

**EXHIBIT NO. \_\_\_\_ (MM-5)  
DOCKETS UE-17 \_\_\_\_ /UG-17 \_\_\_\_  
2017 PSE GENERAL RATE CASE  
WITNESS: MICHAEL MULLALLY**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**Docket UE-17 \_\_\_\_**

**Docket UG-17 \_\_\_\_**

**FOURTH EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED DIRECT TESTIMONY OF**

**MICHAEL MULLALLY**

**ON BEHALF OF PUGET SOUND ENERGY**

**JANUARY 13, 2017**



# PUGET SOUND ENERGY

*The Energy To Do Great Things*

Puget Sound Energy  
P.O. Box 97034  
Bellevue, WA 98009-9734  
PSE.com

June 13, 2013

Patricia Johnson, Mayor  
Dave Schmidt, City Administrator  
City of Buckley  
933 Main Street, P.O. Box 1960  
Buckley, WA 98321

**Regarding: Request for Proposals City of Buckley Sale of Natural Gas Utility**

Dear Mayor Johnson and Mr. Schmidt,

Puget Sound Energy has been the sole provider of electric service to the City of Buckley since the original town was incorporated in 1889. We have built trust within communities like Buckley by operating safely and efficiently and offering services at competitive rates.

I am pleased to present to you a bid package in response to the City of Buckley Request for Proposals process initiated earlier this year.

PSE is enthusiastic about the opportunity to build upon and expand our relationship with the residents and leadership of the City of Buckley by providing natural gas service to you.

Sincerely,

Roger Garratt  
Director, Financial Planning and Strategic Initiatives

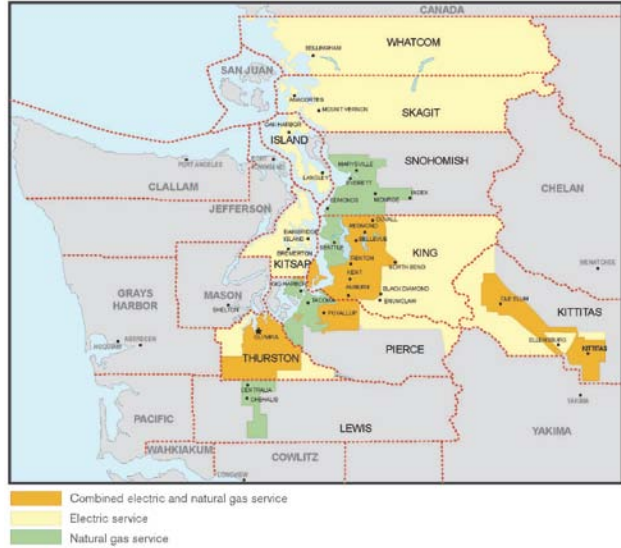


Puget Sound Energy, Inc.

# Bid Package to Purchase the City of Buckley Natural Gas Distribution System

*June 13, 2013*

Puget Sound Energy, Inc. (“PSE”) is pleased to respond to the City of Buckley’s Request for Proposals (“the Buckley RFP”) with a bid to purchase its natural gas distribution system. In its more than 135 years of service to the Puget Sound area, PSE has remained a committed partner to the communities we serve by offering great customer service and helping to make our communities better places to live and work. PSE views this as an opportunity to further enhance our strong bond with the City of Buckley (“the City” or “Buckley”) and to leverage our existing local infrastructure and resources to offer safe, reliable and affordable natural gas service and customer programs to the City’s residents, many of whom are already PSE electric service customers.



PSE is Washington State’s oldest local energy company, providing electric and natural gas service to customers primarily in the Puget Sound region of Western Washington. With a service area of more than 6,000 square miles, stretching from south Puget Sound north to the Canadian border, and from Central Washington’s Kittitas Valley west to the Kitsap Peninsula, we serve more than 1.1 million electric customers and more than 760,000 natural gas customers in 10 counties, including Pierce County.

**BID PRICE**

Puget Sound Energy, Inc. offers \$5,400,000.00 for the assets of the City of Buckley’s natural gas utility.

Accompanying this bid is a cashier’s check payable to the City of Buckley totaling \$270,000.00.

PSE acknowledges if its bid is accepted and it fails to comply therewith within the time hereunder the check or deposit shall be forfeited to the city.

**CUSTOMER PROGRAMS**

Unparalleled Customer Programs and Services



Providing customers safe and efficient energy solutions is very important to PSE. Following are some of the natural gas programs that would be available to the City of Buckley from PSE:

*Natural Gas Safety Response* - The safety of our customers and communities is paramount to PSE. As a result, we have over 100 gas first responders throughout the Puget Sound region that are fully trained and ready to respond to all gas safety and odor calls. Our gas first responders are consistently at every safety call within 30 minutes no matter where the location.

*Energy Efficiency Services* - PSE has natural gas rebates and incentives to help customers save money on their energy bills. These incentives range from gas furnace rebates, weatherization incentives, rebates for restaurants that cook with natural gas, and even fuel-switching incentives from homes currently heating with electricity and switch to natural gas. Homeowners have access to up to \$5000 worth of natural gas incentives and rebates.

*Natural Gas Appliance Repair* - In addition to our safety response service, our gas first responders are also available to help ensure our customers' equipment is operating safely and efficiently by replacing equipment parts, making mechanical adjustments and even simply explaining proper use. Our natural gas customers consistently rate this service highly.

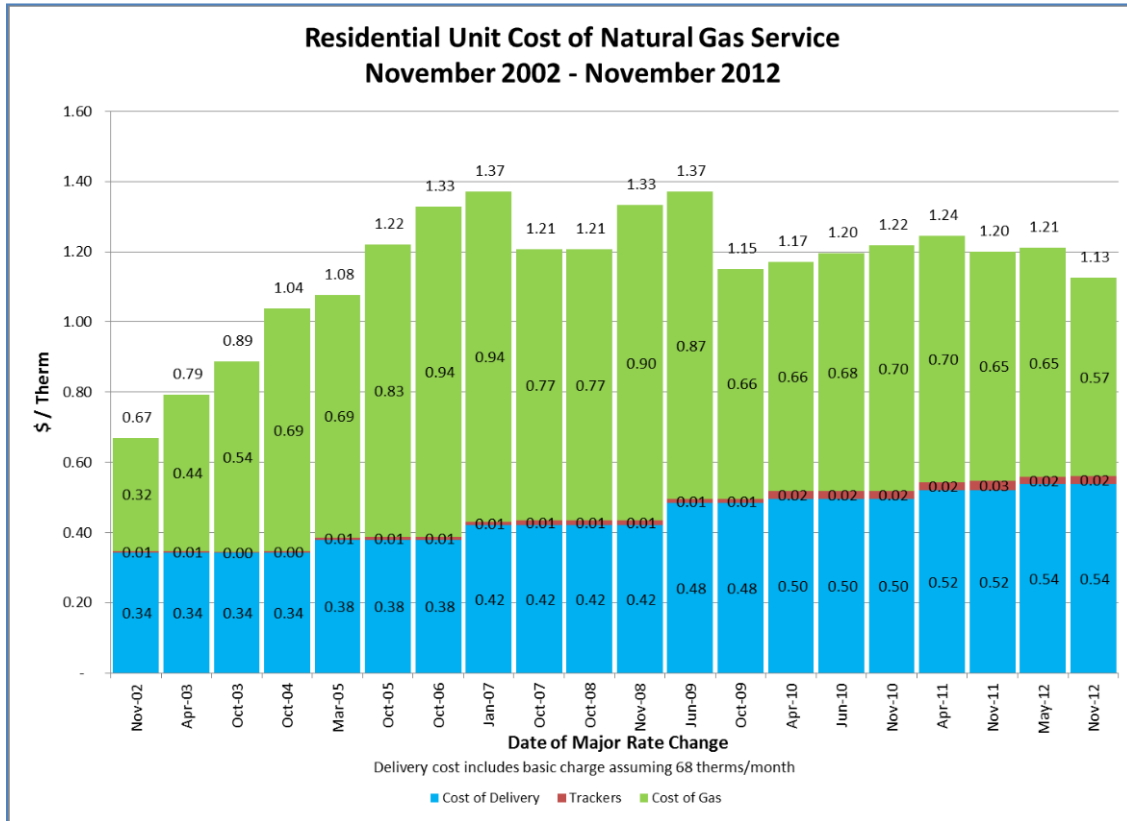
## **FIVE YEAR PROSPECTIVE RATE ANALYSIS**

PSE offers a variety of natural gas service offerings. City of Buckley customers would be placed on, or select, the appropriate tariff schedule for service. Buckley customers would be transitioned to PSE rates as expeditiously as allowed under current law at no charge.

PSE anticipates the majority of Buckley residential and commercial customers would see a drop in the overall price for their natural gas service; the Rainier School facility would pay about the same rate overall.

- Based on a comparison of residential natural gas rates, an average residential customer may pay up to 10 percent less under PSE rates than they would under current City of Buckley rates.
- Based on a comparison of commercial natural gas rates, an average commercial customer would pay about 6 percent less under PSE rates than they would under current City of Buckley rates.

City of Buckley customers would be placed on existing PSE rate schedules. Rates would adjust indiscriminately across all rate schedules as approved by the WUTC. Future five year rates are unknown. However, historical natural gas rates may provide some insight of possible rate scenarios:



### BUCKLEY INFRASTRUCTURE AND NEEDS

PSE reviewed City construction and maintenance records, as well as WUTC audit records. The due diligence performed led the PSE team to conclude the Buckley natural gas system was in adequate condition and similar to PSE’s regarding age, material, and construction.

At or prior to transition, PSE would likely perform a leak survey. Subsequently, customer meters would be swapped out in order to comply with State law that requires PSE to have knowledge of a meter’s history.

On an ongoing basis, PSE programmatically evaluates system capacity deficiencies and expansion needs and then periodically upgrades its natural gas system.



PSE maintains service centers near Buckley, in the cities of Puyallup, Tacoma, and Enumclaw. PSE anticipates serving the City out of one or more of these pre-existing locations. The Bonney Lake community is already served by PSE natural gas operations from the nearby locations mentioned.

## **PSE QUALIFICATIONS AND EXPERIENCE**

### *Natural Gas Supply*

Puget Sound Energy introduced Washington territory to gas lighting in 1873. Today we operate the state's largest natural-gas distribution system serving more than 760,000 gas customers in six counties.

PSE manages a strategically diversified gas-supply portfolio to reduce financial risks and hold down customers' rates. PSE also controls gas-supply costs by storing gas in large underground facilities, then withdrawing it in winter when customer usage is highest.

All the gas PSE acquires is transported into the Company's service area through large interstate pipelines owned and operated by third parties. Once PSE takes possession of the gas, it is distributed to customers through more than 21,000 miles of PSE-owned gas mains and service lines.

PSE controls its gas-supply costs by acquiring gas, under contract, from a variety of gas producers and suppliers across the western United States and Canada. To obtain gas at the most favorable price, PSE carefully analyzes gas-market trends and conditions, then strategically procures gas under a mix of short-, medium- and long-term contracts. The combined price PSE pays for natural gas under these contracts is passed along to customers at cost, with no mark-up or profit for PSE. Another cost-saving measure involves flexible gas-transportation agreements with suppliers that enable PSE to selectively purchase gas from favorably priced locations.

PSE purchases 100 percent of the natural-gas supplies needed to serve its customers. About half the gas is obtained from producers and marketers in British Columbia and Alberta, and the rest comes from Rocky Mountains states.

### *Natural Gas Reliability*

Maintaining safety, while delivering a consistent and affordable supply of natural gas is PSE's highest priority, which is why it regularly inspects and tests the natural gas system, making corrections before power-quality problems arise.

While state and federal maintenance requirements for natural-gas equipment are steadily increasing, PSE routinely goes beyond the required standards. PSE technicians and other field employees monitor the gas system daily for anything out of the ordinary.



Plus, PSE's consistent maintenance and upgrades to the piping systems help ensure its reliability.

#### *Safety and Reliability Highlights*

- Sophisticated electronic gas-detection equipment is used to inspect every neighborhood's system
- Transmission pipelines are surveyed for leaks every six months
- Gas mains in service areas with business and high-occupancy structures are examined for leaks annually
- About 60 percent of our natural gas system lines are corrosion-resistant plastic piping
- Cathodic protection is applied on steel pipelines to inhibit corrosion
- Upgrading many remaining steel pipelines to plastic piping

#### **WUTC AND FEDERAL PIPELINE SAFETY REGULATIONS**

PSE is committed to following Washington State, Federal, and utility best practices with regard to pipeline safety regulations. The Company proactively monitors the system and repairs equipment, and corrects deficiencies as they arise.

#### **WASHINGTON STATE LICENSED PROFESSIONAL ENGINEERS**

PSE employees approximately 100 licensed engineers and around 25 of them are involved with the Company's natural gas operations.

#### **OQ QUALIFIED STAFF**

PSE is fully compliant with Subpart N of 49 CFR Part 192. In addition to PSE field employees, the Company can also call on its Service Provider to make available additional OQ qualified employees as needed. The training and qualification is set up through the PSE-UA Training Trust, an agreement between PSE and UA Local 32 that sets forth the understanding between the two parties relating to the training and qualification of PSE employees.

#### **INSURANCE PROGRAM**

PSE maintains a comprehensive program of risk retention and insurance.

The Company's casualty program for General Liability, Auto Liability, Workers Compensation and Completed Operations has substantial limits in place. The self-insured retention, which is currently \$2,000,000 per occurrence, may fluctuate from year to year; however, it is always consistent with PSE's net worth and cash flows.





Excess insurance protection is purchased, which is consistent with that of other corporations of similar size and meets or exceeds the insurance required for the Buckley natural gas system.

PSE's property program also has substantial limits in place. The self-insured retention, which is currently \$5,000,000, may fluctuate from year to year; however, it is also always consistent with PSE's net worth and cash flows. Excess property insurance protection is purchased, which is consistent with that of other corporations of similar size and meets or exceeds the insurance requirements necessary for this natural gas system. PSE self-insures its underground gas transmission and distribution systems.

### **PSE EMPLOYMENT OPPORTUNITIES**

PSE is willing to extend an offer of employment to each of the City of Buckley's three current gas utility employees. PSE's training and operations staff would work with the employees, should they choose to accept an employment offer, to identify and address any training or qualification gaps to meet PSE's journey level standards.

The purchase transaction would occur irrespective of the City employees' decision regarding PSE job offers.

### **CLOSING**

Puget Sound Energy, Inc. is pleased to extend a bid to purchase the City of Buckley's natural gas system. PSE has been in the community as an electric service provider for decades and welcomes the opportunity to expand our offerings by meeting the natural gas needs of the City's customers for years to come.