

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKET UE-161123

SETTLEMENT STIPULATION AND
AGREEMENT

I. INTRODUCTION

1. This Settlement Stipulation and Agreement (“Settlement”) is entered into by and between the following parties in this case: Puget Sound Energy (“PSE”), the Staff of the Washington Utilities and Transportation Commission (“Commission Staff”), the Public Counsel Unit of the Attorney General’s Office (“Public Counsel”), Microsoft Corporation (“Microsoft”), the Industrial Customers of Northwest Utilities (“ICNU”), Walmart Stores, Inc. and Sam’s West, Inc. (“Walmart”), The Kroger Company (“Kroger”), The Energy Project (“TEP”), NW Energy Coalition (“NWEC”) and the Northwest & Intermountain Power Producers Coalition (“NIPPC”). These parties are hereinafter collectively referred to as “Settling Parties” and individually as a “Settling Party.”

2. Because this Settlement is entered into by and between all of the Settling Parties to this case and it resolves all the issues in the docket, it is a “full settlement,” as that term is defined in WAC 480-07-730(1).

3. This Settlement is subject to review and disposition by the Washington Utilities and Transportation Commission (“Commission”). Section III of the Settlement is effective on the date of the Commission order approving it (unless the Commission establishes a different effective date).

II. BACKGROUND AND NATURE OF THE DOCKET

4. **Initial Filings.** PSE initiated this proceeding on October 7, 2016 by filing Advice No. 2016-28 for proposed revisions to the WN U-60, Tariff G for electric service. These revisions included the proposed addition of a new tariff, Schedule 451 - Large Customer Retail Wheeling and a related customer agreement. The filing also included an executed version of the customer agreement between Microsoft and PSE and supporting pre-filed testimony and exhibits. PSE’s filing requested approval of the tariff and the Microsoft customer agreement.

5. **Subsequent Filings and Settlement Negotiations.** Microsoft filed pre-filed testimony and exhibits in support of PSE’s filing on October 12, 2016. The Commission held a prehearing conference on November 7, 2016. The Settling Parties participated in an issues conference on December 2, 2016. PSE and Microsoft filed supplemental prefiled testimony on December 15, 2016. The Settling Parties have conducted some discovery. The Settling Parties participated in a settlement conference on February 22, 2017 and have participated in subsequent settlement-related calls and correspondence after that date.

6. **Public Interest.** Through settlement discussions, all Settling Parties have agreed that the Commission’s approval of this Settlement and the special contract attached as Exhibit A hereto (“Special Contract”), and PSE’s withdrawal of proposed tariff Schedule 451, will promote the public interest and will not result in any undue preferences or discrimination, and will otherwise meet the requirements of WAC 480-80-143. The Settling Parties agree that

Microsoft's substantial commitments in the Special Contract, such as contributions to conservation funding, contributions to low income funding, and the advancement of renewable resources, significantly advance state policy goals and provide a sufficient basis for the Commission to find that the Special Contract is in the public interest. The Settling Parties further agree that the terms of this Settlement are intended to hold customers harmless from adverse financial impacts resulting from Microsoft meeting its load under the Special Contract.

III. AGREEMENT

7. **Use of Special Contract.** PSE and Microsoft have entered into the Special Contract attached hereto as Exhibit A. The Settling Parties request that the Commission approve the Special Contract with no material conditions or changes and agree that the Special Contract meets all the requirements of WAC 480-80-143 and is otherwise in the public interest.

8. **Withdrawal of Proposed Schedule 451.** Upon the Commission's approval of this Settlement and the Special Contract, PSE will withdraw proposed Schedule 451, the companion customer agreement, and the Microsoft customer agreement filed with the Commission on October 7, 2016. The Settling Parties stipulate to the admission into evidence in this docket of the prefiled direct and supplemental testimony of PSE and Microsoft.

9. **Commencement of Service under Special Contract.** Service under the Special Contract shall not commence unless and until (i) metering has been installed; (ii) Microsoft has arranged to purchase Supplied Power from one or more Power Suppliers (other than PSE); and (iii) arrangements are in place for transmission and ancillary services, all as defined and specified in the Special Contract.

10. **Transition Fee.** Microsoft will make a one-time payment of \$23,685,000 (the "Transition Fee") to PSE for redistribution to PSE's customers. This Transition Fee payment

is intended to hold customers harmless from adverse financial impacts resulting from Microsoft transitioning its load to the Special Contract. PSE will pass-through the Transition Fee, on a dollar-for-dollar basis, to PSE's bundled retail electric customers over a 12-month period through PSE's existing electric Schedule 95 (Power Cost Adjustment Clause).

11. **Allocation of Colstrip Remediation Costs.** All Settling Parties acknowledge and agree that approval of the Transition Fee, Special Contract, and this Settlement does not address or resolve any issues relating to Microsoft's potential obligation to contribute to Colstrip remediation, decommissioning, and/or accelerated depreciation costs. The recovery of Colstrip-related remediation, decommissioning, and/or accelerated depreciation costs will be at issue in other dockets, and the amount, if any, assigned to Microsoft will be addressed in those dockets. All Settling Parties retain the right to make any assertions regarding allocation or recovery of such costs as determined in PSE's general rate case, Docket UE-170033, in future general rate cases, or in other relevant proceedings.

12. **Special Contract Term.** The Special Contract will have a 20-year initial term with automatic 5-year extensions so long as Microsoft does not have any cost-effective alternative to PSE for distribution service, all as set forth in the Special Contract.

13. **Renewable/Carbon-Free Power Supply.**

a. **RPS - Renewable Energy Target Obligations.** Microsoft, consistent with its corporate commitment to renewable energy as expressed in testimony, will meet its electricity needs under the Special Contract with 25% "eligible renewable resources" as that term is used in RCW 19.285.040(2) from commencement of service under the Special Contract through 2020 and 40% eligible renewable resources in 2021 and subsequent years. In the event the percentage amount under RCW 19.285.040(2) is increased above 40% for any year in which

Microsoft takes electricity under the Special Contract, Microsoft will meet its electricity needs under the Special Contract in any such year with the higher percentage of eligible renewable resources that would apply to PSE. Renewable energy credits used to satisfy Microsoft's renewable energy target obligations must meet the criteria for "renewable energy credits" as defined in Washington's Energy Independence Act, RCW 19.285.

i. If Microsoft uses renewable energy credits for compliance, it must use renewable energy credits produced during the target year, the preceding year, or the subsequent year to comply with this annual renewable resource requirement provided that they were acquired by January 1 of the target year.

ii. All renewable energy credits used for Microsoft's compliance with the renewable energy target, including any bundled renewable energy credits associated with eligible hydropower generation, must be registered in WREGIS, regardless of facility ownership. Any megawatt-hour of bundled renewable energy credits from eligible hydropower or renewable energy credits that Microsoft uses for compliance must have a corresponding certificate retired in Microsoft's WREGIS account.

iii. Microsoft may apply renewable energy credit multipliers to retired certificates in the same manner as a utility that is subject to WAC 480-109-200(4).

iv. In meeting the annual renewable energy targets of this section, for the first year under the Special Contract Microsoft will calculate its annual target based on the average of the most recent two years of Microsoft's load being transferred to service under the Special Contract. For the second year under the Special Contract, Microsoft will calculate its annual target based on the first year amount of delivered electricity. Thereafter, Microsoft must

calculate its annual target on the average of Microsoft's delivered electricity under the Special Contract for the previous two years.

v. Microsoft may use incremental hydropower in the same manner as a utility that is subject to WAC 480-109-200(7). If Microsoft uses incremental hydropower to meet any portion of its renewable energy target in a given year, Microsoft shall calculate the quantity of incremental electricity produced by eligible efficiency upgrades to a hydropower facility using one of the methods provided in WAC 480-109-200(7).

vi. On or before March 31 of each year, Microsoft will provide PSE with an annual renewable portfolio standard report that includes Microsoft's annual load under the Special Contract for the prior two years, the total number of megawatt-hours from eligible renewable resources and/or renewable resource credits that Microsoft needed to meet its annual renewable energy target by January 1 of the target year, the amount (in megawatt-hours) of each type of eligible renewable resource used, and the amount of eligible renewable energy credits acquired. PSE will file these annual reports with the Commission as compliance filings in this docket and provide copies to Commission Staff and Public Counsel. PSE will provide copies of these annual reports to other Settling Parties upon request.

vii. Instead of fully meeting its annual renewable resource target in this section, Microsoft may make a *force majeure* demonstration in its annual renewable portfolio standard report that events beyond its reasonable control, that could not have been reasonably anticipated or ameliorated, prevented it from meeting the renewable energy target. Such events may include weather-related damage, mechanical failure, strikes, lockouts, or actions of a governmental authority that adversely affect the generation, transmission, or distribution of an eligible renewable resource owned by or under contract to Microsoft.

viii. Power delivered by PSE pursuant to the Special Contract is considered “electricity delivered to transmission-only customers” for the purpose of the definition of PSE’s load under WAC 480-109-060.

b. **Carbon-free.** The remainder of Microsoft’s power supply under the Special Contract must be supplied by carbon free power.

i. Carbon free power refers to electricity produced by generation facilities that are not powered by fossil fuels.

ii. Microsoft will require all its suppliers to provide carbon-free power from identified generating resources. The Setting Parties recognize that occasionally Microsoft’s third party suppliers may need to use minor amounts of fossil-fueled power to provide ancillary services or other incidental services and suppliers will be required to provide equivalent renewable energy credits under such circumstances. Microsoft will require suppliers to identify and quantify any power supplied from fossil-fueled resources.

c. **Change in Law.** In the event of the adoption of any statute or regulation that requires Microsoft to meet some or all of its power needs under the Special Contract with renewable, low-carbon or carbon-free generating resources, Microsoft’s compliance with such statute or regulation will count toward the requirements of this provision.

d. **Enforcement of Microsoft’s Renewable Energy Target Obligations.** Commission Staff will verify Microsoft’s compliance with the annual renewable resource target obligations specified in Section 13(a) of this Settlement in any target year. If Microsoft fails to achieve its annual renewable resource target obligations specified in Section 13(a) of this Settlement in any target year, Microsoft will pay a penalty equivalent to the administrative penalty provided in RCW 19.285.060 and WAC 480-109-070 for each megawatt-hour of

shortfall in the same manner as a utility that is subject to these provisions. The penalty shall be paid to the Commission for deposit in the Energy Independence Act Special Account. Any penalty imposed upon Microsoft under this provision is subject to a showing that Microsoft failed to exercise reasonable care and prudence in obtaining “eligible renewable resources” or “renewable energy credits” as defined in Washington’s Energy Independence Act and is subject to the consideration of any mitigating circumstances, including, but not limited to, *force majeure* as defined in Section 13(a)(vii) of this Settlement Agreement.

14. **Distribution Service Charges.** The distribution service charges applicable to Microsoft under the Special Contract Service are set forth in Exhibit C to the Special Contract. These distribution service charges are cost-based and will be updated in each general rate case proceeding of PSE during the term of the Special Contract. These distribution service charges, as updated, will become effective contemporaneously with rate changes resulting from such general rate case proceeding.

15. **Conservation Funding - Schedule 120.** The payment Microsoft makes to PSE under Schedule 120 (electric conservation service rider) will be calculated as if Microsoft continued to take service under Schedule 40, based on power delivered.

16. **Low Income Funding - Schedule 129.** Microsoft’s Schedule 129 (HELP program) payment will be fixed at the current rate of \$0.000614 per delivered kWh. This rate will remain fixed for the 20-year term of the Special Contract, and will continue for any additional renewed contract term. Delivered power includes power purchased from a third party or provided by Microsoft from its own generation facilities located off-site and delivered by PSE under the Special Contract.

17. **Additional Low Income Funding.** Microsoft will make an additional payment of \$0.000307 per delivered kWh for the 20-year term of the Special Contract, and any additional renewed contract term. The funds will be paid into a separate account to be managed and disbursed by PSE's Low-Income Weatherization Manager. The purpose of this additional financial commitment above and beyond Microsoft's Schedule 129 commitment is to expand energy efficiency services and renewable energy technology to directly benefit eligible low-income customers in PSE's service territory. Allowable uses of these additional funds include:

- a. Repairs necessary for the installation of WA State Department of Commerce approved cost effective energy efficiency upgrades. These repairs include but are not limited to roof repairs, electrical repairs, carpentry repairs, and furnace repairs.
- b. Installation of advanced energy efficiency equipment in low-income weatherization projects. This includes but is not limited to equipment capable of utilizing "smart grid" technology, advanced heating/ventilation equipment, household energy monitoring equipment, and other relevant emerging energy efficiency technology.
- c. Distributed generation resources. These resources include but are not limited to on site renewable energy installations such as photovoltaic equipment, community solar projects, and other renewable energy equipment the benefits of which are directed to low-income PSE customers.

18. **State and Local Taxes - Schedule 81.** PSE will notify all relevant jurisdictions of the potential municipal tax consequences of Microsoft's changing its power provider and will provide the Commission with a copy of each such notice. Such notices shall be issued no later than the last day of the month following the date upon which Microsoft commences service under the Special Contract.

19. **Notice of Supplier Identity.** By March 31 of each year, Microsoft will provide to PSE a list of the identity of all Power Suppliers, as that term is defined in the Special Contract,

along with the corresponding amount and source of supplied power and/or renewable energy credits. PSE will file these annual lists with the Commission as compliance filings in this docket and provide copies of these annual lists to Commission Staff and Public Counsel. PSE will provide copies of these annual lists to other Settling Parties upon request.

IV. GENERAL PROVISIONS

20. **Entire Agreement.** This Settlement is the product of negotiations and compromise amongst the Settling Parties and constitutes the entire agreement of the Settling Parties. Accordingly, the Settling Parties recommend that the Commission adopt and approve the Settlement in its entirety as a full resolution of contested issues in this docket. This Settlement will not be construed against any Settling Party on the basis that it was the drafter of any or all portions of this Settlement. This Settlement supersedes any and all prior oral and written understandings and agreements on such matters that previously existed or occurred in this proceeding, and no such prior understanding or agreement or related representations will be relied upon by the Settling Parties to interpret this Settlement or for any other reason.

21. **Confidentiality of Negotiations.** The Settling Parties agree that this Settlement represents a compromise in the Settling Parties' positions. As such, conduct, statements and documents disclosed during the negotiation of this Settlement are not admissible in this or any other proceeding and will remain confidential.

22. **Precedential Effect of Settlement.** The Settling Parties enter into this Settlement to avoid further expense, uncertainty, inconvenience and delay. The Settling Parties agree that this Settlement Agreement and Special Contract does not serve to bind the Commission when it considers the issue of retail access or any other matter not specifically resolved by this Settlement in future proceedings. The Settling Parties reserve the right to argue in future

proceedings regarding the merits of direct access with reference to the terms of the Settlement Agreement and Special Contract.

23. **Positions Not Conceded.** In reaching this Settlement, the Settling Parties agree that no Settling Party concedes any particular argument advanced by that Settling Party or accedes to any particular argument made by any other Settling Party. Nothing in this Settlement (or any testimony, presentation or briefing supporting this Settlement) shall be asserted or deemed to mean that a Settling Party agreed with or adopted another Settling Party's legal or factual assertions in this proceeding. The limitations in this paragraph will not apply to any proceeding to enforce the terms of this Settlement, the Special Contract or any Commission order adopting this Settlement in full.

24. **Manner of Execution.** This Settlement is executed when all Settling Parties sign the Settlement. A designated and authorized representative may sign the Settlement on a Settling Party's behalf. The Settling Parties may execute this Settlement in counterparts. If the Settlement is executed in counterparts, all counterparts shall constitute one agreement. A Settlement signed in counterpart and sent by facsimile or emailed as a pdf is as effective as an original document. A faxed or emailed signature page containing the signature of a Settling Party is acceptable as an original signature page signed by that Settling Party. Each Settling Party shall indicate the date of its signature on the signature page. The date of execution of the Settlement will be the latest date indicated on the signature page(s).

25. **Approval Process and Support of Settlement.** Each Settling Party agrees to support the terms and conditions of this Settlement as a full and final resolution of all contested issues between them in the above-captioned docket. Each Settling Party agrees to support the

Settlement during the course of whatever proceedings and procedures the Commission determines are appropriate for approval of the Settlement.

26. **Commission Approval with Conditions.** In the event the Commission approves this Settlement, but with conditions not proposed in this Settlement, the provisions of WAC 480-07-550(2)(b) will apply. The Settling Parties will have ten (10) business days to seek reconsideration and/or 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 is deemed rejected and void and the Settling Parties will jointly and promptly request the Commission convene a prehearing conference to address procedural matters, including a procedural schedule for resolution of the case at the earliest possible date.

27. **Commission Rejection.** In the event the Commission rejects this Settlement, the provisions of WAC 480-07-550(2)(a) will apply. In that event, the Settling Parties agree to jointly and promptly request the Commission convene a prehearing conference to address procedural matters, including a procedural schedule for resolution of the case at the earliest possible date.

Dated this 11th day of April, 2017.

ROBERT W. FERGUSON
Attorney General

PUGET SOUND ENERGY, INC.

Christopher M. Casey
Assistant Attorney General
Counsel for Commission Staff

Ken Johnson
Director, State Regulatory Affairs

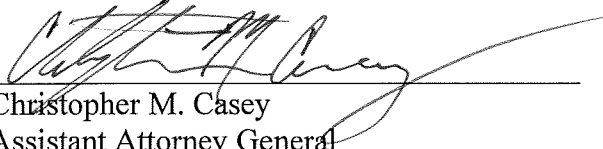
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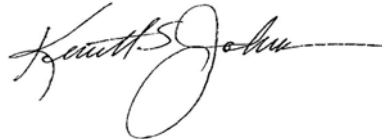
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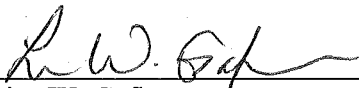
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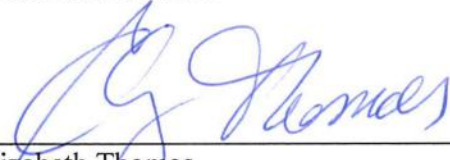
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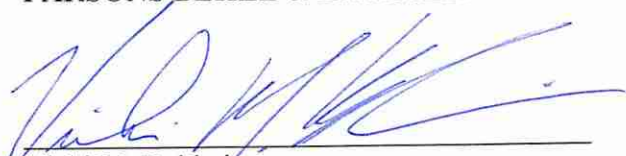
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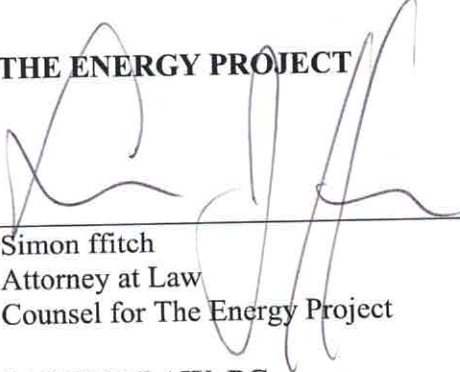
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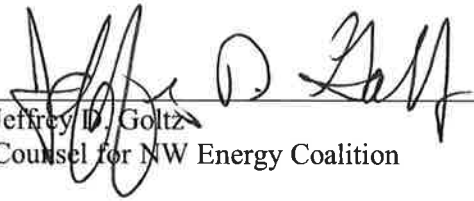
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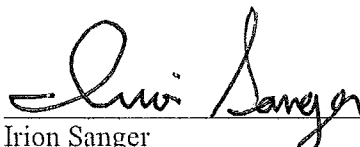
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Exhibit A
(Microsoft Special Contract)

MICROSOFT SPECIAL CONTRACT

This Microsoft Special Contract (this “**Special Contract**”), dated as of the date upon which a Commission order approving this Special Contract has become final and no longer subject to appeal (the “**Effective Date**”), is made by and between Microsoft Corporation, a Washington corporation (“**Microsoft**”), and Puget Sound Energy, Inc., a Washington corporation (“**PSE**”), for Special Contract Service pursuant to the rates, terms, and conditions of this Special Contract.

RECITALS

- A. PSE is a public service company engaged in the sale and delivery of electric Energy.
- B. Microsoft desires to obtain Special Contract Service pursuant to the rates, terms, and conditions of this Special Contract.

AGREEMENT

1. DEFINITIONS

Certain terms used in this Special Contract are defined in the text of this Special Contract. In addition, the terms defined below shall have the following meanings for purposes of this Special Contract. Defined terms used but not defined in this Special Contract shall have the meanings ascribed to such terms in Schedule 80 unless the context requires otherwise.

“**Ancillary Services**” means those services specified by Sections 1.2 and 3 of the OATT.

“**Ancillary Services Charges**” means for any Month the amounts, in dollars, equal to the actual charges incurred for such Month in the delivery of Ancillary Services to Microsoft under the OATT.

“**Average MW**” or “**aMW**” means average load obtained by dividing the Energy metered during a Month by the number of hours in such Month. For the purpose of calculating the number of hours in the Month, it shall be assumed that all meter readings are obtained at 12:00 midnight and that the billing dates shown on the bill are inclusive (e.g., a bill with dates 9/1 and 10/1 is for 31 days or 744 hours).

“**Back-up Distribution Service**” means distribution service provided under Schedule 459 to Customers whose electrical Energy and/or capacity service is met in whole or in part by self-generation.

“**Balancing Authority Area**” has the meaning given to such term in the OATT.

“**Carbon-Free Resource**” means a generating resource that does not use any Fossil Fuel as fuel for purposes of generating electricity.

“**Commission**” means the Washington Utilities and Transportation Commission.

“**Contract Demand**” means an amount of capacity, as specified in this Special Contract, sufficient to meet the maximum Demand at a Location.

“**Core Customer**” means a Customer taking power from PSE under tariff rates set by the Commission pursuant to traditional cost-of-service ratemaking principles. A Core Customer is any Customer not defined as a “Non-Core Customer.”

“Dedicated Facilities” means (1) existing facilities identified as direct assignment or leased facilities in this Special Contract; and (2) any new facilities built or upgraded specifically to serve Microsoft at any Location and identified as Dedicated Facilities in an amendment to this Special Contract.

“Direct Assignment Costs” are costs associated with Dedicated Facilities that have been or are constructed (or caused to be constructed) by PSE for the sole use and benefit of Microsoft, the costs of which may be directly assigned to Microsoft. Direct Assignment Costs shall be those costs for the Dedicated Facilities as specified in this Special Contract. Direct Assignment Costs for Dedicated Facilities shall be payable as described in Exhibit C.

“Distribution Loss Factor” means the applicable distribution loss factor, which is 0.0 percent for high voltage service (100 kV and above); 1.5 percent for primary voltage service (600 Volts or above but below 100 kV); and 4.5 percent for secondary voltage service (below 600 Volts).

“Distribution Point(s) of Delivery” means the location or locations at Microsoft’s Location(s) where PSE’s circuit and Microsoft’s electrical system are interconnected.

“Distribution System” means facilities operated or controlled by PSE for the purpose of delivering Energy that are subject to the jurisdiction of the Commission.

“Effective Date” has the meaning set forth in the first paragraph of this Special Contract.

“Eligible Customer” has the meaning given to such term in the OATT.

“Eligible Renewable Resource” means an eligible renewable resource as defined by RCW 19.285.030, as amended from time to time.

“Energy” means electric energy, measured in kilowatt-hours (kWh) or megawatt-hours (MWh).

“Energy Independence Act” means the Washington Energy Independence Act, Chapter 19.285 RCW.

“FERC” means the Federal Energy Regulatory Commission.

“Fossil Fuel” means natural gas, petroleum, coal, or any form of solid, liquid, or gaseous fuel derived from such material.

“Fossil Fuel-Fired Resource” means a generating resource that uses any Fossil Fuel as fuel for purposes of generating electricity.

“Imbalance Energy” has the meaning given to such term in the OATT.

“Initial Term” has the meaning set forth in Section 3.1 of this Special Contract.

“Load” means the amount of Microsoft Metered Energy and Demand at a Location.

“Load Aggregation Point” has the meaning given to such term in the OATT.

“Location” means a Microsoft facility (whether owned or leased, and including any new facility resulting from expansion or replacement of any Location during the Term) on a Service Feeder where Special Contract Service is taken. For purposes of Special Contract Service, the Location(s) for Microsoft shall be as specified in Exhibit A to this Special Contract, as amended from time to time to add or delete Locations.

“Microsoft” has the meaning set forth in the introductory paragraph of this Special Contract.

“Microsoft Metered Energy” means the metered hourly quantities of Energy delivered by PSE to Microsoft for a Location from all sources (other than self-generation at the Location of the Load).

“Network Operating Agreement” means the operating agreement required to be executed by any Customer requesting network transmission service under the OATT.

“Non-Core Customer” is a Customer of PSE that has forever released, relinquished, and discharged any right to, claim to, or benefits of PSE’s generation resources, including the right to power produced by such resources, whether or not priced at PSE’s cost of producing such power, at one or more of such Customer’s facilities.

“Open Access Transmission Tariff” or **“OATT”** means the open access transmission tariff of PSE or any Regional Transmission Entity that operates PSE’s Transmission System, as on file with FERC and as amended from time to time.

“Power Supplier” means any public or private entity authorized under applicable law to sell Supplied Power.

“PSE” has the meaning set forth in the introductory paragraph of this Special Contract.

“Regional Transmission Entity” means any regional transmission organization, independent system operator, or other entity that is subject to the jurisdiction of FERC and that operates PSE’s Transmission System and other transmission facilities in the Pacific Northwest.

“Renewable Energy Credit” means a renewable energy credit as defined by RCW 19.285.030, as amended from time to time.

“Renewal Term” has the meaning set forth in Section 3.1 of this Special Contract.

“Schedule 80” means the General Rules and Provisions contained in PSE’s Electric Tariff G as they may be modified from time to time.

“Scheduling Agent” means the entity, if any, designated by Microsoft to have responsibility for notifying, requesting and (as necessary) confirming to PSE the quantities of Supplied Power to be delivered under this Special Contract.

“Service Feeder” means (i) any non-dedicated distribution feeder on which Microsoft, at any time during the Term, has a load of three (3) aMW or greater, (ii) any non-dedicated distribution feeder on which Microsoft is taking service under this Special Contract or took service under Schedule 40 prior to the commencement of service under this Special Contract, or (iii) any non-dedicated distribution feeder serving Microsoft from any substation that provides service to any Location. For purposes of Special Contract Service, the non-dedicated distribution feeders on which Microsoft took service under Schedule 40 prior to the commencement of service under this Special Contract are identified in Exhibit B to this Special Contract.

“Special Contract” has the meaning set forth in the introductory paragraph of this Special Contract.

“Special Contract Service” means the process of delivery by PSE of electric power from a Power Supplier across the Distribution System to a Microsoft Location pursuant to the rates, terms, and conditions of this Special Contract.

“Supplied Power” means, for any hour, the amount of Energy (expressed in MWh) scheduled and delivered by the Power Supplier to PSE for delivery to Microsoft for a Location.

“Term” has the meaning set forth in Section 3.1 of this Special Contract.

“Total Load” means, for any relevant Demand period, the sum of Loads for such period.

“Transmission Charge” means, for any Month, the amounts, in dollars, equal to the actual charges incurred for such Month in the delivery of Microsoft Metered Energy under the OATT.

“Transmission Customer Base Schedule” has the meaning given to such term in the OATT.

“Transmission Point(s) of Receipt” means, unless otherwise specified in a Network Operating Agreement, the point(s) at which one or more Power Suppliers will deliver Supplied Power to PSE pursuant to one or more power supply contracts. If ownership or control of regional transmission becomes centralized in a Regional Transmission Entity, then Transmission Points of Receipt on PSE’s Transmission System shall be determined, instead, in accordance with that entity’s OATT.

“Transmission System” means facilities subject to the jurisdiction of FERC that at any time during the Term are owned or constructed by PSE and operated or controlled by PSE or a Regional Transmission Entity for the purpose of delivering electric Energy.

“Upgrades” means modifications or additions to distribution facilities that are integrated with and support PSE’s overall Distribution System and Transmission System for the general benefit of all users of the Distribution System.

“WECC” means the Western Electricity Coordinating Council.

2. SPECIAL CONTRACT SERVICE; LOCATIONS

2.1. Special Contract Service. Microsoft requests and agrees to purchase and PSE agrees to provide Special Contract Service pursuant to the rates, terms, and conditions of this Special Contract, as amended from time to time.

2.2. Acknowledgment of Special Contract Status. Each of Microsoft and PSE acknowledges and agrees that this Special Contract (i) is a special contract to be filed by PSE with the Commission pursuant to WAC 480-80-143 and (ii) the essential terms and conditions of this Special Contract will be considered a part of PSE’s tariffs and will be subject to enforcement, supervision, regulation, control, and public inspection by the Commission.

2.3. Locations.

2.3.1. Locations for Special Contract Service under this Special Contract are identified in Exhibit A to this Special Contract.

2.3.2. New or newly acquired facilities and new separately metered loads owned or operated by Microsoft or its affiliates may become Locations at which Microsoft must take service under this Special Contract if such load is or will be located on a Service Feeder.

2.3.3. In the event that Microsoft permanently ceases all operations at a Location, Microsoft shall have the right to terminate Special Contract Service under this Special Contract as to such Location by written notice of such termination to PSE. Any such termination of Special Contract Service to such Location shall be

effective upon the earlier of (a) the Location shutdown date as specified in Microsoft's notice of termination to PSE; or (b) the last day of the first full calendar month following PSE's receipt of such notice of termination from Microsoft. Any such termination shall be subject to payment of (x) any remaining costs for Dedicated Facilities serving such Location that are identified in this Special Contract and (y) any amounts owed under the OATT.

2.3.4. Upon written notice from Microsoft to PSE to terminate Special Contract Service at a Location pursuant to Section 2.3.3 or 5.5 of this Special Contract, Microsoft shall have the right to terminate Special Contract Service to such Location, subject to payment of any remaining costs for the Dedicated Facilities serving the applicable Location that are listed in Exhibit A to this Special Contract, and further subject to payment of any amounts owed under the OATT. Any termination of Special Contract Service to a Location pursuant to Section 2.3.3 or 5.5 of this Special Contract shall be effective upon the earlier of (a) the Location shutdown date or Location self-generation commencement date (as applicable) specified in Microsoft's notice of termination; or (b) the last day of the first full calendar month following PSE's receipt of such notice of termination from Microsoft.

3. TERM

3.1. **Term.** This Special Contract shall be effective as of the Effective Date. Notwithstanding the foregoing, the term of this Special Contract shall commence at 0000 hours on July 1, 2018, and end at 2400 hours on June 30, 2038 (the "**Initial Term**"), unless earlier terminated by Microsoft with respect to all Locations pursuant to Section 2.3.3 or 5.5 of this Special Contract. After the Initial Term, the term of this Special Contract shall extend automatically for additional consecutive periods of five years each (each, a "**Renewal Term**", and collectively with the Initial Term, the "**Term**"), unless this Special Contract is terminated in its entirety either (i) by either Party providing the other Party with notice of its intent to terminate this Special Contract at least three (3) years prior to the end of the then-current Renewal Term or (ii) by Microsoft with respect to all Locations pursuant to Section 2.3.3 or 5.5 of this Special Contract. Termination pursuant to the foregoing clause (i) shall require a showing that cost-effective distribution service alternatives are available for the delivery of power to Microsoft. For avoidance of doubt, termination of Special Contract Service to a Location will not terminate this Special Contract unless Special Contract Service to all other Locations has been terminated prior to or simultaneously with such termination.

3.2. **Conditions to Commencement of Special Contract Service.** Special Contract Service to Microsoft shall not commence unless and until all of the following conditions have been satisfied to the reasonable satisfaction of PSE and Microsoft:

3.2.1. Metering has been installed as specified in this Special Contract;

3.2.2. Microsoft and PSE have each duly executed and delivered this Special Contract;

3.2.3. The Commission has issued an order approving Microsoft's total Transition Fee obligation and this Special Contract without the imposition of any material new conditions; and

3.2.4. The requirements of Sections 4.1 and 6.1 of this Special Contract have been met.

4. MICROSOFT POWER SUPPLIES

- 4.1. Power Suppliers and Supplied Power.** Prior to initiation of Special Contract Service, Microsoft shall arrange to purchase Supplied Power from one or more Power Suppliers (other than PSE). The Power Supplier or Suppliers shall make available to PSE each hour at the Transmission Point(s) of Receipt Supplied Power in amounts sufficient to meet Total Load (net of Load served by self-generation). Subject to applicable regulatory requirements and available transmission and distribution capability, Microsoft may obtain power from self-generation (regardless of location).
- 4.2. Aggregation of Loads.** Any Power Supplier may provide Supplied Power, under one or more power supply contracts, for more than one Location. The terms and billing arrangements for any such aggregation of Loads shall be specified in this Special Contract. If Microsoft aggregates Loads for the purpose of power supply, then Microsoft shall have the right to aggregate Loads and Supplied Power for purposes of determining the hourly Imbalance Energy.
- 4.3. Distribution Losses.** Microsoft shall financially compensate PSE for an amount of Energy sufficient to provide for distribution losses to Microsoft's Distribution Point(s) of Delivery. Distribution losses shall be determined by multiplying the product of (i) the hourly Microsoft Metered Energy, and (ii) the Distribution Loss Factor, by (iii) PSE's applicable Load Aggregation Point price as defined by Schedule 4R of the OATT.
- 4.4. Energy Imbalance Service.** Deviations between Microsoft Metered Energy and Transmission Customer Base Schedule over a single hour shall be accounted for and treated as Imbalance Energy. Charges or credits for such Imbalance Energy will be as specified in the OATT. If Microsoft aggregates Loads for the purpose of power supply, then Microsoft shall have the right to aggregate its Loads and Supplied Power for purposes of determining the hourly Imbalance Energy. Microsoft has no obligation to provide excess Energy required for Energy Imbalance Service using its own generation resources, but shall make commercially reasonable efforts to obtain in the market such excess Energy.
- 4.5. Supplier Failure to Deliver.** If a Power Supplier is in PSE's Balancing Authority Area and does not deliver Supplied Power as scheduled under a power supply contract with a term of one or more years, PSE shall give Microsoft notice of such non-delivery not later than the end of the hour in which non-delivery began, provided that such Power Supplier provides written consent allowing PSE to provide such notice to Microsoft. PSE has no obligation to replace such Energy using its own generation resources, but shall make commercially reasonable efforts to obtain in the market replacement Energy for such delivery failure. Any difference between Microsoft Metered Energy and Supplied Power over a single hour as a result of a failure to deliver will be subject to the Imbalance Energy charge using the Load Aggregation Point price under the OATT.
- 4.6. Remarketing of Supplied Power.** Microsoft may arrange with its Power Suppliers suitable arrangements for remarketing of Supplied Power in excess of the amount needed to serve Total Load.
- 4.7. Power Supplier Charges.** Microsoft is subject to charges from its serving Power Supplier for Energy, for delivery of Energy to the Transmission Point of Receipt, and any other charges specified in the agreement between Microsoft and the Power Supplier. Any such charges will be paid directly by Microsoft to the Power Supplier and are not the responsibility of PSE.
- 4.8. Power Supply Taxes.** PSE is not responsible for any taxes due as a result of the purchase of Supplied Power by Microsoft. Microsoft will reimburse PSE for any properly

assessed state and local utility taxes that any applicable governmental authority assesses against PSE for its delivery of Supplied Power to a Location.

4.9. Resources Providing Supplied Power.

4.9.1. Annual Renewable Energy Targets.

4.9.2.1. Microsoft shall procure Supplied Power from Eligible Renewable Resources or shall procure Renewable Energy Credits, or any combination thereof, in aggregate quantities sufficient for Microsoft's Total Load in any year to meet the following annual targets:

- (a) For calendar years 2018-2020, at least 25% of Microsoft's Total Load;
- (b) For each calendar year after calendar year 2020, the higher of (i) 40% of Microsoft's Total Load, or (ii) the percentage specified in RCW 19.285.040(2) (as amended or supplemented) and applicable to PSE.

In the event the annual renewable energy target applicable to PSE pursuant to RCW 19.285.040(2) exceeds 40% of load for any year during the Term, Microsoft will procure Supplied Power from Eligible Renewable Resources or will procure Renewable Energy Credits, or any combination thereof, in aggregate quantities sufficient for Microsoft's Total Load in any such year to meet the annual renewable energy target applicable to PSE in such year.

4.9.2.2. If Microsoft uses Renewable Energy Credits for compliance with Section 4.9.2.1, Microsoft must use Renewable Energy Credits produced during the target year, the preceding year, or the subsequent year to comply with this annual renewable resource requirement provided that they were acquired by January 1 of the target year.

4.9.2.3. All Renewable Energy Credits used for Microsoft's compliance with Section 4.9.2.1, including any bundled Renewable Energy Credits associated with eligible hydropower generation, must be registered in WREGIS, regardless of facility ownership. Any megawatt-hour of bundled Renewable Energy Credits from eligible hydropower or renewable energy credits that Microsoft uses for compliance must have a corresponding certificate retired in Microsoft's WREGIS account.

4.9.2.4. Microsoft may apply Renewable Energy Credit multipliers to retired Renewable Energy Credits in the same manner as a utility that is subject to WAC 480-109-200(4).

4.9.2.5. In meeting the annual renewable energy targets of Section 4.9.2.1, Microsoft will calculate its annual target for the first year of the Term based on the average of the most recent two years of Microsoft's load being transferred to service under the Special Contract. For the second year under the Term, Microsoft will calculate its annual target based on the first year amount of delivered electricity. Thereafter, Microsoft must calculate its annual target on the average of Microsoft's delivered electricity under the Special Contract for the previous two years.

- 4.9.2.6. Microsoft may use incremental hydropower in the same manner as a qualifying utility that is subject to WAC 480-109-200(7). If Microsoft uses incremental hydropower to meet any portion of its renewable energy target in a given year, Microsoft shall calculate the quantity of incremental electricity produced by eligible efficiency upgrades to a hydropower facility using one of the methods provided in WAC 480-109-200(7).
- 4.9.2.7. Instead of fully meeting its annual renewable resource target in Section 4.9.2, Microsoft may make a force majeure demonstration in its annual renewable portfolio standard report that events beyond its reasonable control, that could not have been reasonably anticipated or ameliorated, prevented it from meeting the renewable energy target. Such events may include weather-related damage, mechanical failure, strikes, lockouts, or actions of a governmental authority that adversely affect the generation, transmission, or distribution of an eligible renewable resource owned by or under contract to Microsoft.
- 4.9.2.8. Supplied Power delivered to Microsoft by PSE pursuant to the Special Contract is considered “electricity delivered to transmission-only customers” for the purpose of the definition of PSE’s load under WAC 480-109-060.

4.9.2. Carbon-Free Resources. Subject to Section 4.9.1 above, Microsoft shall procure Supplied Power from identified Carbon-Free Resources. Notwithstanding the foregoing, Microsoft may purchase ancillary services or other incidental services from Fossil Fuel-Fired Resources, provided that (i) Microsoft requires its suppliers to identify any such ancillary services or other incidental services generated by a Fossil Fuel-Fired Resource and (ii) Microsoft acquires renewable energy credits to offset any such ancillary services or other incidental services generated by a Fossil Fuel-Fired Resource.

4.9.3. Enforcement of Microsoft’s Renewable Energy Target Obligations. On or before March 31 of each year, Microsoft will provide PSE with an annual renewable portfolio standard report that includes Microsoft’s annual load under the Special Contract for the prior two years, the total number of megawatt-hours from eligible renewable resources and/or renewable resource credits that Microsoft needed to meet its annual requirement under Section 4.9.2 by January 1 of the target year, the amount (in megawatt-hours) of each type of eligible renewable resource used, and the amount of Renewable Energy Credits acquired. PSE will file this report with the Commission as a compliance filing in Docket UE-161123 for verification by Commission Staff of Microsoft’s compliance with the requirements of Sections 4.9.1 and 4.9.2. If Microsoft fails to achieve its annual renewable energy target obligations specified in Section 4.9.1 in any year, Microsoft will pay a penalty equivalent to the administrative penalty provided in RCW 19.285.060 and WAC 480-109-070 for each megawatt-hour of shortfall in the same manner as a utility that is subject to these provisions. The penalty shall be paid to the Commission for deposit in the Energy Independence Act Special Account. Any penalty imposed upon Microsoft under this provision is subject to a showing that Microsoft failed to exercise reasonable care and prudence in obtaining “eligible renewable resources” or “renewable energy credits” as defined in the Energy Independence Act and is subject to the consideration of any mitigating circumstances, including, but not limited to, force majeure as defined in Section 4.9.2.7.

4.9.4. Change in Law. In the event of the adoption of any statute or regulation that requires Microsoft to obtain some or all of its Supplied Power under this Special Contract from renewable, low-carbon or carbon-free generating resources, any Supplied Power meeting the requirements of such statute or regulation will count toward the requirements of this Section 4.9.

5. SELF-GENERATION

5.1. Self-generation. Nothing in this Special Contract shall prohibit Microsoft from constructing and relying upon self-generation to supplement or replace Microsoft Metered Energy at a Location. PSE shall not impose any penalty on or discourage Microsoft from, or otherwise discriminate against Microsoft for, constructing or relying on self-generation. Upon reasonable prior written notice to PSE specifying nameplate rating and proposed date of initial operation, Microsoft may install self-generation to meet all or part of its power requirements.

If Microsoft intends to operate such facility in synchronism with PSE's electric system, PSE shall offer to interconnect and back-up the self-generation facility under a separate agreement that includes the terms and conditions generally applicable to Back-Up Distribution Service under PSE's Electric Tariff Schedules 80 and 459. Notwithstanding any provision of such tariff, the charge for back-up Energy as a result of failure of such self-generation will be as provided in Section 5.2 of this Special Contract. Any interconnection or operation of self-generation in parallel with PSE's system shall only be pursuant to a separate, prior-written interconnection and parallel operating agreement between Microsoft and PSE, which shall not be unreasonably refused by PSE. Microsoft is responsible for ensuring that any self-generation meets and complies with all applicable legal requirements and nothing in this Special Contract shall be interpreted as changing the application of environmental laws, energy facilities siting requirements, OATT provisions regarding system upgrades, or regulatory requirements. If Microsoft constructs and relies upon self-generation as described in this Section 5.1, then Microsoft shall be subject to applicable charges for Back-Up Distribution Service under Schedule 459.

5.2. Back-up Energy for Self-generation. If Microsoft's self-generation fails to operate as scheduled, PSE has no obligation to replace such Energy using its own generation resources, but shall make commercially reasonable efforts to obtain in the market replacement Energy for such failure. Any difference between Microsoft Metered Energy and the Supplied Power over a single hour as a result of failure of a Microsoft's self-generation to operate as scheduled shall be subject to the Imbalance Energy charge using the Load Aggregation Point price under the OATT.

5.3. Delivery of Self-generation. If self-generation is not at the Location of the Load that such self-generation is serving, Microsoft must specify such generation in this Special Contract and pursuant to the OATT. Delivery on the Distribution System shall be provided for in this Special Contract.

5.4. Remarketing of Self-generation. Subject to applicable legal requirements, Microsoft may arrange with its Power Supplier(s), or other purchasers, suitable arrangements for remarketing of self-generation. If Microsoft operates its self-generation so that it is producing more power than needed to serve Total Load, or to meet any scheduled deliveries to any entity other than PSE from such generation, PSE will purchase or remarket such excess power, subject to the OATT and any applicable legal and operational requirements. PSE will credit Microsoft for any such power that is purchased or remarketed at the Imbalance Energy rate under the OATT or such other rates as PSE and Microsoft may mutually agree consistent with applicable legal and operational requirements.

5.5. Termination of Special Contract Service at a Location Due to Self-generation. In the event that Microsoft installs self-generation to serve any Location, Microsoft may terminate Special Contract Service at such Location under this Special Contract by written notice of termination to PSE. Any such termination of Special Contract Service to such Location shall be effective upon the earlier of (a) the commencement date for such self-generation as specified in Microsoft's notice of termination to PSE; or (b) the last day of the first full calendar month following PSE's receipt of such notice of termination from Microsoft. In the event of any such termination of Special Contract Service, Microsoft will not be subject to stranded costs related to distribution service with respect to such Location, except for remaining costs for Dedicated Facilities at such Location identified in this Special Contract, so long as Microsoft takes Back-up Distribution Service from PSE, and such Back-up Distribution Service includes an appropriate allocation of distribution costs. Nothing in this Special Contract alters the rights of Microsoft or PSE to argue that Microsoft is or is not obligated to pay other stranded costs related to distribution service if it terminates Special Contract Service.

6. TRANSMISSION SERVICE

6.1. Transmission Service. Prior to initiation of Special Contract Service, Microsoft, or its Power Supplier (subject to applicable creditworthiness requirements as provided in the OATT), shall be an Eligible Customer under the OATT and shall arrange to take transmission service and required Ancillary Services pursuant to the OATT. Transmission service used in delivering Supplied Power to Microsoft shall be provided on a non-discriminatory basis, pursuant to the OATT. Microsoft or its Power Supplier shall enter into service agreements under the OATT as a network or point-to-point customer and shall be responsible for complying with the terms of the OATT and applicable service agreements, including payment for transmission and Ancillary Services consistent with and as required by the OATT. To the extent permitted under the OATT, Microsoft may acquire required Ancillary Services from Power Suppliers or from self-generation, and PSE shall facilitate the delivery of such Ancillary Services. To the extent permitted under the OATT, Microsoft may arrange to have PSE acquire required Ancillary Services from Power Suppliers, and PSE shall facilitate the delivery of such Ancillary Services.

6.2. Successor Tariffs. In the event that PSE transfers control of its transmission facilities to a Regional Transmission Entity, Microsoft shall take transmission service under the rate schedules of such Regional Transmission Entity for the use of PSE's Transmission System.

7. DISTRIBUTION SERVICE

7.1. Service Quality Standards and Distribution System Connection. PSE shall be obligated to maintain its Distribution System consistent with applicable standards, including service quality standards, required by the Commission. Regardless of the voltage at which distribution service is provided, Microsoft shall be deemed to be connected to the Distribution System during the Term. Except as otherwise provided in this Special Contract, distribution service shall be provided under the terms and conditions set forth in PSE's Electric Tariff Schedule 80 and Electric Tariff Schedule 85, as applicable. Where there is a conflict between this Special Contract and PSE's Electric Tariff G, Schedule 80 or Schedule 85, this Special Contract will govern. Distribution service under this Special Contract shall be provided on a non-discriminatory basis comparable to the distribution service used by PSE to serve its Core Customers.

7.2. Service Voltages. Unless otherwise specified in this Special Contract, high voltage service is defined as three-phase delivery voltage of at least 100 kV. Primary voltage service is defined for purposes of this Special Contract as three-phase delivery voltage of

at least 600 Volts but less than 100 kV. Secondary voltage service is defined for purposes of this Special Contract as three-phase delivery voltage of less than 600 Volts.

7.3. Microsoft's Facilities. Microsoft is responsible for procuring, installing and maintaining all necessary wiring, transformers, switches, cut-outs and protection equipment beyond the Distribution Point(s) of Delivery, and such service facilities and equipment shall be of types and characteristics reasonably acceptable to PSE. The entire service installation, protection coordination, and the balance of the Load between phases shall be subject to approval by PSE, which shall not be unreasonably withheld.

7.4. Dedicated Facilities.

7.4.1. Any new or existing facilities owned by PSE and dedicated to use by Microsoft at any Location shall be as specified in this Special Contract and covered by a separate special equipment lease or other agreement between PSE and Microsoft.

7.4.2. PSE will continue to maintain all PSE-owned transformers at Microsoft's Locations and will manage any outages on the high voltage side of such PSE-owned transformers. PSE will respond and notify Microsoft promptly of any outages affecting Microsoft's Locations.

8. SCHEDULING AND COORDINATION

8.1. Scheduling by Microsoft or Schedule Agent. Microsoft shall follow all applicable WECC power scheduling and interchange procedures, including but not limited to the WECC General Scheduling Provisions. Unless otherwise specified in this Special Contract, Microsoft shall submit schedules for delivery of power to PSE in accordance with the scheduling terms of the OATT and the Network Operating Agreement. Such schedules must provide for delivery of power sufficient to meet the estimated Total Load of Microsoft. Microsoft may choose to have scheduling provided by its Power Supplier or another third party. Such Scheduling Agent shall be designated by written notice to PSE.

8.2. Scheduling by PSE. PSE shall provide scheduling on the PSE-owned system within the PSE Balancing Authority Area.

9. TRANSFER OF LOAD CONTROL

PSE shall make a good faith effort to accommodate, upon Microsoft's advance written notice and at Microsoft's expense, the necessary arrangements between Microsoft and a third party for metering and communication facilities to allow the third party to remove Microsoft's Total Load, including self-generation, from PSE's Balancing Authority Area through dynamic scheduling. The respective rights and obligations between PSE and Microsoft with respect to any arrangements for such dynamic scheduling shall be set forth in this Special Contract or other written agreement between PSE and Microsoft. If Microsoft elects to transfer its Total Load to another Balancing Authority Area through dynamic scheduling, then Microsoft will not be subject to Energy imbalances with PSE and will thus not incur Imbalance Energy charges. However, if the dynamic scheduling fails so that PSE does provide Energy Imbalance Service, then Microsoft will pay for such service at the rates specified for Imbalance Energy, unless a different remedy is provided in an agreement for dynamic scheduling service between PSE, Microsoft, and the Balancing Authority Area operator that provides dynamic scheduling.

10. METERING AND BILLING

- 10.1. Metering.** Prior to the initiation of Special Contract Service, Microsoft shall arrange with PSE to have Load served under this Special Contract separately metered by meters capable of measuring and recording kW Demand (and kVAR demand) on a fifteen (15) or thirty (30) minute integrated basis and measuring Energy on a kWh basis. PSE shall procure, install, read, maintain and own all metering equipment; provided, however, that prior to procurement of any metering equipment, PSE shall provide Microsoft with the proposed cost and schedule for procurement, and Microsoft, at its election, may procure metering equipment from an outside vendor that is built to PSE's standards and specifications. At the request of Microsoft, PSE shall transmit, or cause to be transmitted, to Microsoft or its Scheduling Agent or Power Supplier information in real time concerning electric power delivered at any Location, subject to payment by Microsoft for any additional costs incurred to provide such information. Microsoft may install additional sub-metering equipment at its own expense.
- 10.2. Monthly Billing.** PSE will bill Microsoft each Month for distribution service and any other applicable charges under this Special Contract, including all applicable tax adjustments. PSE will also bill Microsoft (either in the same bill or separately) for transmission and Ancillary Services taken pursuant to the OATT, such billings to be in accordance with the OATT. Microsoft may have its Power Supplier pay PSE all or part of Microsoft's Transmission Charge and Ancillary Services Charges.

11. RATES AND CHARGES

The rate paid by Microsoft to PSE for each Month during the Term shall equal the sum of the following components for such Month:

Monthly Rate:

<u>Component</u>	<u>Secondary/Primary/High Voltage</u>
Energy	Provided by Power Supplier pursuant to separate arrangement
Transmission Losses	Pursuant to PSE's OATT
Distribution Losses	Pursuant to Section 4.3 of this Special Contract
Energy Imbalance Service	Pursuant to PSE's OATT
Distribution Service	Pursuant to Exhibit C to this Special Contract; provided, however, that charges for Distribution Services under this Special Contract shall be cost-based and updated in each applicable rate case of PSE.
Customer Charge	See Schedule 449 of PSE's Electric Tariff G
Ancillary Services Charge	Pursuant to PSE's OATT
Transmission Service	Pursuant to PSE's OATT
Electric Conservation Service Rider ^{(a), (b)}	See Schedule 120 of PSE's Electric Tariff G
Low Income Program	\$0.000614 per kWh delivered by PSE to a Location
Additional Low Income Program Payment ^(c)	\$0.000307 per kWh delivered by PSE to a Location
Merger Rate Credit ^(a)	See Schedule 132 of PSE's Electric Tariff G

<u>Component</u>	<u>Secondary/Primary/High Voltage</u>
Property Tax Rider ^(a)	See Schedule 140 of PSE's Electric Tariff G
Expedited Rate Filing Rate Adjustment ^(a)	See Schedule 141 of PSE's Electric Tariff G
Revenue Decoupling Adjustment Mechanism ^(a)	See Schedule 142 of PSE's Electric Tariff G
(d)	
(d)	

- (a) As such rider or charge may be modified from time to time pursuant to modifications to Schedule 120, Schedule 132, Schedule 140, Schedule 141, and Schedule 142, as appropriate.
- (b) The Electric Conservation Service Rider surcharge will be calculated pursuant to Schedule 120 (or its successor schedule) as if Microsoft continued to take service under Schedule 40 (or its successor schedule).
- (c) Additional Low Income Program Payments made by Microsoft under this Special Contract are intended to expand energy efficiency services and renewable energy technology to directly benefit eligible low-income customers in PSE's service territory. Microsoft shall make such Additional Low Income Program Payments into a separate PSE account to be managed and disbursed by PSE's Low-Income Weatherization Manager.
- (d) Any applicable future rider, surcharge or charge as approved by the Commission.

12. TRANSITION FEE

- 12.1. Transition Fee.** Microsoft will make a one-time payment of \$23,685,000.00 (the "Transition Fee") to PSE on the last day of the first calendar month following the Month in which Microsoft commences Special Contract Service under this Special Contract. This Transition Fee payment is intended to hold customers harmless from adverse financial impacts resulting from Microsoft transitioning its load to the Special Contract. PSE will pass-through the Transition Fee, on a dollar-for-dollar basis, to PSE's bundled retail electric customers over a 12-month period through PSE's existing electric Schedule 95 (Power Cost Adjustment Clause). Notwithstanding the foregoing, each of PSE and Microsoft acknowledges and agrees that approval of this Special Contract and the Transition Fee by the Commission does not address or resolve any issues relating to Microsoft's potential obligation to contribute to Colstrip remediation, decommissioning, and/or accelerated depreciation costs. The recovery of Colstrip-related remediation, decommissioning, and/or accelerated depreciation costs will be at issue in other dockets, and the amount, if any, assigned to Microsoft will be addressed in those dockets. Each of PSE and Microsoft retains the right to make any assertions regarding allocation or recovery of such costs as determined in PSE's general rate case, Docket UE-170033, in future general rate cases, or in other relevant proceedings.
- 12.2. Transmission Stranded Costs.** Microsoft will not incur transmission stranded costs. However, Microsoft is subject to all Transmission Charges as required under the OATT and this Special Contract.
- 12.3. Distribution Stranded Costs.** Microsoft will not incur distribution stranded costs. However, Microsoft is subject to all charges for Distribution Service as required under this Special Contract.

13. DISPUTE RESOLUTION

Prior to initiating any complaint or court proceedings regarding any dispute between PSE and Microsoft arising under this Special Contract, PSE and Microsoft shall each (i) make good faith efforts to resolve such dispute pursuant to alternative dispute resolution (ADR) procedures consistent with WAC 480-07-700 through -750 and (ii) make use of such ADR procedures to the maximum extent practicable in resolving such dispute.

14. CUSTOMER STATUS

- 14.1. Acknowledgement of Status as Non-Core Customer.** Microsoft is and will be a Non-Core Customer for service to Locations served under this Special Contract. Microsoft is and will be a Core Customer for service to Microsoft facilities that are not Locations served under this Special Contract. Microsoft forever releases, relinquishes, and discharges any right to, claim to, or benefits of PSE's generation resources, including the right to power produced by such resources, whether or not priced at PSE's cost of producing such power, at each Location. Accordingly, with respect to each Location, PSE is not obligated to use energy from its own resources to provide Supplied Power, Imbalance Energy, or back-up energy for self-generation, or to meet supplier failures to deliver. Notwithstanding its status as a Non-Core Customer to each Location, Microsoft will have its power curtailed only in accordance with the provisions of PSE's Schedule 80. Microsoft agrees that this acknowledgement is just, reasonable, fair, and in the public interest.
- 14.2. Risk of Market Prices.** Microsoft understands that availability and price of power are both subject to significant, material, unpredictable risk. There is no guarantee whatsoever that power will be available on the market, or that it will be available at reasonable prices. The electric power markets have turned out to be highly volatile. Prices and availability of power can vary by orders of magnitude in short periods of time. Such volatility, whether or not the resulting price levels were contemplated in the planning of Microsoft as a Non-Core Customer, will not constitute a grounds for return to Core Customer status, will not entitle Microsoft to service from PSE's generation resources, and will not entitle Microsoft to service based on PSE's cost of generation.
- 14.3. Impossibility of Conducting Business Due to Pricing or Power Unavailability Not Grounds For Return to Core Customer Status.** Prices of power and lack of availability of power may reach levels that make it impossible for Microsoft as a Non-Core Customer to carry on its business. Even if pricing or unavailability of power make it impossible for Microsoft to carry on its business, that will not constitute a grounds for return to Core Customer status, will not entitle Microsoft to service from PSE's generation resources, and will not entitle Microsoft to service based on PSE's cost of generation.
- 14.4. Actions by Market Participants.** A determination that actions by market participants other than PSE or Microsoft are in violation of federal, state, or local law will not impact the obligations of Microsoft and PSE under this Special Contract.
- 14.5. Power Costs Not Grounds For Return to Core Customer Status.** PSE may use resources to supply Microsoft with power in certain circumstances, and the costs of that power may be significantly different from the market price. Such difference will not constitute grounds for return to Core Customer status, will not entitle Microsoft to service from PSE's generation resources, and will not entitle Microsoft to service based on PSE's cost of generation.
- 14.6. Microsoft Accepts Risks.** Microsoft has employed energy experts and counsel with experience in energy issues to provide advice and assistance in making the decision to accept Special Contract Service as a Non-Core Customer with the result that Microsoft is

never entitled to return to Core Customer service under any circumstances. Microsoft fully understands all of the risks of that choice and has considered and accepted those risks in accepting Special Contract Service as a Non-Core Customer under this Special Contract.

15. GENERAL RULES AND PROVISIONS

Special Contract Service is subject to the General Rules and Provisions in PSE's Electric Tariff G, Schedule 80, as they may be modified from time to time and other schedules of Tariff G that may from time to time apply as they may be modified from time to time. Where there is a conflict between this Special Contract and PSE's Electric Tariff G, Schedule 80, this Special Contract will govern. PSE's Electric Tariff G, Schedule 258, is available to Microsoft. Except as provided in Section 14 of this Special Contract, Microsoft shall have all rights of redress before the Commission that are normally accorded to PSE's Customers regarding these general tariff provisions.

16. MISCELLANEOUS

16.1. Notices. For purposes of all notices under this Special Contract, including notices regarding estimated Loads, scheduling, and transfer of Load control under Section 9 of this Special Contract, each of PSE and Microsoft designates the following person(s) (and contact information) for purposes of delivery or receipt of such notices to or by such party and acknowledges the authority of such person to act on its respective behalf for purposes of such notices:

For PSE:

John Campion
Major Accounts Executive
Business Services
Phone: 425.456.2298
E-Mail: john.campion@pse.com

For Microsoft:

Jim Stanton
Senior Community Affairs Manager
Microsoft Global Real Estate & Facilities
Phone: (425) 707-5076
E-Mail: jstanton@microsoft.com

and

Mohan Reddy Guttapalem
Senior Facilities Manager
Microsoft Global Real Estate & Facilities
Phone: (425) 706-3721
E-mail: moreddy@microsoft.com

All notices, requests, statements or payments will be made in writing except where this Special Contract expressly provides that notice may be made orally. Notices required to be in writing will be delivered by hand delivery, overnight delivery, or e-mail. Notice by hand delivery or overnight delivery will be deemed to have been received when delivered. Notice by e-mail will be deemed to have been received when such e-mail is transmitted, so long as a copy of such e-mail notice is delivered immediately thereafter by hand delivery or overnight delivery; *provided* that no such copy of e-mail notices will be required for notifications sent in the ordinary course of business by e-mail and notifications of outages sent by e-mail. When notice is permitted to be provided orally, notice by telephone will be permitted and will be deemed to have been received at the time the call is received. A Party may change its address or the person designated to receive notices on its behalf by providing notice of the same in accordance with the provisions of this Special Contract.

- 16.2. Successors and Assigns.** Unless otherwise provided in this Special Contract, this Special Contract shall be binding upon and shall inure to the benefit of PSE and Microsoft and their respective successors, assigns, purchasers, and transferees.
- 16.3. Amendments.** This Special Contract may be modified or amended only by an instrument in writing signed by the parties.
- 16.4. Further Assurances.** Each party agrees to provide such information, execute and deliver any instruments and documents and to take such other actions as may be necessary or reasonably requested by the other party which are not inconsistent with the provisions of this Special Contract and which do not involve the assumptions of obligations other than those provided for in this Special Contract, in order to give full effect to this Special Contract and to carry out the intent of this Special Contract.
- 16.5. Severability.** Whenever possible, each provision of this Special Contract shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Special Contract is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Special Contract.
- 16.6. Headings.** The headings in this Special Contract are for convenience only and do not modify the substantive terms herein.
- 16.7. Counterparts; Execution by Facsimile or Electronic Mail.** This Special Contract may be executed in one or more counterparts, all of which will be considered one and the same agreement and each of which will be deemed an original. Delivery of an executed counterpart of this Special Contract by facsimile or by electronic transmission will be equally effective as delivery of an original executed counterpart of this Special Contract.
- 16.8. Exhibits.** The following exhibits are attached to this Special Contract and incorporated herein by reference:

Exhibit A	Locations
Exhibit B	Schedule 40 Maps as of the Effective Date
Exhibit C	Distribution Service Charges
Exhibit D	Special Contract Service Information

[Remainder of Page Intentionally Blank. Signatures on Following Page.]

IN WITNESS WHEREOF, the parties have executed this Special Contract as of the day and year first above written.

PSE:

Microsoft:

Puget Sound Energy, Inc.

Microsoft Corporation

By:  _____

By: _____

Its: SE VP & General Counsel

Its: _____

Date Signed: 4-10-17

Date Signed: _____

IN WITNESS WHEREOF, the parties have executed this Special Contract as of the day and year first above written.

PSE:

Puget Sound Energy, Inc.

By: _____

Its: _____

Date Signed: _____

Microsoft:

Microsoft Corporation

By: M. J. [Signature]

Its: GM Real Estate + Facilities

Date Signed: 4/10/2017

**EXHIBIT A
MICROSOFT SPECIAL CONTRACT**

LOCATIONS

<u>Location</u>	<u>Voltage (kV)</u>	<u>Basic Charges</u>
Building 1 – Redmond Main Campus	277/480	1
Building 2 – Redmond Main Campus	277/480	1
Building 3 – Redmond Main Campus	277/480	1
Building 4 – Redmond Main Campus	277/480	1
Building 5 – Redmond Main Campus	277/480	1
Building 6 – Redmond Main Campus	277/480	1
Building 8 – Redmond Main Campus	277/480	1
Building 9 – Redmond Main Campus	277/480	1
Building 10 – Redmond Main Campus	277/480	1
Building 10 – Chiller Plant, Feed#B	12.47 (3 phase)	2
Building 10 – Chiller Plant, Feed#A	12.47 (3 phase)	1
Building 11 – Redmond Main Campus	277/480	1
Building 11A – Redmond Main Campus	277/480	
Building 16 – Redmond Main Campus	277/480	2
Building 16 – Redmond Main Campus	277/480	
Building 17 – Redmond Main Campus	277/480	2
Building 17 – Redmond Main Campus	277/480	
Building 18 – Redmond Main Campus	277/480	2
Building 18 – Redmond Main Campus	277/480	
Building 18 – Chiller Plant	12.47 (3 phase)	1
Building 19 – Redmond Main Campus	277/480	1
Building 20 – Redmond Main Campus	277/480	1
Building 21 – Redmond Main Campus	277/480	1
Building 22 – Redmond Main Campus	277/480	1
Building 24 – Redmond Main Campus	277/480	1
Building 25 – Redmond Main Campus (B25N)	277/480	1
Building 25 – Redmond Main Campus (B25S)	277/480	
Building 26 – Redmond Main Campus	277/480	1
Building 26 – Redmond Main Campus	277/480	1
Building 27 – Redmond Main Campus	12.47 (3 phase)	1
Building 28 – Redmond Main Campus	12.47 (3 phase)	
Building 30 – Pebble Beach	12.47 (3 phase)	2
Building 31 – Pebble Beach	12.47 (3 phase)	

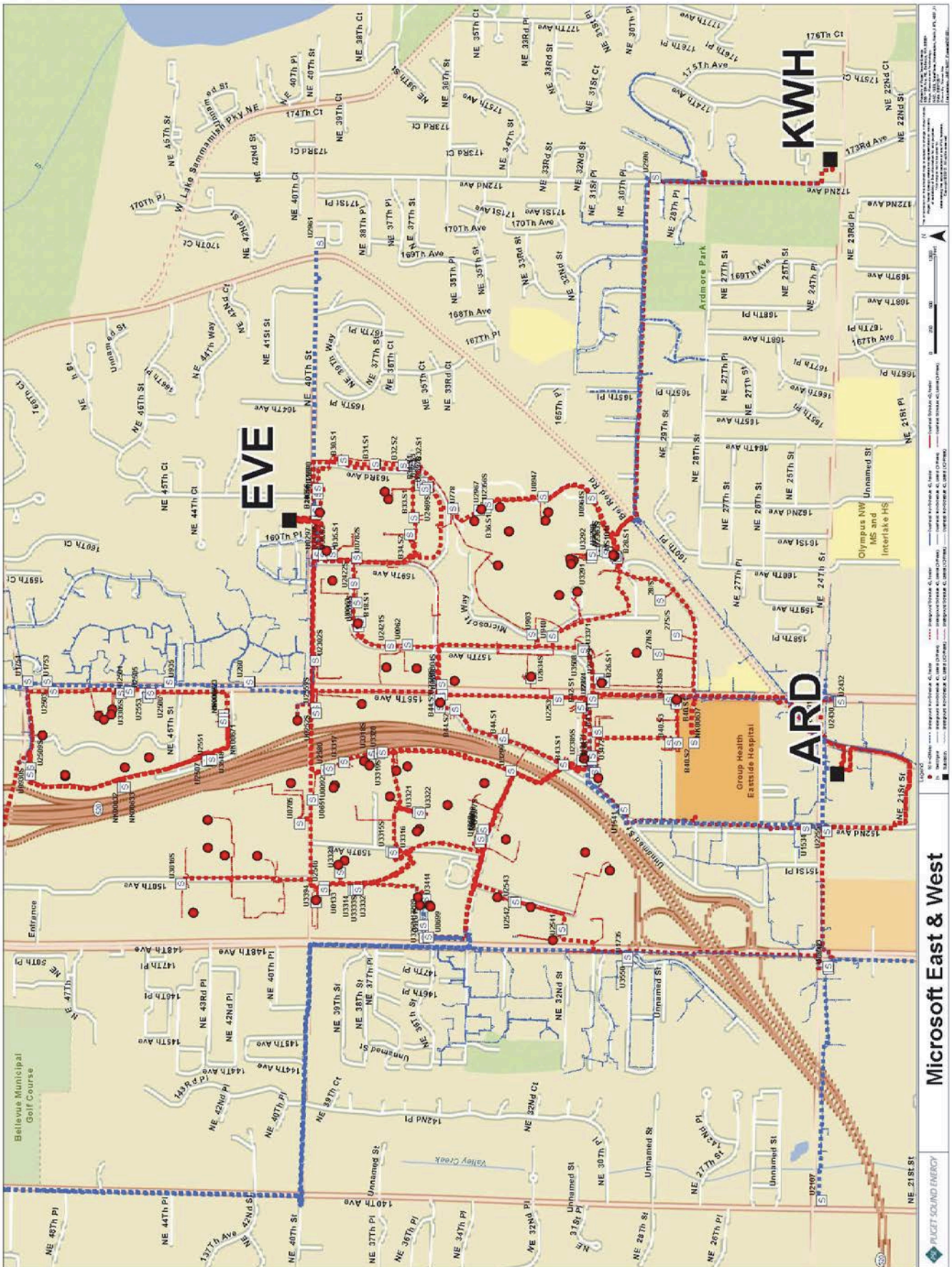
<u>Location</u>	<u>Voltage (kV)</u>	<u>Basic Charges</u>
Building 32 – Pebble Beach	12.47 (3 phase)	
Building 33 – “Pinehurst”	12.47 (3 phase)	2
Building 34 – St. Andrews	12.47 (3 phase)	
Building 35 – St. Andrews	12.47 (3 phase)	
Building 36 – Redmond Main Campus	12.47 (3 phase)	1
Building 37 – South Transformer	277/480	1
Building 37 – North Transformer	277/480	
Building 37 – Chiller Plant (near B-10)	277/480	
Building 37 – Mech Room (In B37)	277/480	
Building 40 – Troon	12.47 (3 phase)	2
Building 41 – Troon	12.47 (3 phase)	
Building 42 – Augusta	12.47 (3 phase)	2
Building 43 – Augusta	12.47 (3 phase)	
Building 44 – Augusta	12.47 (3 phase)	
Building 47 – Metro Bus Station	120/208	1
Building 50 – Boxcar	12.47 (3 phase)	1
Building 55 – Redwest “A”	12.47 (3 phase)	2
Building 55 – Redwest “B”	12.47 (3 phase)	
Building 55 – Redwest “C”	12.47 (3 phase)	
Building 55 – Redwest “D”	12.47 (3 phase)	
Building 55 – Redwest “E”	12.47 (3 phase)	
Building 55 – Redwest “F”	12.47 (3 phase)	
Building 55 – Redwest “G”	12.47 (3 phase)	
Building 55 – Redwest “J”	12.47 (3 phase)	
Building 83	277/480	1
Building 83	277/480	1
Building 84 – Shasta	277/480	1
Building 85 – Adams	277/480	1
Building 85 – Adams	277/480	1
North Garage (north of B86)	277/480	1
Building 86 – Rainier	277/480	1
Building 87	277/480	1
Building 87 – Pacific	277/480	1
Building 87 – Garage	277/480	1
Building 88 – Olympic	277/480	1
Building 88 – Olympic	277/480	1
Building 92	277/480	1
Building 92	277/480	1

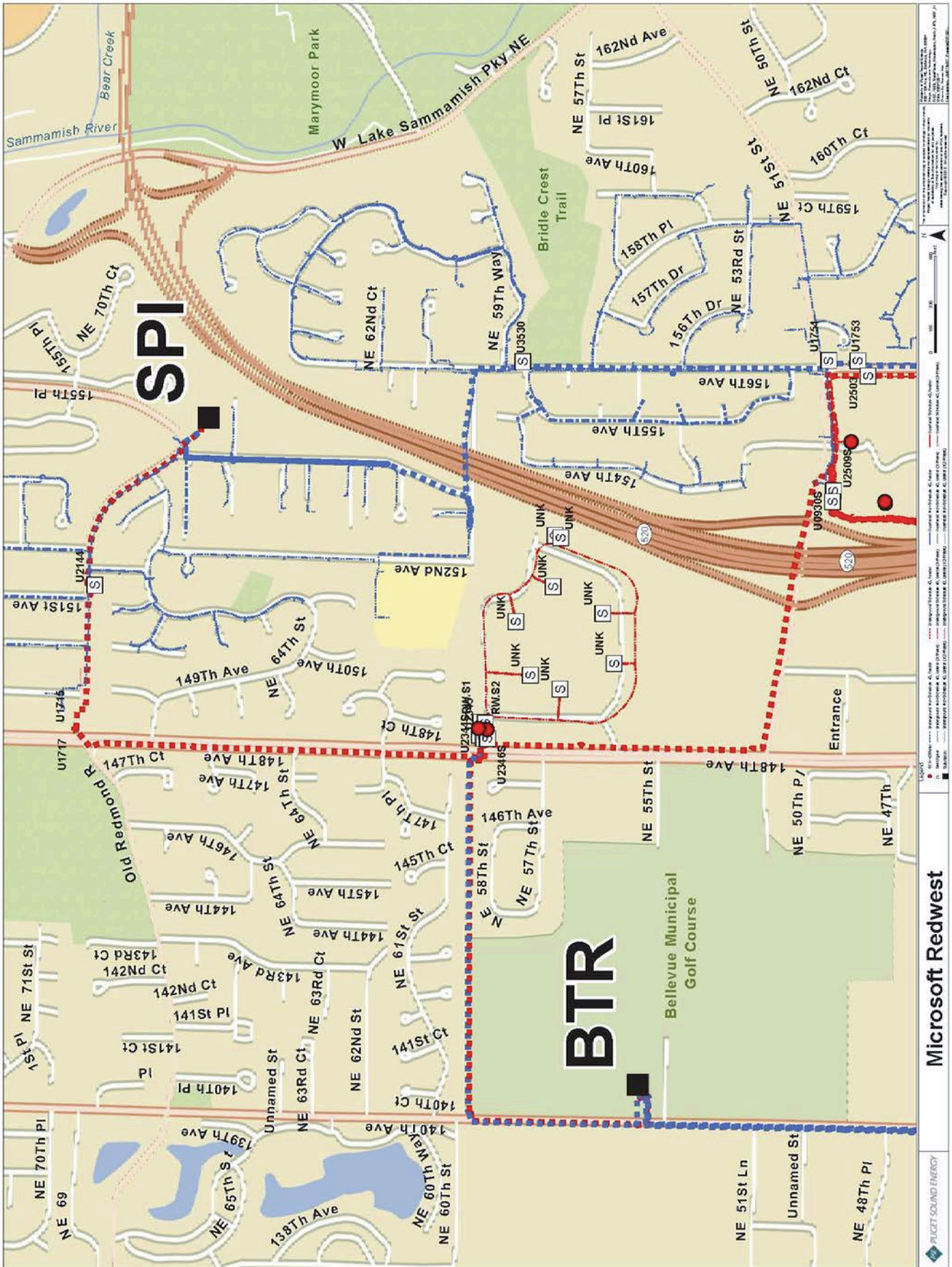
<u>Location</u>	<u>Voltage (kV)</u>	<u>Basic Charges</u>
Building 94 – North Transformer (Studio D)	277/480	1
Building 94 – South Transformer (Studio D)	277/480	1
Building 95 – North Transformer (Studio C)	277/480	1
Building 95 – South Transformer (Studio C)	277/480	1
Building 96 – North Transformer (Studio A)	277/480	1
Building 96 – South Transformer (Studio B)	277/480	1
Building 97 – South Transformer (Studio A)	277/480	1
Building 97 – North Transformer (Studio A)	277/480	1
Building 98 – Chiller - North Transformer	277/480	1
Building 98 – Chiller - South Transformer	277/480	1
Building 98A – (The Mixer)	277/480	
Building 98B – (The SubMixer)	277/480	1
Building 98C – (Sports Bistro/Spitfire)		
Building 98 – Garage	277/480	1
Building 99	277/480	1
Building 99	277/480	1
Building 109 – Daytona	277/480	1
Building 110 – Redmond Main Campus	277/480	1
Building 111 – Laguna	277/480	1
Building 112 – Cedar Court	12.47 (3 phase)	1
Building 113 – Cedar Court	12.47 (3 phase)	1
Building 114 – Cedar Court	12.47 (3 phase)	1
Building 115 – Cedar Court	12.47 (3 phase)	1
Building 116 – Lakeridge Square (Studio G)	12.47 (3 phase)	1
Building 117 – Lakeridge Square (Studio H)	12.47 (3 phase)	1
Building 118 – Lakeridge Square (Studio F)	12.47 (3 phase)	1
Building 119 – Lakeridge Square (Studio E)	12.47 (3 phase)	
Building 120	277/480	1
Building 121 – Space Labs	277/480	1
Building 122 – Space Labs	277/480	1
Building 123 – Overlake	277/480	1
Building 124 – Overlake	277/480	1
Building 124 – Overlake	277/480	1
Building 125 – Overlake	277/480	1
Building 125 – Overlake	277/480	1
Building 126 – Overlake	277/480	1
Building 127 – Studios	277/480	1
Building 127 – Studios	277/480	1

<u>Location</u>	<u>Voltage (kV)</u>	<u>Basic Charges</u>
Building 127 – XCG	277/480	1
Bravern Bldg 1	277/480	1
Bravern Bldg 1	277/480	1
Bravern Bldg 1	277/480	1
Bravern Bldg 2	277/480	1
Bravern Bldg 2	277/480	1
Bravern Bldg 2	277/480	1
Bravern Bldg 2	277/480	1
Bravern Bldg 2	277/480	1
Bravern Bldg 2	277/480	1
City Center Plaza II - MS Tenant	12.47 (3 phase)	1

TOTAL 103

EXHIBIT B
SCHEDULE 40 MAPS AS OF THE EFFECTIVE DATE





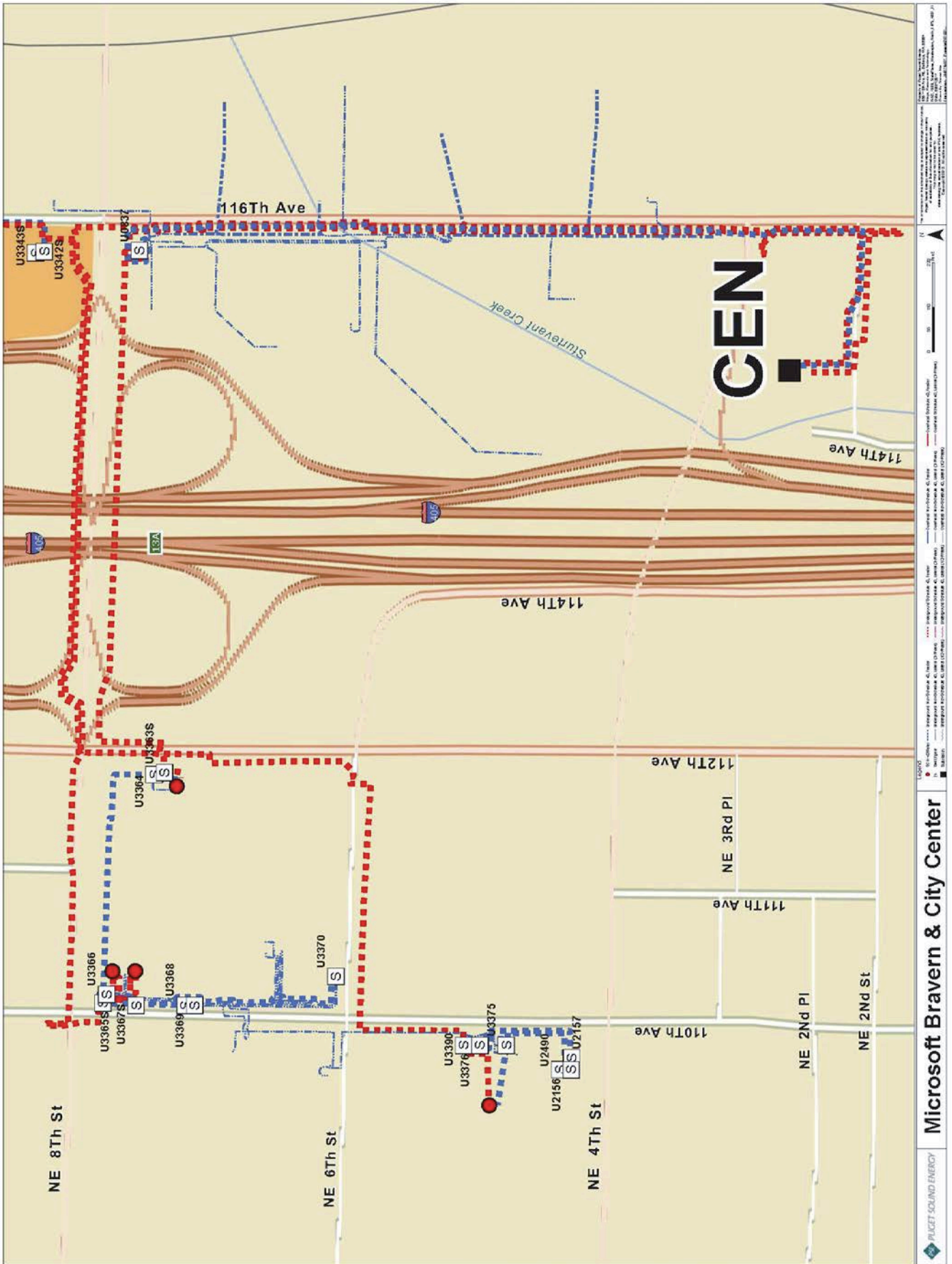


EXHIBIT C
MICROSOFT SPECIAL CONTRACT
DISTRIBUTION SERVICE CHARGES

The following Distribution Service Charges are applicable to Microsoft for Special Contract Service pursuant to the terms and conditions of this Special Contract. PSE will update Distribution Service Charges, including the rates and percentages identified in this Exhibit C, in each general rate case proceeding of PSE during the Term. Distribution Service Charges, as updated, will become effective contemporaneously with rate changes resulting from such general rate case proceeding.

1. **Definitions.** Certain terms used in this Exhibit C to the Special Contract are defined in the Special Contract. In addition, the terms defined below shall have the meanings set forth below for purposes of this Exhibit C to the Special Contract. Defined terms used but not defined in the Special Contract or this Exhibit C to this Special Contract shall have the meanings ascribed to such terms in Schedule 80 unless the context requires otherwise.

“Coincident Demand” and **“Coincident Billing Demand”** means the coincident Monthly 15 minute peak Demand of Microsoft’s meters for all Locations. For Months of December through March, the highest Coincident Demand established during the Month shall be used for billing with respect to such Month. For Months of April through November, the highest Coincident Demand established during the Month, but not less than 60 percent of the highest Coincident Demand established during the previous peak winter season (Months of December through March) shall be used for billing with respect to such Month.

“Fixed Charge Rate Model” means a levelized revenue requirements algorithm on file with the Commission and is designed to calculate the revenue requirements for the remaining life of the plant in the customer specific distribution facilities.

2. **Demand Charge.** Microsoft-specific charge calculated by dividing the distribution costs (Calculated according to the following procedures) by the estimated annual peak Coincident Billing Demand. The Demand charge will not be recalculated between rate cases for new load on existing feeders of Microsoft.

- a) Microsoft share of substation costs calculated as:
- i. Microsoft’s Demand on the substation divided by the total Demand on the substation multiplied by:
 - ii. Substation Base Costs calculated using net book value at the time such Location goes on Special Contract Service multiplied by:
 - iii. The sum of the Substation Fixed Charge Rate, the Substation O&M Charge Rate and the A&G Charge Rate as shown in A., B., and C. below.
 - A. Substation Fixed Charge Rate, as derived from the Fixed Charge Rate Model, based upon the dollar-weighted average remaining life of the substation equipment and 11.5396% for land,
 - B. Substation O&M Charge Rate of: 3.8082%,
 - C. A&G Charge Rate of 37% of the O&M rate, which is 1.4090% for substation costs.
 - iv. The Substation Base Cost, the Substation Fixed Charge Rate, the Substation O&M Charge Rate and the A&G Charge Rate will be adjusted as follows:

- A. Substation Base Costs will be adjusted for substation equipment retired, and
 - B. The cost for new equipment will be added. The formula described in section 2.a)i. will then be applied to the updated Substation Base Costs.
 - C. The Substation Fixed Charge Rate will be adjusted for changes in the cost of capital and capital structure, taxes and insurance.
 - D. The Substation O&M Charge Rate will be adjusted based on the ratio of substation O&M to substation plant.
 - E. The A&G Charge Rate will be a function of the ratio of the distribution A&G to distribution O&M.
- b) Microsoft's share of Primary distribution lines calculated as:
- i. The estimated net book value per mile of each distribution feeder and associated distribution facilities on which Microsoft has over 3 aMW of load multiplied by:
 - ii. The number of miles on each distribution feeder between Microsoft's meter(s) and the substation for each distribution feeder on which Microsoft has over 3 aMW of load (the "**Distribution Base Cost**") multiplied by:
 - iii. Microsoft's share of the peak load on the distribution feeder multiplied by:
 - iv. The sum of the Distribution Fixed Charge Rate and the Distribution O&M Charge Rate as shown in A. and B. below
 - A. Distribution Fixed Charge Rate, as derived from the Fixed Charge Rate Model, based upon the average remaining life of the feeder(s) used in the calculation of the Distribution Base Cost
 - B. Distribution O&M Charge Rate of: 3.95%
 - v. The Distribution Base Cost, the Distribution Fixed Charge Rate and the Distribution O&M Charge Rate will be adjusted as follows:
 - A. Distribution Base Costs will be adjusted for estimates of any plant on the feeder(s) serving Microsoft that has been retired and
 - B. the cost for new investment to the feeder(s) serving Microsoft will be added. The formula described in section 2.b)iii (above) will then be applied to the updated Distribution Base Costs.
 - C. The Distribution Fixed Charge Rate will be adjusted based on changes in the cost of capital and capital structure, taxes and insurance.
 - D. The Distribution O&M Charge Rate will be adjusted based on the ratio of distribution O&M to distribution plant.
- c) Microsoft's allocation of line transformer costs where service is at Secondary voltage and/or where PSE has agreed to provide rental transformers where the service is at Primary voltage
- i. Based upon the Transformer Rental Schedule

3. Distribution Charges. The following Distribution Charges are applicable to Microsoft if Microsoft adds new Special Contract Service through a new Distribution Point of Delivery from a feeder through which Microsoft currently receives Special Contract Service at an existing Distribution

Point of Delivery. (For incremental new load through an existing Distribution Point of Delivery on an existing feeder, the Distribution Charge calculated in Section 2 of this Exhibit C applies.)

a) Microsoft-specific Monthly Distribution Charge calculated by multiplying the Monthly Energy usage by the applicable rate(s):

i. Primary Voltage consumption: \$0.016377 / kWh

ii. Secondary Voltage consumption (> 350 kW peak Demand): \$0.011511 / kWh

iii. Secondary Voltage consumption (<= 350 kW peak Demand): \$0.016131 / kWh

4. Direct Assignment Costs for Dedicated Facilities. Final payment for any Dedicated Facilities shall be due and payable at the time of Microsoft's occupancy.

**EXHIBIT D
MICROSOFT SPECIAL CONTRACT**

SPECIAL CONTRACT SERVICE INFORMATION

1. **Scheduling Agent.** Microsoft designates the following Scheduling Agent:
To be determined.
2. **Dedicated Facilities.** The following facilities are dedicated to Microsoft:
None as of the date of this Special Contract.
3. **Contract Demand.** Microsoft's projected aggregate Contract Demand is:
To be determined.
4. **Location of Self-Generation.** Microsoft's self-generation is at the following Locations:
None at this time.
5. **Dynamic Scheduling.** The following represent the arrangements for dynamic scheduling:
None at this time.