

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY

DOCKET UG-151663

for (i) Approval of a Special Contract for Liquefied Natural Gas Fuel Service with Totem Ocean Trailer Express, Inc. and (ii) a Declaratory Order Approving the Methodology for Allocating Costs Between Regulated and Non-regulated Liquefied Natural Gas Services

FULL SETTLEMENT STIPULATION

1. This Settlement Stipulation is entered into for the purpose of resolving the issues in this proceeding identified below as Docket UG-151663 at the Washington Utilities and Transportation Commission (“Commission”). This Settlement Stipulation is subject to approval by the Commission and it is not effective for any purpose until such approval, except for paragraphs 39, 41, 42, 43, and 44, which cover the agreement by the Settling Parties regarding how they will support the Settlement Stipulation before the Commission.

2. This Settlement Stipulation includes and incorporates the following Attachments:

- Attachment A Summary of Procedural History in Docket UG-151663
- Attachment B Joint Ownership Agreement Term Sheet;
- Attachment C Representative List of Fixed Operating Costs Associated with the Tacoma LNG Facility (Projected Annual Fixed Operating Costs for Calendar Year 2020); and
- Attachment D Ownership Shares.

I. PARTIES

3. The initial parties to this Settlement Stipulation are Puget Sound Energy (“PSE”), Commission Staff, the Public Counsel Section of the Washington Office of Attorney General (“Public Counsel”), the Northwest Industrial Gas Users (“NWIGU”), and the Industrial Customers of Northwest Utilities (“ICNU”)¹ (referred to in the singular as a “Settling Party” and in the plural as the “Settling Parties”). All parties that have actively participated in this proceeding are signing the Settlement Stipulation.

II. INTRODUCTION

4. On August 11, 2015, PSE filed with the Commission a proposal to develop at the Port of Tacoma a liquefied natural gas (LNG) facility (the “Tacoma LNG Facility”) capable of (i) receiving nearly 21,000 Decatherms per day (Dth/day) of natural gas, (ii) producing approximately 250,000 gallons of LNG when liquefying at nameplate capacity, and (iii) storing approximately 8 million gallons of LNG. PSE identified three functions the facility is planned to perform:

- The Tacoma LNG Facility would supply fuel to Totem Ocean Trailer Express, Inc. (TOTE), under a contract PSE entered with TOTE on October 27, 2014.
- The Tacoma LNG Facility would provide fuel for sales to other marine vessels or other purchasers.
- The Tacoma LNG Facility would serve as a peaking resource for PSE’s core natural gas customers.

PSE initially proposed that the first and third functions should be treated as part of PSE’s regulated business—the first function meeting the needs of a single customer, TOTE, under a

¹ ICNU is neither a natural gas customer of PSE nor represents any customers of PSE with respect to issues involving natural gas. ICNU neither takes any position with respect to nor opposes the agreements set forth in Section III.B. (Agreements With Respect to Ownership Shares) or Section III.C. (Agreement with Respect to the 16-Inch Line and Bonney Lake Lateral Improvements) of this Settlement Stipulation.

“special contract” and the third function providing capacity to meet core retail natural gas customers’ peak requirements at tariffed rates. PSE proposed that the second function would be a separate, unregulated business.

5. This Settlement Stipulation includes Attachment A as a summary of the procedural history in this matter. That procedural history is also publicly available as Docket UG-151663 at the Commission.

6. PSE, Commission Staff, Public Counsel, NWIGU, and ICNU entered into mediation on May 29, 2016. The Settling Parties retained Mr. Donald Trotter to serve as an independent mediator and the energy consulting firm Brown, Williams, Moorhead & Quinn, Inc. to serve as an independent technical consultant. Mediated conferences were held in Olympia, Washington, on June 16 and 17, 2016; on August 9 and 26, 2016; and on September 15, 16, and 26, 2016. Telephonic mediation conferences occurred on June 29, 2016; on July 11, 13, and 21, 2016; and on September 27, 2016. Additionally, the mediator conducted one or more conferences with parties individually.

7. Based on mediated discussions and related correspondence, the Settling Parties have reached an agreement that would provide a basis upon which the Settling Parties could recommend proceeding with the Tacoma LNG Facility.

8. The Settling Parties wish to present their agreement for the Commission’s consideration and approval. The Settling Parties therefore adopt this Settlement Stipulation, which is entered into by the Settling Parties voluntarily to resolve matters in dispute among them in the interests of expediting the orderly disposition of this proceeding. The Settling Parties file this Settlement Stipulation with the Commission as a “Full Settlement” pursuant to WAC 480-07-730(1).

III. AGREEMENT

A. Ring-Fencing Agreements

1. Creation of Puget LNG, LLC

9. Within thirty (30) days of issuance of an order by the Commission approving the Settlement Stipulation consistent with its terms and its conditions, Puget Energy will form or will cause to be formed a wholly-owned subsidiary of Puget Energy named Puget LNG, LLC (“Puget LNG”). Puget LNG will be a special purpose limited liability company formed by Puget Energy solely for the purposes of owning, developing, and financing the Tacoma LNG Facility as a tenant-in-common with PSE.

2. Non-Consolidation Opinion

10. Within sixty (60) days of the formation of Puget LNG, PSE will file a non-consolidation opinion with the Commission which concludes, subject to customary assumptions and exceptions, that the ring-fencing provisions are sufficient that a bankruptcy court would not order the substantive consolidation of the assets and liabilities of PSE with those of Puget Energy or its affiliates or subsidiaries, including Puget LNG. If the ring-fencing provisions are insufficient to obtain a non-consolidation opinion, PSE will promptly undertake the following actions:

(i) Notify the Commission of this inability to obtain a non-consolidation opinion;

(ii) Propose and implement, upon Commission approval, such additional ring-fencing provisions around PSE as are sufficient to obtain a non-consolidation opinion subject to customary assumptions and exceptions;

(iii) Obtain a non-consolidation opinion based on the additional ring-fencing provisions and customary assumptions and exceptions; and

(iv) If PSE cannot obtain a non-consolidation agreement based on the proposed additional ring-fencing provisions, PSE will seek guidance from the Commission.

3. PSE Customers Held Harmless

11. PSE's customers will be held harmless from the liabilities and financial losses of any non-regulated activity of the Tacoma LNG Facility, including any non-regulated activity of Puget LNG. Puget Energy guarantees and will hold PSE's customers harmless from all liabilities and financial losses of Puget LNG resulting from:

(i) any non-regulated activity of the Tacoma LNG Facility, including the sale or assignment of the assets of Puget LNG to a third party; and

(ii) circumstances in which Puget LNG or any successor to Puget LNG (a) becomes insolvent or is unable to pay its debts when due, (b) files a petition in bankruptcy, reorganization or similar proceedings (and if filed against, such petition is not removed within 90 days), (c) discontinues its business, or (d) a receiver is appointed or there is an assignment for the benefit of creditors of Puget LNG.

4. Joint Ownership Agreement

12. Within sixty (60) days of the formation of Puget LNG, PSE will file a Joint Ownership Agreement between Puget LNG and PSE for approval by the Commission pursuant to RCW 80.16.020. The terms and conditions of the Joint Ownership Agreement will reflect the terms and conditions set forth in Attachment B to this Settlement Stipulation.

a. Operating Costs Under the Joint Ownership Agreement

13. Operating Costs During the Term of the Joint Ownership Agreement. Puget LNG will pay, and Puget Energy will guarantee, Puget LNG's assigned percentage allocation of annual operating costs and will do so without subsidy from PSE ratepayers.

14. Operating Costs Upon the Expiration or Termination of the Joint Ownership Agreement. In the event that Puget LNG ceases operating as a going concern and another entity does not succeed Puget LNG's obligations under the Joint Ownership Agreement or similar agreement, the Joint Ownership Agreement will terminate or expire in accordance with its terms. The Settling Parties acknowledge that some of the fixed operating costs associated with the Tacoma LNG Facility may shift to PSE because Puget LNG will not be available to share in those fixed operating costs. Attachment C to this Settlement Stipulation is a representative list of fixed operating costs associated with the Tacoma LNG Facility that may shift to PSE. PSE will use commercially reasonable efforts to minimize the fixed operating costs shifted to PSE and mitigate the impacts of any such shift on PSE. PSE will bear the burden of demonstrating to the Commission that such fixed operating costs, if any, are prudent and reasonable for recovery in rates by PSE. Each of the Commission, Staff, Public Counsel, NWIGU, and ICNU reserves its right to challenge such fixed operating costs, if any, in future rate proceedings.

b. Liabilities Under the Joint Ownership Agreement

15. The obligations and liabilities of Puget LNG and PSE (each, an "Owner") with respect to the Tacoma LNG Facility are intended to be several and not joint or collective, and nothing contained in the Joint Ownership Agreement will be construed to create an association, joint venture, trust or partnership. Each Owner will be individually responsible for the performance of its own obligations. Neither Owner will have a right or power to bind the other

Owner without its express written consent, except as expressly provided in the Joint Ownership Agreement or in an ancillary agreement.

16. Except as otherwise provided, all risk, loss and damage arising out of the ownership, construction, operation or maintenance of any portion of the Tacoma LNG Facility shall be borne by each Owner in proportion to its capital cost allocation set forth in Attachment D to this Settlement Stipulation, all or portions of which shall be insured; *provided, however, that*, to the extent that any loss or damage is caused by actions performed exclusively for Puget LNG or exclusively for PSE, then the Owner on whose behalf the actions were exclusively performed will be fully responsible for the loss or damage. If either Owner, by reason of joint liability, shall be called upon to make any payment or incur any obligation in excess of its proportionate Ownership Share, then the other Owner shall have the obligation to pay and reimburse, regardless of cost, such Owner proportionately to the extent of any such excess by tendering payment upon thirty (30) business days' notice of such payment in excess of its Ownership Share.

c. Insurance Requirements Under the Joint Ownership Agreement

17. Puget Energy and its affiliates will adequately insure non-regulated activity at the Tacoma LNG Facility. The term "adequately insure" means that the nominal value of such insurance coverage must reasonably reflect the size, value, and scope of the Tacoma LNG Facility and its operations.

d. Usage Fees Under the Joint Ownership Agreement

18. The Settling Parties acknowledge that, notwithstanding the Ownership Shares identified for components of the Tacoma LNG Facility set forth in this Settlement Stipulation, it may be necessary for an Owner to use more than its Ownership Share of components of the

Tacoma LNG Facility. For example, Puget LNG may desire to use more than its Ownership Share of the storage facility during the summer, when PSE does not require as much storage capacity for peaking service. Conversely, PSE may desire to use more than its Ownership Share of the truck loading facility if PSE were to build and operate LNG satellite peaking facilities in addition to that in Gig Harbor. The opportunity for each Owner to charge the other Owner to compensate for usage in excess of Ownership Shares will be included in the Joint Operating Agreement.

19. PSE will maintain sufficient records to support any such usage charge and report any such usage charge for a calendar year in the affiliated interest and subsidiary transaction report filed annually with the Commission pursuant to WAC 480-90-264. In the event PSE receives payment from Puget LNG in excess of its Ownership Share, such benefits shall flow to PSE customers. PSE will bear the burden of demonstrating to the Commission that any charges in excess of its Ownership Shares are prudent and reasonable for recovery in rates by PSE. Each of the Commission Staff, Public Counsel, NWIGU, and ICNU reserves its right to challenge such charges in excess of PSE Ownership Shares, if any, in future rate proceedings.

5. Revisions to the Commitments in the Merger Order²

20. To effectuate this Settlement Stipulation, the Settling Parties request that the Commission amend Commitment 56 in the Merger Order³ to read as follows:

56. Puget Energy shall not operate or own any business other than PSE and Puget LNG, LLC (“Puget LNG”). Puget LNG shall be a special purpose entity formed by Puget Energy solely for the purposes of owning, developing, and financing, as a tenant-in-common with PSE, an LNG facility at the Port of Tacoma (the “Tacoma LNG Facility”).

² *In the Matter of the Joint Application of Puget Holdings LLC and Puget Sound Energy, Inc., For an Order Authorizing Proposed Transaction*, Docket U-072375, Order 08 (Dec. 30, 2008) (“Merger Order”).

³ Merger Order, Attach. A, Appx. A at 12.

21. The Settling Parties further request that the Commission amend Commitment 58 in the Merger Order⁴ to read as follows:

58. Joint Applicants commit that the current and any future capital expenditure credit facilities will by their terms limit the use of such funds only for financing ~~PSE~~ capital expenditures of PSE and Puget LNG, LLC. Quarterly officer certificates under each of the credit facilities of Puget Energy and PSE will be made available to the Commission and other interested parties, upon request and subject to the protective order in Docket No. U-072375.

22. Commitment 56 and 58, as amended consistent with paragraphs 20 and 21 of this Settlement Stipulation, will apply to PSE and its affiliates, including Puget Energy and Puget LNG.

23. Commitments 1-55, 57, and 59-63 will continue in full force and effect and without amendment.

6. Notice to the Commission

24. PSE will notify the Commission of any potential sale or transfer of all or substantially all of the assets of the Tacoma LNG Facility or the potential sale or transfer of Puget LNG's non-regulated operations. PSE must give this notice as soon as practicable.

B. Agreements With Respect to Ownership Shares

25. Each of the Settling Parties agree to the following capital cost allocators with respect to the Tacoma LNG Facility:

- a. Liquefaction Allocator. The liquefaction allocator allocates capital costs associated with liquefaction, which include the costs of facilities used to receive natural gas, treat the gas, cool the gas below its boiling point and deliver the gas to onsite storage.
- b. Storage Allocator. The storage allocator allocates capital costs associated with storage, which include the costs of the site-erected

⁴ *Id.*

full containment cryogenic storage tank as well as the costs of foundations and other supporting facilities.

- c. Bunkering Allocator. The bunkering allocator allocates capital costs associated with bunkering, which include facilities used to move the LNG from the onsite storage tank to the marine loading facility, which will be located at TOTE's berthing location.
- d. Truck Loading Allocator. The truck loading allocator allocates capital costs associated with truck loading, which include facilities used to move the LNG from the onsite storage tank to tanker trucks or ISO containers
- e. Vaporization Allocator. The vaporization allocator allocates capital costs associated with vaporization, which include facilities used to vaporize the gas and inject it into PSE's distribution system.
- f. Common Allocator. The common allocator allocates common project costs, which include facilities that cannot be allocated to any individual service (e.g., facility development, civil and site work, site utilities, etc.).

26. Each of the Settling Parties agree to the following Ownership Shares with respect to the following allocators:

Component Ownership Share	PSE	Puget LNG
Liquefaction	10%	90%
Storage	79%	21%
Bunkering	0%	100%
Truck Loading	5%	95%
Vaporization	100%	0%

The Ownership Shares for the common cost allocator shall equal the weighted costs of the liquefaction, storage, bunkering, truck loading, and vaporization allocation factors. Please see Attachment D to this Settlement Stipulation for the projected Ownership Shares of common items of the Tacoma LNG Facility.

27. On a date not later than ninety (90) days after the date of formation of Puget LNG (the “Transfer Date”), (i) PSE shall assign Puget LNG’s Ownership Shares of the components of the Tacoma LNG Facility to Puget LNG; (ii) Puget LNG shall accept assignment of Puget LNG’s Ownership Shares of the components of the Tacoma LNG Facility from PSE; and (iii) Puget LNG shall pay PSE an amount equal to the product of (a) PSE’s total capital expenditures for the Tacoma LNG Facility as of the Transfer Date and (b) Puget LNG’s projected common capital costs allocation of fifty-seven percent (57%).

28. In the general rate case proceeding in which PSE seeks to include PSE’s Ownership Shares of the Tacoma LNG Facility in general rates, PSE shall (i) identify the final actual capital costs associated with each component of the Tacoma LNG Facility and (ii) calculate the common allocator for each of PSE and Puget LNG. PSE’s calculation of the common cost allocator shall be consistent with paragraph 26 and Attachment D to this Settlement Stipulation.

C. Agreement with Respect to the 16-Inch Line and Bonney Lake Lateral Improvements

29. The Settling Parties acknowledge and agree that the costs of distribution system upgrades associated with the Tacoma LNG Facility should be allocated in accordance with the principle of cost causation.

30. Although not all Settling Parties concur, PSE and NWIGU believe that the following facility would not be necessary but for the Tacoma LNG Facility:

- (i) the installation of the new 16-inch line from the existing North Tacoma high pressure line beginning near the intersection of 20th Street East and 62nd Avenue East in Fife, Washington, and terminating at the intersection of Taylor Way and East 11th Street at the Port of Tacoma (the “16-Inch Line”); and
- (ii) the installation of improvements to the Bonney Lake lateral (currently expected to consist of the installation of approximately

2.1 miles of 12-inch high pressure line) that will be required to accommodate (i) the increase of injection requirements of the Tacoma LNG Facility from 50 million cubic feet per day to 66 million cubic feet per day and (ii) the reduction of pressure out of the North Tacoma Gate Station by approximately 20 pounds per square inch (the “Bonney Lake Lateral Improvements”).

31. PSE agrees to separately identify the costs associated with the each of the 16-Inch Line and the Bonney Lake Lateral Improvements and record these costs in respective subaccounts of FERC Account 376.

32. In all retail class cost of service studies used to set retail gas sales and transportation delivery tariff rates, PSE agrees to propose to allocate the costs of each of the 16-Inch Line and the Bonney Lake Lateral Improvements identified and recorded in the subaccount of FERC Account 376 in a manner consistent with the interclass allocation of the costs of the Tacoma LNG Facility. PSE will support the interclass allocation of the Tacoma LNG Facility costs to only sales customers on the basis of their contribution to PSE’s total retail design day system peak demand (Dth/day). Except for the condition described in paragraph 33, PSE agrees not to propose to allocate any costs associated with either the 16-Inch Line or the Bonney Lake Lateral Improvements to transportation customers.

33. Notwithstanding paragraph 32, if a retail natural gas transportation customer of PSE takes retail natural gas transportation service along the 16-Inch Line, then PSE agrees to propose rates to be paid by the specific retail natural gas transportation customer or customers that will recover a portion of the costs associated with the 16-Inch Line. This proposed portion of costs will be based on the quotient of:

(a) the design day peak (Dth/day) for that retail natural gas transportation customer(s), divided by

(b) the sum of

(i) the design day peak (Dth/day) for that retail natural gas transportation customer(s), plus

(ii) the design day peak (Dth/day) for all retail natural gas sales customers.

34. If the Tacoma LNG Facility were to no longer be included in the rate base used to set retail natural gas rates for PSE, the manner in which PSE proposes to allocate the costs of either the 16-Inch Line or the Bonney Lake Lateral Improvements would remain unchanged for the remaining useful life of the 16-Inch Line or the Bonney Lake Lateral Improvements, respectively, unless and until PSE demonstrates the 16-Inch Line is used and useful in providing natural gas distribution service.

35. Nothing in paragraphs 32, 33, and 34 of this Settlement Stipulation shall bind any of the Settling Parties other than PSE. Each of Commission Staff, Public Counsel, and NWIGU retains its right to contest PSE's cost of service studies' treatment of the 16-Inch Line and the Bonney Lake Lateral Improvements.

IV. EFFECT OF THE SETTLEMENT STIPULATION

36. Prudence. By agreeing to this Settlement Stipulation, each of Commission, Staff, Public Counsel, NWIGU, and ICNU does not waive, and expressly reserves, the right to challenge in future PSE rate proceedings, the prudence and the recovery of any costs associated with the Tacoma LNG Facility used as a peaking resource and allocated to PSE. PSE agrees that nothing in this Settlement Stipulation alters its burden to prove in future rate proceedings the prudence of any costs associated with the Tacoma LNG Facility used as a peaking resource and allocated to PSE.

37. Confidentiality of Mediation Statements and Materials. Each of Commission, Staff, Public Counsel, NWIGU, and ICNU (i) acknowledges that statements made during mediation and materials exchanged during mediation are confidential pursuant to WAC 480-07-710(4)(g) and (ii) agrees not to use statements made during mediation or materials exchanged during mediation in this or any other proceeding.

38. No Waiver. The Settling Parties agree that nothing in this Settlement Stipulation shall be deemed to constitute a waiver of any Settling Party's right to argue, and the Commission's ability to find, in any subsequent proceeding that PSE's affiliation with Puget LNG, or its joint ownership or operation of the Tacoma LNG Facility, or any actions incidental thereto, violates, or is in contradiction with, any Merger Commitment.

39. Binding on Parties. The Settling Parties agree to support the terms of the Settlement Stipulation and recommend that the Commission issue an order adopting the Settlement Stipulation. The Settling Parties understand that this Settlement Stipulation is subject to Commission approval. The Settling Parties agree that this Settlement Stipulation represents a compromise in the positions of the Settling Parties. No Settling Party may cite this Settlement Stipulation as precedent in any proceeding other than a proceeding to enforce the terms of this Settlement Stipulation. No Settling Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Settlement Stipulation, and no Settling Party shall be deemed to have agreed that this Settlement Stipulation is appropriate for resolving any issues in any other proceeding, except to the extent expressly set forth in this Settlement Stipulation. No Settling Party shall represent that any of the facts, principles, methods, or theories employed by any Settling Party in arriving at the terms of

this Settlement Stipulation are precedents in any other proceeding, except to the extent expressly set forth in this Settlement Stipulation.

40. Effectiveness; Counterparts. A designated and authorized representative may sign the Settlement Stipulation on a Settling Party's behalf. This Settlement Stipulation will become effective when all Settlement Parties have signed it. The date this Settlement Stipulation is signed by the last Settling Party to sign it (as indicated by the date associated with that Settling Party's signature) will be deemed the date of this Settlement Stipulation. The Settling Parties may execute this Settlement Stipulation in one or more original or facsimile or by an e-mail which contains a portable document format (.pdf) file of an executed signature page counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same instrument and which shall be enforceable against the Settlement Parties actually executing such counterparts. The exchange of copies of this Settlement Stipulation and of signature pages by facsimile transmission or in .pdf format shall constitute effective execution and delivery of this Settlement Stipulation as to the Settling Parties and may be used in lieu of the original Settlement Stipulation for all purposes. Signatures of the Settling Parties transmitted by facsimile or by e-mail of a document in pdf format shall be deemed to be their original signatures for all purposes.

41. Integrated Terms of Settlement. The Settling Parties have negotiated this Settlement Stipulation as an integrated document. Accordingly, the Settling Parties recommend that the Commission adopt this Settlement Stipulation in its entirety. Each Settling Party has participated in the drafting of this Settlement Stipulation, so it should not be construed in favor of, or against, any particular Settling Party.

42. Public Interest. The Settling Parties agree that this Settlement Stipulation is in the public interest.

43. Approval Process. Each Settling Party agrees to support the terms and conditions of this Settlement Stipulation as a settlement of all contested issues between them in Docket UG-151663. Each Settling Party agrees to support the Settlement Stipulation during the course of whatever procedures the Commission determines are appropriate.

44. Commission Approval with Conditions. In the event the Commission approves this Settlement Stipulation, but with conditions, the Settling Parties will have ten (10) business days to file a letter with the Commission accepting or rejecting each such condition. If, in such a timely filed letter, a Settling Party rejects a condition, this Settlement Stipulation will be *void ab initio*, and the Settling Parties will jointly and promptly request the Commission convene a prehearing conference to address procedural matters, including a procedural schedule for completion of the proceeding.

45. Publicity. Each Settling Party has the right to review in advance of publication each announcement or news release another Settling Party intends to issue about this Settlement Stipulation. This right of advance review includes a reasonable opportunity for a non-issuing Settling Party to request changes to such an announcement. While the issuing Settling Party is not required to make any such requested change, the Settling Parties agree that if a news release or announcement issued by a Settling Party refers to Commission Staff, it shall include a statement that any recommendation by Commission Staff is not binding on the Commission.

[[SIGNATURE PAGE ON NEXT PAGE]]

Entered into as of this 30th day of September, 2016.

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Date: _____

DAVISON VAN CLEVE, P.C.

By: Jason Kuzma for
TYLER C. PEPPE

*Email authorization
9/30/16 at 4:41 pm*

Attorneys for Industrial Customers of
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Date: 9/30/16

**ATTACHMENT A TO THE
FULL SETTLEMENT STIPULATION**

ATTACHMENT A
Summary of Procedural History in Docket UG-151663

1. The Commission convened a prehearing conference in this proceeding at Olympia, Washington on September 8, 2015, before Administrative Law Judge Dennis J. Moss. PSE, Commission Staff,⁵ Public Counsel,⁶ and NWIGU⁷ made appearances. The Commission entered Order 02 and adopted a preliminary procedural schedule including technical conferences on September 18 and 21, and October 8, 2015. The parties to the proceeding agreed to reconvene in prehearing to discuss their progress on the afternoon of October 13, 2015.

2. At the October 13, 2015 prehearing conference, counsel for PSE, Staff, Public Counsel, and NWIGU each commented favorably on the progress made during the three technical conferences and in additional communications, including discovery, during the September and early October time frame. The parties stated that they had identified and were working to resolve issues of law and policy that raise threshold questions, the resolution of which could be determinative. The parties agreed to continue seeking common ground and to either report success in this regard, or to file simultaneous briefs on November 20, 2015, stating their respective positions on these issues that do not involve contested facts.

3. The Commission entered Order 03, its second prehearing conference order, on October 15, 2015. Order 03 stated that if issues remained after November 20, 2015, that could

⁵ In formal proceedings, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

⁶ Public Counsel is a statutory party.

⁷ The Commission granted NWIGU's unopposed Petition to Intervene.

not be resolved on stipulated facts, then the Commission would establish early dates for response and rebuttal testimony, if needed, considering a planned January 29, 2016, hearing date.

4. PSE, Staff, and Public Counsel, following a short continuance granted in response to a request by Public Counsel, filed briefs on November 24, 2015. NWIGU filed a letter with the Commission on November 23, 2015, stating the organization elected not to brief “the threshold matters identified in the Prehearing Conference Order (Order 03).”

5. On December 18, 2015, the Commission entered Order 04 in this proceeding, in which the Commission determined that it has “general jurisdiction under Title 80 RCW to regulate sales of liquefied natural gas by gas companies for use as transportation fuel.” However, the Commission also determined that it lacked authority to exercise its jurisdiction over sales of liquefied natural gas by PSE to TOTE as originally proposed by PSE. The Commission also stated in Order 04 that

[w]hile the structure of the business PSE proposes, as described in its Petition and accompanying submittals in this docket, is one over which we cannot lawfully assert our jurisdiction, we make that determination here provisional and will carry the question forward with the case for the time being. We accordingly will afford the parties two additional formal opportunities to explore the question of jurisdiction specifically, and the proposed project more generally, to learn whether there may be alternative business models with structures that would fall under the Commission’s jurisdiction if this is somehow critical to the success of this project. Parties may file supplemental briefs by January 15, 2016, to address this question.⁸

6. On January 11, 2016, the Commission entered Order 05, extending the date for filing supplemental briefs from January 15, 2016 to January 29, 2015, allowing an opportunity for parties to file reply briefs on February 15, 2016, and rescheduling oral argument.

⁸ Order 04 ¶ 30.

7. On January 25, 2016, the Commission granted, in Order 06, an unopposed motion from Commission Staff to suspend the procedural schedule to allow parties additional time to engage in settlement discussions.

8. On March 4, 2016, PSE filed a motion requesting that the Commission establish a bifurcated proceeding to allow for review of an alternative business model PSE is proposing as contemplated by Order 04. PSE's alternative business model would treat all sales of LNG for transportation fuel as non-jurisdictional. In the filing, PSE proposed to establish a newly formed, unregulated subsidiary of Puget Energy (PSE's parent corporation) as the business entity that would make such sales to TOTE and others. PSE, by its motion, proposes specifically that in the first phase of the bifurcated proceeding, the parties would brief and the Commission would rule on two issues:

- Whether the Commission would provide an exemption to Merger Commitment 56 in Docket U-072375 that would allow Puget Energy to own and operate both PSE and Puget LNG.
- Whether the Commission would authorize an equal sharing of the projected portfolio benefits associated with the Tacoma LNG Facility between PSE investors and PSE natural gas sales customers for consideration in this proceeding.

PSE described these issues as “foundational” and believed they present only policy questions for the Commission, thus requiring no extensive factual investigation prior to a decision.

9. On March 29, 2016, the Commission entered Order 07 in this proceeding. Order 07 established a bifurcated process for considering certain “threshold” issues in phase one, with other issues to be determined in a subsequent phase two, if necessary. Order 07 established dates for initial and response briefs to be filed, and for oral argument, in phase one.

10. On April 15, 2016, PSE filed its initial brief in phase one of the bifurcated proceeding.

11. On May 9, 2016, Public Counsel filed a Motion for Extension of Time, in which Public Counsel requested a brief extension of time for parties to file their phase one response briefs to PSE's phase one brief filed on April 15, 2016. Public Counsel asked that the deadline for response briefs be extended from May 16 to May 18, 2016. No party objected to Public Counsel's proposal.

12. Also on May 9, 2016, the Commission entered Order 08, granting Public Counsel's Motion for Extension of Time filed on May 9, 2016.

13. On May 18, 2016, Commission Staff, Public Counsel, NWIGU, and ICNU⁹ filed response briefs in the proceeding.

14. On May 29, 2016, the Commission conducted a hearing to hear argument on the briefs submitted by PSE on April 15, 2015, and submitted by each of Commission Staff, Public Counsel, NWIGU, and ICNU on May 18, 2016. At the hearing, PSE proposed to set aside a two-month period during which the parties could participate in mediated negotiations in an effort to develop parameters for the Tacoma LNG Facility that would be acceptable to all parties and the Commission. The Commission determined that it would be appropriate to provide a two month window of opportunity for the process to take place. The Commission further determined that "absent success, or at least very significant progress toward success, during the two month period, it should establish such process and procedural schedule as necessary to bring this proceeding to a timely conclusion."

⁹ Pursuant to Order 07 in the proceeding, the Commission issued a notice of opportunity that allowed parties to Docket U-072375 that are not parties to this proceeding to submit briefs limited to the first question to be briefed in phase one of the proceeding (i.e., whether the Commission would provide a limited exemption to the Merger Commitments set forth in Docket U-072375 for the purpose of allowing Puget Energy to own and operate both PSE and an unregulated affiliate). ICNU was the sole party to Docket U-072375 that was not already a party to this proceeding to submit such a brief.

**ATTACHMENT B TO THE
FULL SETTLEMENT STIPULATION**

ATTACHMENT B
Joint Ownership Agreement Term Sheet

**Term Sheet for Joint Ownership Agreement (“JOA”) re
Tacoma LNG Project**

Parties	Puget Sound Energy, Inc., a Washington corporation (“ PSE ”) and Puget LNG, LLC, a to-be-formed Washington limited liability company (“ Puget LNG ”). Each of PSE and Puget LNG is individually referred to herein as a “ Party ” and collectively are referred to herein as the “ Parties. ”
Project	The liquefied natural gas (“ LNG ”) liquefaction and fueling terminal under development by PSE at the Port of Tacoma, Washington (the “ Tacoma LNG Project ”).
Structure	The ownership of the Tacoma LNG Project will be structured as a co-tenancy pursuant to which each of PSE and Puget LNG would hold an undivided interest as a tenant in common in the assets comprising the Tacoma LNG Project. PSE would utilize its portion of the Tacoma LNG Project for regulated purposes (i.e., peak shaving), whereas Puget LNG would utilize its portion of the Tacoma LNG Project for unregulated sales of LNG, including sales to Totem Ocean Trailer Express, Inc. (“ TOTE ”) pursuant to that certain LNG Fuel Supply Agreement, dated October 27, 2014 (the “ TOTE FSA ”), between TOTE and PSE. The JOA will establish the governance of, and the Parties rights and obligations with respect to, such co-tenancy.
Ownership Interest	Each Party’s ownership interest in the Tacoma LNG Project is expected to be determined as part of a mediated settlement agreement among the parties to PSE’s current regulatory process for the Tacoma LNG Process. Such ownership interests will be determined based upon allocated portions of the closing costs (less AFUDC) associated with each party’s intended use of components of the Tacoma LNG Facility, all as further detailed on Appendix A hereto, which provides a more detailed breakdown showing the estimated allocations of capital costs.
Development and Capital Costs and Expenses	Consistent with Appendix A, each of the Parties will be obligated to pay its share, based on ownership interest and intended use, of the costs and expenses associated with the development, design, construction and ownership of the Tacoma LNG Project. For example, capital costs associated with marine bunkering capabilities will be allocated 100% to Puget LNG, whereas the capital costs associated with vaporization facilities will be allocated 100% to

PSE. Concurrently with the execution of the JOA, Puget LNG would reimburse PSE for Puget LNG's shares of any such costs already incurred by PSE.

Operating Costs and Expenses

Each of the Parties will be obligated to pay its allocable share of the costs and expenses associated with the operation and maintenance of the Tacoma LNG Project. Operations and maintenance costs will be allocable generally on the basis of ownership interest, except for those portions of the facility as to which specific allocations are made based upon the intended use of the applicable portion of the project. For example, operations and maintenance expenses associated with marine bunkering facilities will be allocated 100% to Puget LNG.

Existing Development Assets

Certain assets and rights associated with the Tacoma LNG Project, such as the ground lease at the Port of Tacoma and various permits, are currently held in PSE's name. The JOA will provide that (i) these assets will continue to be held by PSE, but that PSE will hold that portion of such assets and rights as are allocable to Puget LNG's interest in the Tacoma LNG Project in trust for the benefit of Puget LNG, and (ii) upon the reasonable request of Puget LNG, PSE will reasonably cooperate to transfer into Puget LNG's name that portion of such assets and rights as are allocable to Puget LNG. Notwithstanding the foregoing, concurrently with the execution of the JOA, PSE would assign to Puget LNG all of PSE's right, title and interest in, to and under the TOTE FSA as well as that certain letter agreement, dated July 9, 2015 and as amended, between PSE and TOTE pertaining to the interim supply of LNG to TOTE pending the commencement of commercial operations of the Tacoma LNG Facility.

Liability and Indemnification

The obligations and liabilities of Puget LNG and PSE with respect to the Tacoma LNG Facility are intended to be several and not joint or collective. Except as otherwise provided, all risk, loss and damage arising out of the ownership, construction, operation or maintenance of any portion of the Tacoma LNG Facility shall be borne by PSE and Puget LNG in proportion to its capital cost allocation ("Ownership Shares"), all of which shall be insured. To the extent, however, any loss or damage is caused by actions performed exclusively for Puget LNG or exclusively for PSE, then Puget LNG or PSE will be fully responsible for the loss or damage.

Guaranty

Puget LNG would cause Puget Energy, Inc., its parent company, to furnish a guaranty of Puget LNG's obligations under the JOA to PSE.

Board Composition	It is the Parties' expectation that a board of managers (the " Board "), consisting of four managers (each, a " Manager "), two of whom shall be designated by PSE and two of whom shall be designated by Puget LNG, shall be established to manage the Parties' interest in the Tacoma LNG Project.
Meetings of the Board	Regular meetings of the Board shall be held at least quarterly, at such places, dates and times as may be fixed by mutual agreement of PSE and Puget LNG, upon seven (7) days' prior written notice to each Manager, which notice may be given by electronic communication. Special meetings of the Board may be called by any Manager upon seven (7) days' prior written notice to each Manager, which notice may be given by electronic communication and shall identify the purpose of the special meeting or the business to be transacted. The presence of one Manager appointed by PSE and one Manager appointed by Puget LNG shall constitute a quorum for the transaction of business at any Board meeting. Managers may participate in meetings by means of a conference telephone, videoconference, or similar communications equipment except where an in person meeting is requested by a Manager.
Voting by the Board	All matters decided by the Board shall require the unanimous approval of the Managers present at a duly convened meeting of the Board in which a quorum is present. Each Manager will be entitled to cast one vote.
Duties of the Board	All matters not expressly reserved to the Parties shall be deemed delegated to the Board. The Board shall establish the policies, procedures and guidelines (subject to Party Approval) for the management of the affairs of the Tacoma LNG Project.
Matters Reserved to the Parties	Appendix B sets forth certain matters reserved to the Parties that require Party Approval.
O&M Services	The Parties would enter into an Operations and Maintenance Contract (the " O&M Contract ") pursuant to which PSE would operate and maintain the Tacoma LNG Project. The Parties anticipate that the O&M Contract would continue for the life of the Tacoma LNG Project and would provide for a cost of service based pricing structure pursuant to which PSE would allocate costs incurred in providing services under the O&M Contract and would bill Puget LNG for its allocable share of such costs. The scope of services under the O&M Contract would also contemplate the implementation by PSE of capital improvements funded by the Parties in accordance with the Annual Budget. All work under the O&M Contract shall be in accordance with prudent utility practice

and cost of service shall be reasonable and prudent. If third party services are utilized, the cost of such services shall be consistent with market pricing for such services and if market pricing is not available then the prices must be demonstrably reasonable.

Annual Budget

The JOA will include an initial budget detailing the expected capital and operating costs required for the Tacoma LNG Project (the “**Annual Budget**”), which shall be updated on an annual basis. The Board shall approve or disapprove each subsequent Annual Budget, subject, however, to Party Approval. In the event that no Annual Budget for a fiscal year is approved prior to the first day of such fiscal year, the Annual Budget for the immediately preceding fiscal year shall continue in effect until the approval of a new annual budget in accordance herewith.

Confidentiality

The JOA shall include customary confidentiality provisions.

Transfer Restrictions

All transfers, direct or indirect, of interests in the Tacoma LNG Project, shall be subject to customary restrictions, including appropriate credit ratings or collateral support for an assignee’s obligations under the JOA.

Dispute Resolution and Governing Law

Any dispute, controversy or claim between the Parties arising out of, relating to, or in any way connected to the JOA will be submitted to senior management of each Party. If such executives are unable to resolve the dispute, the parties will resolve the dispute in Washington state or federal courts. The JOA shall be governed by the laws of the State of Washington.

This term sheet is non-binding. The Parties agree that (i) the Parties hereto have not created, nor intend to create, a partnership, joint venture or other special relationship of any kind, and (ii) no conduct, communication or any other representation by either Party prior to execution of a JOA will be interpreted as creating, or intending to create, such a relationship. Prior to execution of a JOA, each Party agrees to bring no action or make any claim against the other Party based on the establishment of a partnership or any other enforceable obligation arising from a course of conduct or course of dealing between the Parties. But for this waiver and the statements made in this paragraph, the Parties hereto would not be willing to pursue the proposed transaction.

Cost Allocations
[To come.]

Appendix A

Party Approval Voting Requirements

For so long as a Party holds, directly or indirectly, a 20% or greater interest in the Tacoma LNG Project, each of the following matters shall require the affirmative vote of such Party (“**Party Approval**”):

1. Approval of the Annual Budget and any changes thereto.
2. Any decision to acquire or dispose of assets comprising the Tacoma LNG Project in excess of \$100,000 in any single transaction, except as included in the Annual Budget.
3. Any incurrence of indebtedness for which the Parties shall be jointly liable (other than as contemplated by the Annual Budget or in the ordinary course of business).
4. The placement of any lien on the assets of the Tacoma LNG Project, other than as contemplated by the Annual Budget, other than the lien of PSE’s mortgage indenture, which shall automatically attach.
5. The making of a guarantee by the Parties on a joint and several basis of payment obligations or performance of other obligations of third parties, other than in the ordinary course of business or as contemplated by the Annual Budget.
6. Entering into any contract pertaining to the Tacoma LNG Project having either a current market value or a total remaining cost of greater than \$250,000, or amending or modifying in any material respect or terminating such a contract, except as consistent with the Annual Budget.
7. Any decision to initiate or settle any litigation pertaining to the Tacoma LNG Project having a value in excess of \$100,000.
8. Other than routine filings and notifications, the making of any filing with or notification to any regulatory authority have jurisdiction over the Tacoma LNG Project or the Parties’ activities with respect thereto.
9. The appointment of any agents or intermediaries with authority to act in the name of or otherwise bind the Parties with respect to the Tacoma LNG Project.
10. Entry into, or amendment or modification in any material respect of, any transaction pertaining to the Tacoma LNG Project with any Party or with an affiliate of any Party, other than on fair and reasonable terms substantially as favorable to the Parties or the Tacoma LNG Project as would be obtainable at the time in a comparable arm’s length transaction.
11. Any decision to grant to any Third Party rights to use real property rights acquired for the Tacoma LNG Project.

**ATTACHMENT C TO THE
FULL SETTLEMENT STIPULATION**

ATTACHMENT C
Representative List of Fixed Operating Costs Associated with the Tacoma LNG Facility
(Projected Annual Fixed Operating Costs for Calendar Year 2020)

The following fixed operating costs represent the projected annual fixed operating costs for *all* operations for calendar year 2020 other than Bunkering Station costs and are not allocated between regulated and non-regulated operations of the Tacoma LNG Facility.

Fixed Operating Costs	2020
Maintenance	\$751,249
Staff	\$3,157,852
Incremental Insurance	\$864,769
Allocated Corporate Overheads	\$1,812,388
Lease	\$2,613,074
TOTAL	\$9,199,332

**ATTACHMENT D TO THE
FULL SETTLEMENT STIPULATION**

ATTACHMENT D
Tacoma LNG Facility Ownership Shares

Component Ownership Share	PSE	Puget LNG	Projected Capital Expenditures (No AFUDC)	Projected Capital Expenditures Allocated to PSE	Projected Capital Expenditures Allocated to Puget LNG
Liquefaction	10%	90%	\$88,546,234	\$8,854,623	\$79,691,611
Storage	79%	21%	\$96,237,245	\$76,027,424	\$20,209,821
Bunkering	0%	100%	\$29,671,922	\$0	\$29,671,922
Truck Loading	5%	95%	\$6,229,252	\$311,463	\$5,917,789
Vaporization	100%	0%	\$17,135,822	\$17,135,822	\$0
Common	43%	57%	\$72,884,330	\$31,340,262	\$41,544,068
TOTAL	N/A	N/A	\$310,704,805	\$133,669,593	\$177,035,212

- * The common cost allocator for PSE shall equal the quotient of (i) the sum of the values for liquefaction, storage, bunkering, truck loading, and vaporization in the column “Projected Capital Expenditures Allocated to PSE,” divided by (ii) the sum of the values for liquefaction, storage, bunkering, truck loading, and vaporization in the column “Projected Capital Expenditures (No AFUDC).”
- ** The common cost allocator for Puget LNG shall equal the quotient of (i) the sum of the values for liquefaction, storage, bunkering, truck loading, and vaporization in the column “Projected Capital Expenditures Allocated to Puget LNG,” divided by (ii) the sum of the values for liquefaction, storage, bunkering, truck loading, and vaporization in the column “Projected Capital Expenditures (No AFUDC).”