

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
	)	DOCKET NOS. PG-030080 and PG-
Complainant,	)	030128
	)	
vs.	)	SETTLEMENT AGREEMENT
	)	
PUGET SOUND ENERGY, INC.	)	
Respondent.	)	
.....	)	
	)	

**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”) and Respondent Puget Sound Energy, Inc. (“PSE”) 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.

3           The documents constituting the Agreement of the Parties are this “Settlement  
Agreement” and Appendices A, B and C attached hereto, collectively called the  
“Agreement” herein.

4           Appendix A contains the SAP Process Improvements Program. Appendix B  
contains the Isolated Facilities Program and the Critical Bond Program. Appendix C  
contains the Bare Steel Replacement Program. The SAP Process Improvements  
Program, Isolated Facilities Program and Bare Steel Replacement Program are  
company-wide programs PSE agrees to implement to address issues raised in the  
Complaint the Commission issued in these dockets on June 29, 2004.<sup>1</sup>

## II. EFFECTIVE DATE

5           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

6           The parties to this Agreement are Staff and PSE (collectively, “Parties”).

## IV. BACKGROUND

7           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.

8           In Docket No. PG-030080, Staff conducted a Standard Natural Gas Pipeline  
Inspection of PSE’s pipeline facilities in the King County area of PSE’s service  
area. That inspection took place in 2003.

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<sup>1</sup> PSE also agrees to continue the Critical Bond Program, set forth in the last two pages of Appendix  
B, which PSE previously implemented.

9 In Docket No. PG-030128, Staff conducted a Standard Natural Gas Pipeline Inspection of PSE's pipeline facilities in the Pierce County area of PSE's service area. That inspection took place in 2003.

10 In these inspections, Commission Staff reviewed the procedures, records, and natural gas facilities of PSE.

11 As a result of these inspections, the Commission issued its Complaint in these dockets on June 29, 2004. The Complaint alleges that PSE violated various provisions of WAC 480-93, and various provisions of the Code of Federal Regulations ("CFR") Part 192, which the Commission has adopted by reference in *e.g.*, WAC 480-93-010, -015, and -220.

12 A prehearing conference in these dockets was held on November 10, 2004. The only two parties to these dockets are PSE and the Commission.

13 Since the Commission issued the Complaint, Staff has been discussing with PSE ways to resolve the issues now presented in these dockets, in a manner that assures present and future compliance with applicable Commission laws and rules. Both 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

14 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 to avoid the expense, time and uncertainty of litigation.

### **Alleged Violations Cured**

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

### **Assuring Compliance System-wide**

16 As a practical matter, in inspecting companies with facilities that cover a large area, Commission Staff inspects a limited area, and if problems are found, Staff requests the company to conduct inspections to determine whether the problems exist

company-wide, and if so, to correct the problems that are found. For example, in this case, the Commission Staff found certain violations in the limited areas of PSE's system that were inspected. It is reasonable that PSE conduct an analysis of its system with respect to these issues, and to correct whatever problems are discovered. PSE has agreed to do so.

17                   Accordingly, PSE agrees to implement the SAP Process Improvements Program, Isolated Facilities Program and Bare Steel Replacement Program contained in Appendices A-C. PSE also agrees to continue the Critical Bond Program it had previously implemented, contained on the last two pages of Appendix B. These programs, if successful, would address the concerns of Staff regarding the nature of the violations alleged in the Complaint, company-wide.

### **Sanctions and Admissions of Violations**

18                   PSE has reviewed in detail, and has filed an Answer to, the allegations in the Complaint. PSE has taken the opportunity to discuss with Staff the allegations in that Complaint. PSE concurs with the allegations in Complaint paragraphs 9, 10, 12, 13, 14, 15 and 17. As to the allegations in Complaint paragraph 11, Commission Staff and PSE concur that the number of violations should be eight, not nine. As to the allegations in Complaint paragraph 16, PSE has provided information to Staff that indicates the combustible gas indicators at issue in that paragraph were out of service at the time of the Staff inspection. Therefore, Staff would not pursue the allegations in Complaint paragraph 16, should this matter go to hearing.

19                   PSE and Commission Staff have agreed to a total penalty of \$700,000, of which \$500,000 is payable in cash and \$200,000 is suspended. The \$500,000 amount is due and payable by PSE on or before the 10<sup>th</sup> business day after the effective date of this Agreement.

20                   If PSE fails to substantially comply with any of its obligations contained in this Agreement, the \$200,000 suspended portion of the penalty will be due and owing. However, once the SAP process enhancements are implemented, the suspended amount will be reduced by \$50,000, and once the Isolated Facilities Program is completed, the suspended amount will be reduced by \$50,000, and once the Bare Steel Replacement Program is complete, the suspended amount will be reduced to zero. The Commission would decide the issue of substantial compliance should that become necessary.

21                   Staff is currently conducting safety investigations of PSE's pipeline system, and will continue to do so. Nothing in this Agreement affects the ability of Staff to conduct such investigations and cite PSE for any violations that are found. In that

circumstance, PSE will take whatever remedial action is required by applicable orders or rules. If there is a dispute as to whether a violation occurred, and/or what remediation is required, PSE and Staff agree to try to resolve the issue between them. Staff reserves the ability to recommend the Commission institute a complaint seeking a finding of violation and/or the required remediation. However, Staff will not recommend the Commission file a complaint or seek monetary penalties, under the following circumstances:

- If, while PSE is implementing the Isolated Facilities Program, the Critical Bond Program, or the Bare Steel Replacement Program, Staff or PSE finds the same sorts of violations as those alleged in the Complaint, Staff will not recommend monetary penalties to the Commission for such violations. This does not apply to violations related to new facilities PSE installs after the effective date of this Agreement.
- For the SAP Process Improvements Program, Staff agrees that if Staff or PSE finds a timing violation of the same sort that is alleged in the Complaint, or other timing violation of the sort that is addressed by the SAP Process Improvements Program, that occurred prior to the implementation of the SAP process enhancements, or September 30, 2005, whichever comes first, Staff will not recommend monetary penalties to the Commission for such violations.

22            Nothing in this Agreement affects the ability of the Staff to recommend penalties for any violation that leads to serious personal injury (*i.e.*, requires in-patient hospitalization), loss of life, or property damage or loss of \$50,000 or more.

23            Nothing in this Agreement affects the Staff's ability to recommend penalties or any other remedy, (1) for violations that occur after the SAP process enhancements are implemented, or (2) for violations of either the Isolated Facilities Program, the Critical Bond Program, or the Bare Steel Replacement Program that occur in a specific area, after each program is completed in that area.

24            Nothing in this Agreement affects the Staff's or the Commission's ability to pursue monetary penalties or any other remedy for violation by PSE of any prior Commission final order relating to pipeline safety.

## **VI. GENERAL PROVISIONS**

### **Nature of the Agreement.**

25           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.

26           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.

27           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 either Party because it was a drafter of this  
Agreement.

### **Integrated Terms of Settlement**

28           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  
all prior oral and written agreements on issues addressed herein, if any.

### **Manner of Execution**

29           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. If the Agreement is  
executed in counterparts, all counterparts shall constitute one agreement. An  
Agreement signed in counterpart and sent by facsimile is as effective as an original  
document. A faxed 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**

30           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 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 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.

31           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.

32           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 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, 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.

**No precedent**

33           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:

For Puget Sound Energy, Inc.:

ROB McKENNA  
Attorney General

Donald T. Trotter  
Assistant Attorney General

Susan McLain, Senior Vice  
President for Operations

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Date signed:

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Date signed: