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February 24, 2005

Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
P. O. Box 47250
Olympia, Washington 98504-7250

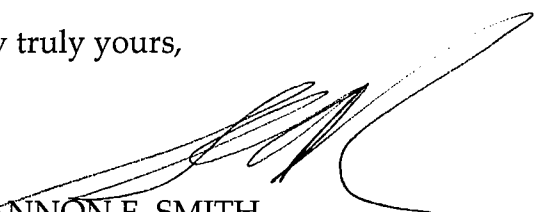
Re: *WUTC v. Cascade Natural Gas Corporation*
Docket No. PG-030438

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STATE OF WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

Dear Ms. Washburn:

Enclosed for filing are the original and 10 copies of the Settlement Agreement, and Certificate of Service, in the above-named docket.

Very truly yours,


SHANNON E. SMITH
Assistant Attorney General

SES:tmw
Enclosures
cc: Parties



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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	DOCKET NO. PG-030438
)	
Complainant,)	
)	SETTLEMENT AGREEMENT
v.)	
)	
CASCADE NATURAL GAS)	
CORPORATION,)	
Respondent.)	
.....)	

I. NATURE OF THE AGREEMENT

1 This Settlement Agreement ("Agreement") is entered into between the Staff of the Washington Utilities and Transportation Commission ("Staff"), and Respondent Cascade Natural Gas Corporation ("CNG") for the purpose of resolving all issues raised in the Complaint in this docket.

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 document constituting the Agreement of the Parties is this “Settlement
Agreement,” called the “Agreement” herein.

II. EFFECTIVE DATE

4 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

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

IV. BACKGROUND

6 CNG is a public service company subject to Commission regulation under
RCW 80.04. and 80.28. As pertinent to this Agreement, CNG operates as a “gas
company” as defined in RCW 80.04.010. CNG owns and operates a natural gas
distribution system in Western Washington. CNG serves residential, commercial,
and industrial customers with natural gas, under tariffs subject to Commission
regulation. CNG is subject to and required to comply with Commission safety rules
applicable to natural gas pipelines.

7 In 2003 and 2004, Staff conducted standard pipeline safety inspections of
facilities and operations in CNG’s Bellingham and Mount Vernon districts.

8 In these inspections, Staff reviewed CNG’s procedures, records, and natural
gas facilities.

9 As a result of these inspections, the Commission issued its Complaint in this docket on November 30, 2004. The Complaint alleges that CNG violated various provisions of WAC 480-93 and the Code of Federal Regulations (“CFR”) Part 192, which the Commission has adopted by reference. *See, e.g.*, WAC 480-93-010, -015 and -220.

10 CNG appeared in this matter on December 22, 2004, and requested an extension of time in which to answer the allegations set forth in the Complaint. The Commission granted that request. CNG submitted a second request for extension of time to answer the Complaint, on January 20, 2005, which the Commission granted.

11 Since the Commission issued the Complaint, Staff has discussed with CNG ways to resolve the issues now presented in this docket, in a manner that assures present and future compliance with applicable Commission laws and rules. Both Parties share the goal that CNG’s pipeline facilities be operated in compliance with Commission laws and rules related to the safe operation of those facilities.

V. AGREEMENT

12 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

13 CNG has cured the specific violations alleged in the Complaint.

Assuring Compliance System-wide

14 As a practical matter, in inspecting companies with facilities that cover a far-reaching area, Commission Staff inspects a portion of that area, and if problems are found, Staff requests the company to conduct inspections in other locations to determine whether more problems exist and, if so, to correct those that are found and enforce those corrections company-wide. For example, in this case, the Commission Staff found certain violations in both the Bellingham and Mount Vernon inspection areas. It is reasonable that CNG conduct an analysis of its system with respect to these issues and to correct whatever problems are discovered. CNG has agreed to do so.

15 Accordingly, CNG agrees to implement its proposed action plan, which it had submitted to Commission Staff on February 1, 2005. The plan is attached as Appendix A to this Settlement. This plan, 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

16 CNG has reviewed in detail the allegations in the Complaint. CNG has taken the opportunity to discuss with Staff the allegations in that Complaint. CNG concurs with the allegations in Complaint paragraphs 11, 12, 13, 14, 15, 16, and 17, and has corrected all alleged violations. In addition, CNG has begun conducting quarterly audits of required maintenance tasks to assure compliance in the future. The quarterly audits are above and beyond the code requirements. The results of the audits will be provided to the Commission for review.

17 CNG and Commission Staff have agreed to a total penalty of \$75,000. The amount is due and payable by CNG on or before the 10th business day after the effective date of this Agreement.

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

VI. GENERAL PROVISIONS

Nature of the Agreement

19 The Parties agree 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 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 CNG's ability to assert defenses to such claims.

21 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

22 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

23 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

24 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 understand that the Commission will decide the appropriate procedures for presentation and consideration of the Agreement.

25 At any hearing on the Agreement, each Party is willing to make available a witness or witnesses to answer questions and support the Agreement.

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.

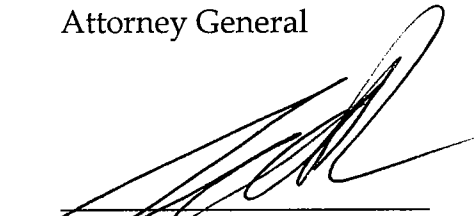
No precedent

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:

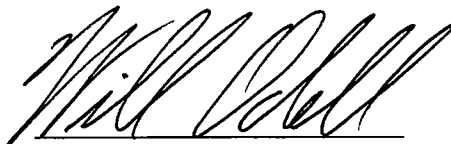
For Cascade Natural Gas Corporation:

ROB MCKENNA
Attorney General



Shannon E. Smith
Senior Counsel

Date signed: 2/24/05



Will Odell
Chief Operating Officer

Date signed: 2/18/05

Appendix A

Cascade Natural Gas Corporation **Proposed action plan for Complaint Docket # PG-030438**

Violation 1) Improper PE testing procedures

Cascade concurs that our PE fusion qualification test did not include the required ultrasonic, bend, torque or impact test for heater plate butt fusion tests as required by 49 CFR Part 192.285(b)(2)(i)-(iii). Cascade was performing the test for all other forms of plastic pipe heat fusion joining qualifications. This practice was changed immediately with the addition of a bend test which was communicated to company field personnel on an operations bulletin on April 9, 2004. Currently, both of the company's testing locations perform the tests as required. Evidence of this procedural change can be provided if required.

Violation 2) Inconsistent procedure manual

Cascade concurs that Company Procedure (CP) 607 PE Main Construction was inconsistent with 49 CFR Part 192.285(b)(2)(i)-(iii). because it failed to include the required ultrasonic, bend, torque or impact test for heater plate butt fusion joining qualifications as required and discussed in Violation 1 above.

Cascade Company Procedure (CP) 607.215 was updated to reflect this change on January 19, 2005.

Cascade strives to maintain all policies and procedures in accordance with all relevant regulations or prudent industry practices, especially as changes occur.

Cascade will conduct a comprehensive Operations and Maintenance Manual procedures review and revision. This review and revision will include a comparison to all current state and federal pipeline safety regulations, including the planned update of WAC 480-93, to identify and correct any other deficiencies that may exist. This review will be complete within one (1) year of the final commission order on this complaint.

Violation 3) Exceeded allowed frequency for patrolling of the business district:

Cascade concurs that the required patrolling in the Mount Vernon District exceeded the allowed time interval by 4 days.

Cascade employs several methods to ensure maintenance tasks are completed as required. All facility maintenance and system surveillance tasks are tracked through a central database. These tasks are managed by the General Manager in each district and monitored by the Safety & Engineering department in Seattle. Reminder memos are sent and phone calls are made prior to the compliance deadline for tasks.

Cascade recently added a new position in the Seattle office that shall monitor maintenance and compliance dates, a Pipeline Safety Specialist. The Pipeline Safety Specialist shall review maintenance and surveillance results and follow up with district management to ensure tasks are completed on schedule as required.

Our maintenance scheduling practices at the time of the inspection focused on completing tasks by the required compliance deadline. That focus led to tasks being scheduled on or near the compliance date. Scheduling in this manner did not allow schedule adjustments if the maintenance took longer than expected.

As of January 31, 2005, we shifted our focus to target completion of all tasks by a date earlier than the compliance deadline. The new focus will encourage tasks be completed weeks in advance of the compliance deadline, rather than right at the deadline. Tasks that reach the target date without being completed shall be treated as emergencies that must be addressed as soon as possible and completed prior to the compliance deadline. The change of focus for maintenance scheduling includes all periodic maintenance tasks of 49 CFR Part 192 Subpart M and WAC 480-93. These practices will be amended to include the new maintenance tasks required by Docket UG-011073 if WAC 480-93 is amended.

Cascade will conduct quarterly audits of their required maintenance tasks and schedules for one (1) year following the final commission order on this complaint. These audits will review whether the required maintenance tasks are being performed on the scheduled frequencies as required. The audit of required maintenance tasks shall include the periodic maintenance requirements of 49 CFR Part 192 Subpart M and WAC 480-93, as it currently exists or as it may be amended in Docket UG-011073. The results of the internal audits will be available for Commission review upon request. Staff can require an additional one (1) year extension if warranted by our performance.

Violation 4) Exceeded allowed frequency for regulator station maintenance

Cascade concurs that required maintenance intervals for two regulator stations exceeded the allowed time interval. This violation is substantially similar to Violation 3 above. Cascade reaffirms its intent to implement the provisions stated above.

Cascade has made changes to our maintenance scheduling practices and shall perform audits of required maintenance task scheduling and make them available for Staff review as noted in our response to Violation 3.

Violation 5) Exceeded the Maximum Allowable Operating Pressure (MAOP) without remedial action

Cascade concurs that the pressure records for four regulator stations indicated that the MAOP was exceeded and records of remedial action could not be produced.

Changes in outlet pressure at regulator stations can be caused by a number of factors. The indications of exceeding MAOP shown on the pressure records appear to have gone uninvestigated. Based on more recent review of these areas, we do not believe that the distribution systems or service to customers was adversely affected by the indicated overpressure conditions.

We propose to address the issue in the following areas:

MAOP records: Company records were not consistent in the pressures listed for the MAOP in some systems. This led to confusion and incorrect reporting of pressure records. The Safety and Engineering Department reviewed the MAOP records for all company facilities and created a central MAOP record that is available electronically to all field management and support personnel. This MAOP record can be accessed from a central source. Once this record was complete, individual pressure logs and pressure recorder data sheets were reviewed and updated as required. These data sheets can now be audited against the central MAOP record on a regular basis.

Personnel: Company Procedure 735 – System MAOP and Review (CP 735) was updated in June 2004 with added instructions for detecting, investigating, reporting, and documenting abnormal readings. Cascade conducted training with District General Managers in June 2004 to review proper system pressure review practices and the need to investigate and report over MAOP indications. The District General Managers are responsible to identify abnormally low or abnormally high pressure indications during their review of all pressure recorders in the Districts they manage.

In addition, a new Operator Qualification (OQ) task was created for bypassing regulator stations. All field personnel who may be dispatched to conduct bypass operations were trained and qualified for the task.

Cascade's Engineering department is monitoring the pressure recorder processes of CP 735 for effectiveness and adequacy. As of June 2004, an Engineer was assigned to review pressure chart recorder activities, evaluate performance, and initiate appropriate action to remedy deficiencies in training, procedures, or equipment detected by their reviews. Prior to June 2004, the review of pressure recorders was split between multiple Engineers, and gaps developed in that method that did not detect the violations cited in the complaint.

Investigation: All indications of a pressure exceeding MAOP are investigated promptly by field management and/or Safety and Engineering staff. These investigations are intended to discover the cause of the problem and determine appropriate remedial action.

Remedial action and documentation: Remedial action on either the actual pressure delivered by the regulator station(s) or the pressure indicated by pressure gages or recorders will be taken as required. A record of these actions is now placed on the pressure chart indicating the over MAOP operation or in a log file maintained in the Engineering department. This file and the pressure chart data is available for audit and review.

Notification: Cascade understands the notification requirements and strives to make all required notifications within the proper time frame. To help insure this notification occurs, we have updated our emergency notification procedures and reminded all field management of the requirements.

