

**EXHIBIT NO. ___(MM-8)
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 UE-17___**

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

MICHAEL MULLALLY

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 13, 2017

Firm Natural Gas Service Agreement
between City of Enumclaw and Puget Sound Energy, Inc.

This Firm Natural Gas Service Agreement (this "Agreement"), dated this 28th day of May 2014, is made and entered into by and between the **City of Enumclaw**, a municipal corporation in King County, Washington ("CoE"), and **Puget Sound Energy, Inc.**, a Washington corporation ("PSE") (collectively, the "Parties," or singularly, "Party").

Recitals

Whereas, the CoE provides firm natural gas service to the City of Buckley ("CoB") natural gas distribution system pursuant to a Natural Gas Agreement dated April 11, 1972, as amended September 13, 1983 and December 28, 1994 and last authorized by the City Council under Resolution No. 652 dated January 9, 1995 ("Old Agreement");

Whereas, the CoB has agreed to sell the CoB natural gas distribution system ("CoB System") to PSE pursuant to an Asset Purchase Agreement between PSE and CoB dated April 25, 2014 ("APA");

Whereas, the APA provides for the assignment of the Old Agreement from CoB to PSE, effective on a date specified in the APA ("Transfer Date");

Whereas, CoE desires to continue to provide firm natural gas service to the former CoB System and PSE desires to receive such service for the CoB System after purchase by PSE;

Whereas, the Parties have agreed to terminate the Old Agreement between CoE and CoB, effective upon the Effective Date, and replace that service with firm natural gas service provided for hereunder;

Now Therefore, in consideration of the premises and the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, CoE and PSE agree as follows:

Agreement

ARTICLE 1 Consent to Assignment and Termination of Old Agreement-

- A) CoE consents to the assignment of the Old Agreement from CoB to PSE effective on the Transfer Date.
- B) PSE assumes no obligations or liabilities arising under the Old Agreement to the extent that such obligations or liabilities arise from or in connection with any one or more acts or omissions occurring prior to the Transfer Date ("Prior Obligations").

CoE acknowledges and agrees that Prior Obligations (i) are and remain obligations and liabilities of the CoB, and (ii) are not obligations or liabilities assumed by PSE.

- C) PSE shall be responsible to pay for services rendered to PSE by CoE under the Old Agreement from and after the Transfer Date. Effective on the Effective Date, the Parties agree to terminate the Old Agreement and commence operations under this Agreement. Excepting any obligations arising under the Old Agreement prior to the Effective Date, upon such termination of the Old Agreement, the Old Agreement shall thereafter be null, void and of no further force or effect.

ARTICLE 2 Firm Natural Gas Service

- A) CoE shall provide firm transportation of natural gas received in PSE's name for the CoB System from Northwest Pipeline, LLC at the Receipt Point and delivered to PSE at the Delivery Point.
- B) Receipt Point: Point of interconnect between facilities of Northwest Pipeline, LLC and facilities of CoE.
- C) Delivery Point: Point of interconnect between facilities of CoE and facilities of the CoB System as further defined in Article 5.
- D) Maximum Daily Contract Quantity: 2,469 Dth/day, at a flow not greater than 124 Mcf per hour.
- E) Minimum Delivery Pressure: 100 psig as measured at the inlet to the Custody Transfer Meter.
- F) Maximum Delivery Pressure: 250 psig as measured at the inlet to the Custody Transfer Meter.

ARTICLE 3 Term

- A) Effective Date shall be the later of: (i) the date this Agreement is approved by CoE City Council; or (ii) the Transfer Date; or (iii) a date mutually agreed by the representatives of the Parties in Article 15, but not more than 30 days after the Transfer Date.
- B) Initial Termination Date shall be the date twenty (20) years after the Effective Date; the twenty-year period from the Effective Date to the Initial Termination Date shall be the Initial Term.
- C) Automatic Renewal Period: an additional 5 years after the Initial Termination Date, unless either Party provides written notice of termination to the other Party at least 2 years prior to the Initial Termination Date.

ARTICLE 4 Charges, Minimum Bill, Taxes

- A) PSE shall pay to CoE a (i) Monthly Demand Charge of \$3,250 and (ii) a Transportation Unit Rate of \$.0294 per Therm of natural gas delivered at the Delivery Point during the Initial Term of this Agreement. If the Agreement is extended pursuant to Article 3 C), the Parties agree to negotiate in good faith to adjust the Monthly Demand Charge and the Transportation Unit Rate, as necessary to satisfy both Parties.
- B) Charges under this Agreement shall be calculated using the Cost of Service methodology consistent with Exhibit A to this Agreement, which is incorporated herein.
- C) PSE shall pay to CoE a Monthly Meter Upgrade Surcharge Fee as determined pursuant to Article 8 B) and documented in a written Addendum to this Agreement, for the months that such Monthly Meter Upgrade Surcharge Fee is applicable.
- D) The monthly minimum bill shall consist of the Monthly Demand Charge plus the Monthly Meter Upgrade Surcharge Fee, if any.
- E) During the Initial Term and an Automatic Renewal Period, if any, of this Agreement CoE agrees not to apply or increase any municipal tax or other fee applicable to the charges due under this Agreement, unless such tax or fee is applicable to all other utility services operating in the CoE.
- F) Charges due under this Agreement shall be subject to a rate recalculation effective upon the 5th, 10th and 15th anniversary of the Effective Date (“Rate Recalculation”). Rates for each Rate Recalculation shall be calculated using the Cost of Service methodology demonstrated on Exhibit A to this Agreement. The Rate Recalculation shall consider completed Replacements and changes in O&M costs and expected annual volumes of the Parties. The Parties shall negotiate, in good faith, (a) the expected inflation rate applicable to O&M costs, (b) the assumed growth rate of CoB volumes and (c) the Rate of Return for each Rate Recalculation.
- G) The Parties recognize the importance of and need for planning for timely replacement, relocation or repair of elements of the CoE system benefitting both Parties prior to the end of their useful life to preserve the safety and integrity of the CoE system (“Replacements”). The Parties agree that such Replacements are a shared responsibility based on the design peak demand for and volume of gas consumed by each of the CoE and CoB systems. Therefore, at least 6-months prior to the end of the Initial Term of this Agreement, or at other times as necessary to address identified deficiencies, the Parties will collaboratively complete or update an asset management plan to identify criteria for making future Replacements, an estimated replacement schedule for the CoE facilities based on the criteria, funding alternatives, and cost sharing arrangements acceptable to both Parties. The Parties shall also consult collaboratively to approve any significant repair or relocation project in advance of construction.

- H) The depreciation and return on Replacements shall be reflected in the Cost of Service during the next Rate Recalculation following the in-service date of such Replacements, provided that inclusion in the Rate Recalculation is contingent upon CoE having consulted with PSE in advance of commencing construction of any Replacements with expected total costs in excess of \$100,000.

ARTICLE 5 Delivery Point - Line of Demarcation

- A) The Delivery Point and the Line of Demarcation separating the facilities of CoE and the CoB System shall be the upstream/north flange of the isolation valve immediately north of the State Highway #410 bridge over the White River (“State Highway #410 Bridge”).
- B) PSE shall own, control and operate the natural gas facilities, including the Custody Transfer Meter, south from the Line of Demarcation. CoE shall own, control and operate the RTU and instrumentation equipment providing custody transfer volumes at the Custody Transfer Meter. PSE shall provide access to CoE for the purposes of maintaining said equipment. Nothing here shall be interpreted to restrict PSE from installing duplicative or supplemental meters, instrumentation or RTU equipment, provided that such equipment does not compromise the functionality or accuracy of CoE’s equipment. No instrumentation or equipment owned or operated by PSE shall be placed on the Custody Transfer Meter without approval by CoE. PSE may utilize piping upstream or downstream of the meter to obtain duplicative or supplemental data.
- C) In the event of an emergency, CoE shall have access to operate the valve at the Line of Demarcation.
- D) CoE agrees to coordinate with PSE to transfer the Washington DOT franchise authorization for facilities located on the State Highway #410 Bridge to PSE, within 90 days of the Effective Date.
- E) CoE shall provide to PSE within 30 days of the Effective Date, all of the original documentation in its possession for the construction and subsequent maintenance of the gas facilities located on, and the isolation valve immediately north of, the State Highway #410 Bridge.

ARTICLE 6 Nominations and Balancing

- A) PSE shall provide notification to CoE by 9 AM local time each day of significant changes in volumes (defined as changes of more than 30% from the previous day’s volume) expected to flow through the CoE system for the CoB System on the following day.
- B) PSE and CoE agree to coordinate daily and monthly, as necessary, to resolve any imbalances between volume received by CoE and volumes delivered to the CoB System.

ARTICLE 7 PSE Facility Extension

PSE shall provide a minimum of one year advance written notice to CoE of any specific intention to extend its existing gas system to provide additional alternate interconnection to the CoB System that may be capable of also providing service to the CoE system. PSE shall consider, but is not obligated, to provide service to CoE at cost under its standard Tariff provisions.

ARTICLE 8 Gas Measurement

- A) The Parties shall rely upon gas measurement at the Custody Transfer Meter which is located downstream/south of the State Highway #410 Bridge over the White River.
- i) PSE shall coordinate with CoE to allow access to CoE to observe meter calibrations and maintain the CoE RTU and instrumentation equipment at the Custody Transfer Meter.
 - ii) CoE agrees to provide SCADA signal and data from the Custody Transfer Meter to PSE.
 - iii) PSE agrees to coordinate with CoE to investigate unusual or excessive lost and unaccounted for gas usage on the CoE gas system that may be attributed to inaccuracy of metering at the Custody Transfer Meter.
 - iv) PSE agrees to coordinate with Northwest Pipeline, LLC to validate and correct any erroneous meter data at the Custody Transfer Meter.
 - v) Measurement Equipment found inaccurate shall be immediately restored by the operating Party as closely as possible to a condition of accuracy. If the measurement equipment is out of service or out of repair for any reason such that the amount of gas delivered cannot be estimated or computed from the reading thereof, the amount of gas delivered shall be estimated and agreed upon by CoE and PSE based on the best data available using the first of the following methods which is feasible.
 - (a) By using the registration of the other Party's check meter if it is installed and accurately registering; or
 - (b) By correcting the error if the percentage of error is ascertainable by test or mathematical calculation; or
 - (c) By estimating the quantity of deliveries to the CoB system through comparison with deliveries during proceeding periods by subtracting volumes delivered to CoE customers from the volume CoE received from Northwest Pipeline, LLC.
- B) When it can be reasonably demonstrated by CoE that the Custody Transfer Meter is not adequately sized- either too large or too small- to allow for accurate measurement under all expected operating conditions. CoE shall have the right to request a

replacement, upgrade or modification to the Custody Transfer Meter to provide greater accuracy (“Meter Upgrade”).

- i) PSE agrees to collaborate with CoE to select an appropriate technology, which may include an auto-adjust module, to be a part of any Meter Upgrade.
- ii) Any Meter Upgrade shall be performed by PSE to PSE specifications and engineering standards at CoE expense. CoE shall provide funding of the estimated cost of the Meter Upgrade 60 days in advance of construction, with a true-up to actual cost within 60 days of completion. Funds advanced by CoE, not accounted for in a completed Meter Upgrade shall be returned by PSE not later than one year after the advance is made.
- iii) CoE shall have the right to impose a Monthly Meter Upgrade Surcharge Fee, as provided for in Article 4, in an amount necessary to recover the costs of the Meter Upgrade, including a reasonable rate of return, over a period of not less than 5 years. The calculation of the Monthly Meter Upgrade Surcharge Fee and the determination of the period of its recovery shall be mutually agreed by PSE and CoE and documented in a written Addendum to this Agreement.

ARTICLE 9 Odorization

- A) CoE shall odorize the gas received from Northwest Pipeline LLC for delivery to PSE at the Delivery Point.
- B) CoE shall provide odorant at levels necessary for PSE to meet PHMSA requirements that the gas be readily detectable by a person with a normal sense of smell at a concentration of over 0.8% gas in air on the CoB system.
- C) PSE shall have the right to request in writing additional incremental odorization or a reduction in odorization sufficient to meet its downstream requirements, provided that such request may not seek to reduce or exceed the odorant level necessary for CoE to meet its own PHMSA or operational requirements.
- D) Requests for modification of the odorant level shall be delivered to CoE by facsimile to: 360-825-3252 or by e-mail to: ehawthorne@ci.enumclaw.wa.us and followed promptly by a confirmatory phone call to 360-825-5541 .
- E) Upon receipt of a request to modify the level of odorant, CoE shall increase or decrease the level of odorant within a responsive time frame. “Critical” situation requests shall be responded to within a four (4) hour period. “Non-critical” situation requests shall responded to on the next business day.

ARTICLE 10 Scheduled Interruptions of Service

- A) CoE shall meet annually with PSE to inform and discuss any planned maintenance or upgrade projects that may impact firm natural gas service to the CoB system. CoE shall endeavor to cause a minimum of interruption of firm natural gas service or inconvenience to PSE. CoE shall provide written notice at least ninety (90) days in

advance of any scheduled interruption of service to: PSE Gas Operations/ Pressure Control at 3130 S 38th Street, Tacoma, WA, 98409, or by e-mail to: GasOperations@PSE.com and followed promptly by a confirmatory phone call to 253-476-6088.

ARTICLE 11 Force Majeure

Neither CoE nor PSE shall be liable in damages to the other for any act, omission or circumstance occasioned by or in consequence of any blockades, insurrections, riots, epidemics, flood, washouts, landslides, mudslides, earthquakes, extreme cold or freezing weather, lightning, rulers and peoples, civil disturbances, explosions, breakage or imminent breakage or freezing of or accident to machinery or line of pipe, the order of any court or governmental authority having jurisdiction, and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome. Failure to prevent or settle any strike or strikes shall not be considered a matter within the control of the party claiming suspension. Such causes or contingencies affecting the performance under this Agreement by either CoE or PSE, however, shall not relieve the affected Party of liability in the event of its concurring negligence or in the event of its failure to use due diligence to remedy the situation and to remove the cause in an adequate manner and with all reasonable dispatch, nor shall such causes or contingencies affecting such performance relieve either Party from its obligations to make payments of amounts then due in respect of firm natural gas service previously provided.

ARTICLE 12 Billing and Payment Terms

- A) CoE shall report or cause to be reported to PSE the daily volumes and gross heating value of gas delivered pursuant to this Agreement by telephone, fax, Internet E-mail or other electronic means agreed to between the Parties by the 5th business day of the calendar month following the month of delivery of such volumes. PSE shall furnish CoE with a written statement that confirms such reported volumes by the 10th business day of the calendar month following the month of delivery.
- B) CoE shall submit an invoice for amounts due pursuant to this Agreement and the confirmed volumes identified in Section 12 A), by the 15th day of each calendar month to to PSE at: Invoices@PSE.com.
- C) On or before the 25th day of each calendar month, PSE shall make payment to CoE for all amounts due as set forth on the statement referred to in Section 12 B). Unless otherwise agreed to by CoE, such payment shall be made by wire transfer on or before the due date to a depository designated by CoE on its invoice.

ARTICLE 13 Warranty

Each Party (the "Representing Party") represents and warrants to the other Party that: (i) the Representing Party is duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation, and has all requisite

power and authority to own its properties and assets and to conduct its business as now conducted; (ii) the Representing Party has all requisite power and authority to enter into this Agreement and to carry out its obligations hereunder; (iii) this Agreement has been duly executed by the Representing Party and constitutes its valid and binding obligation, enforceable against it in accordance with its terms, subject to applicable bankruptcy, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity; (iv) the execution and delivery of this Agreement and the performance by the Representing Party of its obligations hereunder (A) have been duly authorized by all necessary action and no other proceedings are necessary to authorize such execution, delivery and performance, (B) do not and will not violate or conflict with any provision of its organizational documents or violate in any material respect any provision of law, or any order applicable to the Representing Party, or result in a breach of or constitute (with due notice or lapse of time or both) a default under any material contract to which the Representing Party is a party or by which it is bound or to which any of its properties or assets is subject, and (C) do not require, except as mutually agreed or otherwise effectively acknowledged herein by the Parties, the consent of or filing with or notification of any governmental authority or any other person or entity.

ARTICLE 14 **Remedies**

- A) In the event of any breach by CoE or PSE of its obligations under this Agreement, the non-breaching Party may suffer irreparable harm and have no adequate remedy at law. In such event or the threat of any such event, the non-breaching Party will be entitled (in addition to any and all other remedies) to injunctive relief, specific performance and other equitable remedies without proof of monetary damages or the inadequacy of other remedies, and without necessity of posting a bond or other security.
- B) IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY CONSEQUENTIAL, EXEMPLARY, SPECIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES (INCLUDING ANY DAMAGES ON ACCOUNT OF LOST PROFITS OR OPPORTUNITIES OR BUSINESS INTERRUPTION AND THE LIKE), WHETHER BY STATUTE, IN TORT OR UNDER CONTRACT. NOTWITHSTANDING THE FOREGOING THE LIMITATIONS SET FORTH IN THIS ARTICLE 14 B) SHALL NOT APPLY TO THE RIGHTS AND REMEDIES OF THE PARTIES PROVIDED FOR IN ARTICLE 14 A) OF THIS AGREEMENT.

ARTICLE 15 **Notices**

- A) Any notice, demand, consent or request provided for in this Agreement, or served, given or made in connection with it, shall be in writing and shall be deemed properly served, given or made if delivered in person or sent by fax or sent by registered or certified mail, postage prepaid, or by a nationally recognized overnight courier service that provides a receipt of delivery, in each case, to the Parties at the addresses specified below:

i) If to PSE, to:

- (a) Puget Sound Energy, Inc.
10885 NE 4th Street (98004-5591)
P.O. Box 97034
Bellevue, WA 98009-9734
Facsimile No: (425) 462-3300
Attention: Manager, Natural Gas Resources

with a copy to:

- (b) Puget Sound Energy, Inc.
10885 NE 4th Street (98004-5591)
P.O. Box 97034
Bellevue, WA 98009-9734
Facsimile No: (425) 462-3300
Attention: General Counsel

ii) If to CoE, to:

- (a) City of Enumclaw
2041 Railroad St.
Enumclaw, WA 98022
Facsimile No: (360) 825 3252
Attention: Natural Gas Utility Manager

with a copy to:

- (b) City of Enumclaw
1339 Griffin Avenue
Enumclaw, WA 98022
Facsimile No: (360) 615-5632
Attention: City Administrator

B) Notice given by personal delivery, mail or overnight courier shall be effective upon physical receipt. Notice given by fax shall be effective as of (i) the date of confirmed delivery (as evidenced by a confirmation receipt from the sending fax machine) if delivered before 5:00 p.m. Pacific Prevailing Time on any business day; or (ii) the next succeeding business day if confirmed delivery is after 5:00 p.m. Pacific Prevailing Time on any business day or during any non-business day.

ARTICLE 16 Waiver of Jury Trial. Each Party hereby irrevocably waives, to the fullest extent permitted by law, any and all right to trial by jury in any legal action or proceeding arising out of or relating to this Agreement or any of the transactions contemplated hereby.

ARTICLE 17 Governing Law. This Agreement and the rights and obligations of the Parties hereunder and the transactions contemplated hereby shall be governed by, enforced and interpreted in accordance with the laws of the State of

Washington, without regard to conflict of laws rules that require or permit the application of the laws of another jurisdiction.

ARTICLE 18 **No Waiver.** Any term or condition of this Agreement may be waived at any time by the Party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the Party waiving such term or condition. No waiver by either Party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion.

ARTICLE 19 **Modification.** This Agreement may be amended, supplemented or modified only by a written instrument duly executed hereafter by both Parties.

ARTICLE 20 **No Third-Party Beneficiaries.** The terms and provisions of this Agreement are intended solely for the benefit of each Party and their respective successors and permitted assigns, and it is not the intention of the Parties to confer third-party beneficiary rights upon any other person.

ARTICLE 21 **Assignment.** Neither this Agreement nor any right, interest or obligation hereunder may be assigned by either CoE or PSE without the prior written consent of the other Party; and any attempt to do so shall be void. Subject to the preceding sentence, this Agreement is binding upon, inures to the benefit of and is enforceable by the Parties and their respective successors and permitted assigns.

ARTICLE 22 **Severability.** If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law: (i) such provision shall be fully severable; (ii) this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never been a part hereof; (iii) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom; and (iv) in lieu of such illegal, invalid or unenforceable provision, the Parties shall negotiate in good faith to modify this Agreement by inserting an enforceable term or provision that expresses the original intent of the Parties as closely as possible.

ARTICLE 23 **Entire Agreement.** This Agreement supersedes all prior discussions, understandings and agreements between the Parties with respect to the subject matter hereof, contains the sole and entire agreement between the Parties with respect to the subject matter hereof, and there are no agreements, understandings, representations or warranties between the Parties with respect to the subject matter hereof other than those set forth herein.

ARTICLE 24 **Incorporation.** All of the Recitals set forth above and all of the exhibits attached hereto are hereby incorporated by reference into this Agreement and made a part hereof for all purposes.

ARTICLE 25 **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The delivery of an executed counterpart of this Agreement by facsimile transmission shall be deemed to be valid delivery thereof.

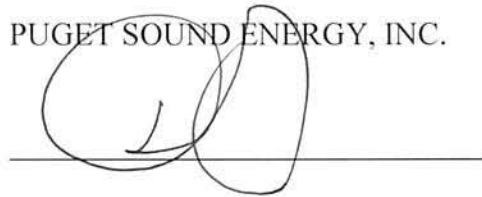
In Witness Whereof, this Agreement has been duly executed and delivered by the duly authorized officer of each Party as of the date first above written.

CITY OF ENUMCLAW, WASHINGTON



Liz Reynolds
Mayor

PUGET SOUND ENERGY, INC.



Name: David Mills
Vice President
Title: Energy Supply Operations

