

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of an incident in a Missouri	)	
Gas Energy Utility vault in Kansas City,	)	Case No. GS-2002-345
Missouri.	)	
The Staff of the Missouri Public Service	)	
Commission,	)	
Complainant,	)	
	)	
vs.	)	Case No. GC-2003-0076
	)	
Missouri Gas Energy,	)	
Respondent.	)	

SETTLEMENT AGREEMENT AND SATISFACTION OF COMPLAINT

Come now Missouri Gas Energy (“MGE”), a division of Southern Union Company, and the Staff of the Missouri Public Service Commission (“Staff”), by and through their respective counsel, and respectfully state as follows:

Procedural History

1. On August 28, 2002, the Staff filed a “Gas Incident Report” (the Incident Report) in Case No. GS-2002-345. The Incident Report relates the relevant facts as found by the Staff surrounding an incident which occurred just before 7:59 a.m. CST on December 10, 2001, in which an explosion and flash fire occurred within a natural gas pipeline vault located at the intersection of Buchanan Avenue and 32nd Avenue in Kansas City, Missouri (“the incident”). Two contract workers for MGE were injured as a result of the incident.

2. Also on August 28, 2002, the Staff filed a “Complaint” against MGE alleging violation of Missouri Public Service Commission (“Commission”) rules, 4 CSR 240-40.030(12)(B)3, 4 CSR 240-40.030(13)(X) and 4 CSR 240-40.030(12)(D) regarding, respectively, compliance with gas safety rules, minimizing the danger of accidental ignition, and

training of individuals who perform work on pipeline systems. This case was docketed by the Commission as Case No. GC-2003-0076.

3. In the Incident Report, the Staff concluded that the probable cause of the incident was the introduction of an ignition source (an impact wrench used by a contract employee) in a flammable atmosphere that had accumulated within the utility vault. In the Incident Report, the Staff makes three operational recommendations pertaining to A) MGE reviewing and revising as necessary procedures for appropriate vault entry, B) repair of leaks or seepage found in a vault installed with new tight-sealed doors or, in lieu thereof, installation of external vents for these vaults and C) review with contractors what aspects of the contracted work are to be performed under the supervision of a trained Company employee.

4. By a Notice dated September 16, 2002, in Case No. GS-2002-345, MGE was advised by the Commission that its response to the Incident Report is due no later than October 28, 2002. By a "Notice of Complaint" dated September 4, 2002, in Case No. GC-2003-0076, MGE was advised that it was to file an Answer or the measures taken to satisfy the Complaint on or before October 4, 2002, which deadline was subsequently extended to October 28, 2002. This Settlement Agreement and Satisfaction of Complaint is designed to eliminate the need for MGE to make a response in Case No. GS-2002-345 and an Answer in Case No. GC-2003-0076.

Settlement Agreement and Satisfaction of Complaint

5. Without conceding the legal merits of any of the Staff's allegations of violation, MGE provides the following response to the recommendations made in the Incident Report. MGE intends to implement, or continue to implement, the operational recommendations made by the Staff in its Incident Report as follows:

A. MGE has reviewed its standards related to vault entry procedures (specifically, #2540-Prevention of Accidental Ignition, #3545-Hazardous Atmospheres, and #3550-Vault Inspection & Maintenance). MGE has also reviewed the GPTC Guide's safety measures regarding testing for combustible gas prior to opening or removing vault covers. In some respects, MGE's standards related to vault entry procedures exceed the recommendations of the GPTC Guide (e.g., MGE Standard #3550 requires the use of personal protective equipment upon finding a gas-in-air reading of 1% or greater; the GPTC Guide requires the use of personal protective equipment upon finding a gas-in-air reading of 3% or greater). MGE has revised its standards related to vault entry procedures to require testing for combustible gas prior to opening the vault for entry (i.e., by "cracking" the door open and testing with a combustible gas indicator prior to fully opening for entry). The revised standards are appended hereto as Attachment 1.

B. Since December 10, 2001, (the date of the incident) MGE has investigated all ten (10) of its vaults that have been installed with tight-sealed doors and no external vents. The only such vault where any leak or seepage from MGE's facilities has been found is the vault that is the subject of this incident; this leak or seepage will be repaired no later than November 30, 2002. As an additional precaution above and beyond the Staff's recommendation, even though Commission rule 4 CSR 240-40.030(13)(W)1 requires annual inspections, MGE will continue its practice of inspecting these vaults (e.g., those installed with tight sealed doors and no external vents) at least semi-annually and any leaks found shall be appropriately classified and repaired pursuant to the provisions of 4 CSR 240-40.030.

C. On a going forward basis beginning on the effective date of a Commission Order approving this Agreement, MGE will review with contractors and appropriate Company personnel aspects of contracted work to be performed under the direct supervision of a trained

Company employee. For contracted work that is not performed under direct Company supervision, MGE shall ensure that appropriate training is provided as set forth in 4 CSR 240-40.030(12)(D). In addition, beginning on the effective date of the Commission Order approving the Settlement Agreement in this case, MGE will review what aspects of contracted work is a specialty of the contractor and is not specifically identified in MGE's policies and procedures.

D. In addition, MGE will prepare a written report to be provided to Staff regarding the specific steps taken by MGE and documenting the progress of those steps. The first report shall be prepared by MGE within 60 days of a Commission Order approving the Settlement in this case. A final report shall be made to the Staff within 180 days of the effective date of a Commission Order approving the Settlement in this case unless the parties agree otherwise in writing.

6. The parties agree that these undertakings by MGE and their acceptance by the Staff, as well as the other aspects of this document, form a reasonable basis for settlement of Case Nos. GS-2002-345 and GC-2003-0076 and any claims within the jurisdiction of the Commission arising from the incident. The commitments made by MGE herein shall constitute full settlement and satisfaction of any claims or causes of action which have been or might in the future be asserted against MGE before the Commission, which arise out of, are based upon, or could have been based upon, the facts surrounding the incident as related in the Incident Report and the Complaint.

7. This document shall not be construed to operate as a waiver or release of the Staff's right and ability to conduct follow-up evaluations of the representations made herein, or to in any way impair or affect the Staff's ability to file, or MGE's ability to contest, recommendations or complaints involving applications of the Commission's rules cited in the

previously referenced Incident Report or Complaint to any future incidents, situations or events involving MGE, or to any other natural gas system operated under the jurisdiction of the Commission.

8. This Settlement Agreement and Satisfaction of Complaint is a compromise of disputed claims and neither all nor any part of this document constitutes an admission of any violation of law, statute, rule, regulation or procedure of any kind by MGE. No waiver or modification of any defense which has been, or which could have been, raised by MGE in these dockets is intended or should be assumed as a result of this document.

9. This document shall not be construed as or operate as a settlement, satisfaction, release or waiver of any claims or defenses MGE may have now or hereafter against any other person or entity arising from or relating to the facts surrounding the incident or the actions taken by MGE as a result of the incident; MGE expressly reserves all rights and defenses it may have in regard thereto.

10. The Staff has represented to MGE that the foregoing Settlement Agreement and Satisfaction of Complaint is acceptable, and by execution of this document Staff recommends to the Commission that this Settlement Agreement and Satisfaction of Complaint be approved, in its entirety. If the document is not so approved in total, then no party hereto shall be bound or prejudiced by any provisions contained herein or by any representations which have been made in the context of the attempted settlement hereof, and MGE shall be allowed a reasonable time in which to file a Response to the Incident Report and an Answer to the Complaint.

11. No party to this document believes the consideration and approval of this document requires a hearing before the Commission; however, the Staff and MGE stand ready to provide additional information if it is requested.

12. Nothing in this Settlement Agreement and Satisfaction of Complaint is intended to impinge or restrict in any matter the exercise by the Commission of any statutory right, including the right of access to information, and any statutory obligation.

13. The Staff also shall have the right to provide, at any agenda meeting at which this Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, provide the other parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any protective order issued in this case.

14. The Staff shall file suggestions or a memorandum in support of this Agreement and the other parties shall have the right to file responses within five (5) days of receipt of Staff's supporting pleading. The parties agree that any and all discussions related to the execution of this Agreement shall be privileged and shall not be subject to discovery, admissible in evidence, or in any way used, described or discussed in any proceeding, except as expressly specified herein. The contents of any memorandum provided by any party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation and Agreement, whether or not the Commission approves and adopts this Stipulation and Agreement.

15. This Settlement Agreement and Satisfaction of Complaint represents a negotiated settlement. Except as specified herein, the signatories to this document shall not be prejudiced, bound by, or in any way affected by the terms of this Settlement Agreement and Satisfaction of Complaint: (a) in any future proceeding; (b) in any proceeding currently pending under a

separate docket; or (c) in this proceeding should the Commission decide not to approve this Settlement Agreement and Satisfaction of Complaint in the instant proceeding.

16. If the Commission accepts the specific terms of this Settlement Agreement and Satisfaction of Complaint, the signatories waive their respective rights to cross-examine witnesses (subject to the provisions of paragraph 15); their respective rights to present oral argument and written briefs pursuant to Section 536.080.1 RSMo¹, their respective rights to the reading of the transcript by the Commission pursuant to section 536.080.2; and their respective rights to judicial review pursuant to Section 386.410. This waiver applies only to a Commission Report and Order issued in this proceeding, and does not apply to any matters raised in any subsequent Commission proceeding, or any matters not explicitly addressed by this Settlement Agreement and Satisfaction of Complaint.

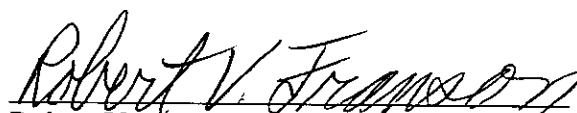
17. MGE and the Staff each agree and represent that the attorneys listed below are duly authorized to execute this Settlement Agreement and Satisfaction of Complaint on their respective behalf, and that this document represents a complete description of all of the considerations for this agreement.

WHEREFORE, MGE and the Staff respectfully request that the Commission issue its Order Approving the Settlement Agreement and Satisfaction of Complaint in its entirety as set forth herein, issue an Order suspending the filing of any responses by MGE in these cases and to issue orders closing the above-captioned dockets.

¹ All statutory references herein are to RSMo 2002 (Cum. Supp., as amended) unless specifically indicated otherwise.

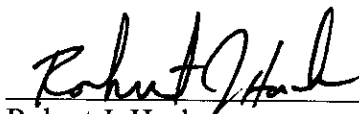
Respectfully submitted,

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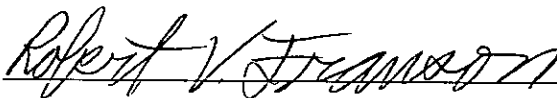


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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or e-mailed to all counsel of record on October 25, 2002.



O & M Standard



DRAFT

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1. Applicable Codes and Regulations

- 1.1. This Standard meets the requirements of the Federal, Pipeline Safety Regulations, Sections 192.749 and Missouri 4 CSR 240-40.030 (13)(W).

2. Inspection Frequency

- 2.1. Each vault which houses pressure regulating or pressure limiting equipment and has a volumetric internal content of 200 cubic feet or more shall be inspected once each calendar year, but at intervals not exceeding 15 months, to determine if the vault is in good physical condition and adequately ventilated and shall be documented.

3. Entry and Safety Precautions *For any Vault an employee must enter*

- 3.1. A fire extinguisher shall be placed at the work site in a position of immediate access. Refer to Standard 3545 - Hazardous Atmosphere.
- 3.2. Provisions of **Prevention of Accidental Ignition**, Standard 25402222 shall be complied with at all times.
- 3.3. The vault atmosphere shall be checked with combustible, gas indicator test prior to entry. *Before the cover is removed, the vault atmosphere should be tested for combustible gas, by inserting the probe into the holes or pry holes in the vault cover, or by lifting the edge of the cover slightly to admit the testing probe.* If there is an indication of natural gas in the vault, the vault shall be ventilated and checked with the CGI, until no gas is present. On occasion, it may not be possible to ventilate all gas from the vault. In those circumstances, the following precautions must be taken:

*Revisions in
italics***SUPERSEDES: FINAL DRAFT****Date E**

3550D

Attachment 1

O & M Standard

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3.3.1. If maintenance is performed in a gaseous atmosphere of 1% gas or more or oxygen deficient atmosphere, self contained breathing apparatus of an approved type, guardian harness and flame retardant clothing shall be used.

3.4. When the vault does not have full opening access doors, the person in the vault shall always be accompanied by another person stationed at or near the vault entrance with a fire extinguisher.

4. Inspection Procedure

4.1. Inspect vault and piping supports for general condition and ground settlement.

4.2. Inspect vault piping for corrosion and deterioration of coatings.

4.3. Inspect vault entrance cover for proper fit, support, ease of access, and to ensure that it does not present a hazard to public safety.

4.4. Inspect vault vent system to ensure that it is in good working condition and free of obstructions.

4.5. Inspect padlocks securing vault entrances, if any. Lubricate the padlocks when needed.

4.6. Note any unusual conditions found in or near the vault.

4.7. If there is an indication of natural gas in the vault, all station piping shall be inspected for leaks. Leakage found shall be classified and scheduled for repair according to company standards.

4.8. Local supervision shall review the inspections noting any deficiencies and schedule corrective actions.

5. Water

5.1. Vaults and pits that have a history of water shall be checked as follows:

5.1.1. After rainfall or snow melt of an amount that historically has caused water entry.

5.1.2. After a major incident near the vault or pit, such as a water line break, that could cause flooding over the vault or pit entry.

5.2. If the water level is found within twelve inches of the regulator vent, regulator weights, or the relief valve, the vault shall be pumped within 24 hours.

SUPERSEDES: FINAL DRAFT**Date Effective: 9/17/02**