the Service Provider contracts. PSE is always looking for ways to improve this process and the role of the operating committee may develop over time as the process changes.

23 Furthermore, in response to the discussions with Staff, PSE hired a third party expert to conduct a risk analysis of new customer construction services installed between January 1996 and December 2000. The report indicated that the life expectancy of services installed in rocky soil conditions during this period is predicted to be well beyond 50 years. Additionally, although the actual installation practices did not meet the Company's standards, the report indicated practices followed by PSE during this time were consistent with the installation practices used throughout the industry.

24 PSE has strived to ensure the quality of work performed for our company meets our standards. Most importantly, we continue to stand behind the safe installation and operation of our natural gas distribution system.

25

PSE believes that this Stipulated Agreement allows us to focus on the future. PSE's hope is that the adoption of this Agreement will further facilitate a strong and healthy collaborative process between PSE and Staff to constructively address matters of pipeline safety in a timely and efficient manner that ultimately benefits the safe and cost-effective operation of our natural gas distribution system.

26

As Staff indicates, the Settlement Agreement stipulates that PSE will:

- Amend its Gas Operating Standards Manual to be in substantial conformity to the language in Appendix A to the Agreement, which contains the text of certain operating standards for "Continuing Surveillance" and "Examining Buried Pipelines."
- Continue leak surveys at the current five-year interval (*i.e.*, each service line will be leak surveyed once every five years) through 2005. By the end of 2005, all services installed between 1996 and 2000 will have been leak surveyed at least one time. Beginning in 2006, PSE will perform service and main leak surveys on an accelerated, three-year interval schedule. By 2008, this will result in all services having been leak surveyed at least twice since installation. Following the completion of the leak surveys in 2008, PSE will review the leak survey data from 1996 to 2008. If there has been no statistically significant increase in leaks in polyethylene pipe over that period, PSE may return to the five-year leak survey interval for services.

These matters are fully implemented.

27 PSE recommends the Commission accept the Stipulated Agreement between
the Commission and Puget Sound Energy and to close Docket No. UG-000576.

**V. Summary of legal points that bear
on the proposed settlement**

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

VI. Conclusions

29 The Parties respectfully request the Commission approve the Settlement
Agreement between PSE and Commission Staff in this docket.

DATED this ____ day of _____, 2005.

ROB McKENNA
Attorney General

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

PERKINS COIE LLP

SHEREE STROM CARSON
Attorney at Law
Counsel for Puget Sound Energy, Inc.