

APPENDIX 3-4

Refinery Supply Agreements

Water Supply Agreement with Shell
Water Supply Agreement with Tesoro

WATER SUPPLY AGREEMENT

This agreement entered into the 1st day of January 2008, between the City of Anacortes, hereinafter referred to as “the City,” and Shell Oil Products US is for the purpose of the City supplying water to Shell Refinery, hereinafter referred to as “the Customer.” It replaces and supersedes any previous agreements or understandings between the parties.

The Customer is entering into this agreement to secure a supply of water for its industrial and/or municipal water supply requirements. The City owns and operates a Water Supply System, has water available to serve the Customers, and is willing to supply water according to the terms and conditions of this agreement.

The City’s Water Supply System is defined for purposes of this agreement to include: 1) the water intake and treatment facilities near Avon on the Skagit River; 2) the City’s water transmission pipelines from the water treatment facilities to Sharpe’s Corner; and 3) the 20-inch water supply pipeline from South March Point Road to the refineries.

In accordance with this agreement, the City agrees to supply the Customer water in accordance with the following terms and conditions:

1. Quantity

The City agrees to supply quantities and pressures of water at location(s) and in amounts as stated in this agreement (Exhibits A & B), and any subsequent amendments to this agreement (Exhibit C).

2. Delivery Points

2.1 Approved Delivery Points The City shall deliver water to the Customer at the approved delivery points listed in Exhibit A.

2.2 New Delivery Points The Customer may request service at additional delivery points subject to the approval of the City. The City may approve new service connections consistent with the concept that the Water Supply System is not a distribution system but the Customer has responsibility for constructing and maintaining a distribution system adequate for its service area.

The Customer shall be responsible for paying all costs associated with installing new service connections. The connection shall include the necessary piping and valves, metering equipment of standard manufacture, and suitable isolating or backflow prevention devices as appropriate. If required by the City, the meter shall be of a type capable of transmitting continuous readings to the City’s Water Treatment Plant. The Customer shall prepare the design for the proposed service connection, submit it to, and receive the approval of the City prior to its

installation. The City shall own the meter and be responsible for maintaining it in good repair.

3 Quality of Water

The City shall operate and maintain its Water Supply System in order to supply water for municipal and industrial purposes that meets the water quality standards of the Washington State Department of Health and the U.S. Environmental Protection Agency, including periodic revisions to these standards. The City shall employ the normal care and practices of water utilities with respect to meeting water quality standards.

The City shall not be liable to the Customer for failure to meet the water quality standards for reasons that are outside the control of the City. The Customer shall hold the City harmless from any water quality related claim for damages by third parties served by the Customer, to the extent that the claim arises out of Customer's negligence.

4 Rates and Charges

The City has established the following rates and charges and billing procedures for customers of its Water Supply System, which apply to this agreement.

4.1 Rate Structure The City has defined the following costs associated with the facilities, operation and maintenance of its water supply system:

Capital Cost Those costs incurred for the betterment and rehabilitation of the Water Supply System. Includes amounts paid from revenues, water system funds, and debt service on bonds issued for the betterment or rehabilitation of the system.

Fixed Operating Cost The cost of labor, supervision, supplies, utilities, services, taxes, insurance, and all other expenses required to operate and maintain the Water Supply System other than those items included under Variable Operating Cost.

Variable Operating Cost The cost of chemicals and electric power required to deliver water from the Water Supply System.

4.2 Cost Allocation The Customer shall pay its proportionate share of the Capital Cost, Fixed Operating Cost, and Variable Operating Cost. These costs shall be allocated as follows:

Capital Cost Allocated to all Water Supply System customers based on the Committed Volume of water to each customer in proportion to the total water supply requirements.

Fixed Operating Cost Allocated to all Water Supply System customers based on the metered water volume of each customer as a percentage of the total metered volume of all customers, with the following exceptions:

- 1) Administrative support services and all employee benefits shall be allocated to customers in the same proportions that the total cost of all other Personnel Services is divided among them.
- 2) The State Excise Tax shall be allocated based on actual (or projected) billings to each of the customers. In accordance with Washington State Law, no Excise Tax will be assessed to wholesale customers purchasing water for resale.

Variable Operating Cost Allocated to all Water Supply System customers in accordance with the metered water volume of each customer as a percentage of the total metered volume of all customers.

4.3 Billing Basis

- 1) The Capital Cost Allocation to customers is determined each time a water rate analysis is prepared by the City and is set for the ensuing rate period (usually 3 to 5 years). Each customer's "committed" volume used to calculate the Capital Cost for the rate period shall be agreed upon between the City and the Customer based upon current usage and estimated increased water requirements during the rate period. The current Capital Cost is shown in Exhibit B.
- 2) The Fixed and Variable Operating Costs shall be determined each year as part of the City's budgeting process. Rates current as of the date of this agreement are shown on Exhibit B and are used as the basis for the customer billings according to the volume of water used. The City will calculate the unit Fixed and Variable Operating Costs for the period based upon projected operating costs and projected water use and will notify the customers of these rates (Exhibit C). These revised costs will be used as the basis for billing customers over the billing period. Periodically, but not to exceed two years, the City will calculate and report actual costs and retroactively adjust each customer's charges (i.e., increase or decrease) to actual costs.

4.4 Billing The City shall read the Customer meters each month, calculate, and issue a bill to the Customer. The bill shall identify the Capital Cost, the Fixed Operating Cost, the volume of metered water delivered to the Customer during the month, and the corresponding Variable Operating Cost. The Capital Cost and Fixed Operating Cost are payable regardless of the volume of water consumed while the Variable Operating Costs shall be paid according to the volume of metered water delivered to the Customer. Payment by the Customer is due within 15 days of the receipt of the bill.

4.5 Late Payment If a bill remains unpaid after 30 days, the City will assess interest on the delinquent amount at the rate of 12% per annum. If a bill still is not paid after 90 days, the City may use other remedies legally available to it, including shutting off service to enforce payment.

4.6 Additional Charge During the rate period, the Customer is entitled to the quantity of water fixed as the basis for the capital charge (Committed Volume). Should the Customer use an annual volume greater than the Committed Volume shown on Exhibit B or as amended on Exhibit C, it shall pay the current Commercial rate (Outside of City water sales) for the quantity in excess of the Committed Volume.

5. Metering

The volume of water delivered to the Customer shall be measured by metering equipment installed in accordance with Article 2. The meter shall be maintained and read by the City. It shall be tested by the City periodically, but not less than once per year, to assure its continuing accuracy and conformance to the standards of measurement and service accepted in the water industry. The Customer has the right to be notified ahead of time and be present at any of the regularly scheduled tests. The cost of conducting such tests shall be borne by the City. These tests may also be conducted at other times at the request of the Customer and the Customer may elect to have a representative witness the meter test. If the meter is accurate, the Customer shall pay for the cost of the test; but if the test reveals an inaccuracy of more than 2 percent, the City shall pay for the test. If an inaccuracy of more than 2 percent is discovered, all billings for water furnished hereunder for one-half the time from the date of the preceding test shall be adjusted. The adjustment shall be for the full amount in excess of 2 percent.

6. Continuity of Service

The City shall use reasonable diligence to provide a regular and uninterrupted supply to the Customer's approved delivery point(s), but shall not be liable to the Customer for damages, breach of contract, or otherwise for interruption of service or curtailment of supply for any cause beyond the control of the City. These could include, but are not limited to, Acts of God, sabotage, war, fires, floods, earthquakes, power failure or other catastrophes, strikes, or failure or breakdown of the Water Supply System. The Customer shall hold the City harmless from any claim for damages related to continuity of service by third parties served by the Customer, to the extent that the claim arises out of Customer's negligence.

7. Conflicts

To the extent that there is any inconsistency between the provisions of this agreement, any exhibit incorporated as part of this agreement, or subsequent amendments and other rules and regulations of the City, the provisions of this agreement shall control.

8. Future Supply

8.1 Service Area This agreement between the City and the Customer is to supply water to the Customer's existing industrial operations and/or water service area. In this regard, the Customer agrees not to increase its industrial operations, to add new customers, or to expand its service area in a manner that would increase its water requirements by more than 10 percent without the prior approval of the City.

8.2 Water Supply Requirements The City operates its Water Supply System for the purpose of delivering an adequate supply of good quality water to all of its customers. The City agrees to maintain and to operate its system so as to meet the volumes contracted for by its customers and to supply additional volumes as may be required by the Customer in the future, consistent with the needs of all its customers.

8.3 Future Improvements The City will plan and develop water supply facilities that may become necessary in the future to replace existing facilities or to expand the capacity of its Water Supply System to meet growing demands. The City may require appropriate commitments from its customers prior to proceeding with system improvements.

9. Termination

Either the City or the Customer shall have the right to terminate this agreement by giving at least one year written notice of its desire to do so.

10. Term

Subject to the provisions of paragraph 9 of this Agreement, this agreement shall take effect on January 1, 2008, and remain in full force and effect until December 31, 2027. Either party can request amendment or renegotiation of this agreement not more frequently than on an annual basis.

11. Records Inspection

The City shall maintain and make available for inspection at reasonable times all records pertaining to the water system. These records shall be maintained for a minimum 3-year period.

12. Addresses

All notices and billing required hereunder shall be sent to the following addresses:

CITY OF ANACORTES

Mailing: PO Box 547
Anacortes, WA 98221
Physical: 904 6th Street
Anacortes, WA 98221

CUSTOMER

Notices and Billing:
Shell Oil Products US
PO Box 622
Anacortes, WA 98221

13. Applicable Law

This Agreement and all disputes arising thereunder shall be governed by Washington State Law.

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

CITY OF ANACORTES

By: _____
H. Dean Maxwell, Mayor

ATTEST:

Steve Hoglund, City Clerk

SHELL OIL PRODUCTS US

By: _____
Sandy Corrian
Site Procurement Manager

ATTEST:

Lee Ann Schaefer

EXHIBIT A

Dated: January 1, 2008

Water Supply Agreement between the City of Anacortes and Shell Oil Products US.

Approved Metered Service Connections:

No.	Size	Brand	Type	Location	Reading System
1	16"	Venturi		North Texas Road	Automated
2	6"	Sensus		" " "	Manual
3	6"	Sensus	Turbine	" " "	Manual
4	2"	Sensus	Turbine	" " "	Manual
5	8"	Sensus		" " "	Manual
6	3"	Sensus		" " "	Automated

EXHIBIT B

Dated: January 1, 2008

Water Supply Agreement between the City of Anacortes and Shell Oil Products US.

1. Water Charges:

Capital Cost (Estimate)	\$ 151,010 / Month
Fixed Operating Cost	\$ 63,070 / Month
Variable Operating Cost	\$ 152.42 / Million Gallons

2. Committed Water Volume:

Annual: 2,860 Million Gallons

3. Water Pressure: 90 psi

WATER SUPPLY AGREEMENT

This Agreement entered into this 1st day of January, 2006 between the City of Anacortes, hereinafter referred to as “the City,” and Tesoro Refining and Marketing Company is for the purpose of the City supplying water to Tesoro Refinery hereinafter referred to as “the Customer.” It replaces and supersedes any previous Agreements or understandings between the parties.

The Customer is entering into this Agreement to secure a supply of water for its industrial and/or municipal water supply requirements. The City owns and operates a Water Supply System, has water available to serve the Customer, and is willing to supply water according to the terms and conditions of this Agreement.

The City’s Water Supply System is defined for purposes of this Agreement to include: 1) the water intake and treatment facilities near Avon on the Skagit River; 2) the City’s water transmission pipelines from the water treatment facilities to Sharpe’s Corner; and 3) the 20-inch water supply pipeline from South March Point Road to the refineries.

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7. Conflicts

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amendments and other rules and regulations of the City, the provisions of this Agreement shall control.

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9. Termination

Either the City or the Customer shall have the right to terminate this Agreement by giving at least one year written notice of its desire to do so.

10. Term

Subject to the provisions of paragraph 9 of this Agreement, this Agreement shall take effect on January 1, 2006, and remain in full force and effect until December 31, 2025. Either party can request amendment or renegotiation of this Agreement not more frequently than on an annual basis.

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The City shall maintain and make available for inspection at reasonable times all records pertaining to the water system. These records shall be maintained for a minimum 3-year period.

12. Addresses

All notices and billing required hereunder shall be sent to the following addresses:

CITY OF ANACORTES
Mailing: PO Box 547
Anacortes, WA 98221
Physical: 904 6th Street
Anacortes, WA 98221


CUSTOMER
Notices and Billing:
PO Box 700
Anacortes, WA 98221

13. Applicable Law


This Agreement and all disputes arising thereunder shall be governed by Washington State Law.

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


CITY OF ANACORTES

By: 
H. Dean Maxwell, Mayor

ATTEST:


Wanda Johnson, City Clerk

TESORO REFINING AND MARKETING
COMPANY

By: 
Bruce A. Smith *qms*
Chairman of the Board of Directors
and President

ATTEST:

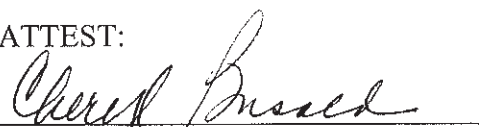

Cheryl A. Busald

EXHIBIT A

Dated: January 1, 2006

Water Supply Agreement between the City of Anacortes and Tesoro Refining and Marketing Company.

Approved Metered Service Connections:

No.	Size	Brand	Type	Location	Reading System
1	16"	Venturi	B.I.F.	North Texas Road	Manual

EXHIBIT B #1

This Exhibit B #1 , effective January 1, 2008, replaces and supersedes Exhibit B to the Water Supply Agreement entered into January 1, 2006 (the "Agreement") between the City of Anacortes and Tesoro Refining and Marketing Company.

1. Water Charges for the period of 1/1/2008 to 12/31/2010:

Capital Cost	\$128,272 / month
Fixed Operating Cost (estimate)	\$60,580 / month
Variable Operating Cost (estimate)	\$152.42 / million gallons

2. Committed Water Volume for the period 1/1/2008 to 12/31/2010:
Annual: 2,450 million gallons

3. Water Pressure:
Dependent on service location

All other terms and conditions of the original Agreement shall remain in effect.


AGREED to as of the day and year above written.

TESORO REFINING
AND MARKETING COMPANY

CITY OF ANACORTES



Brad Troup
Director, Strategic Sourcing




H. Dean Maxwell
Mayor

Dated: 2/20/08

Dated: 2/25/08

ATTEST:

ATTEST:



Jeanne Coley
Notary Public of the State of Texas



Steve Hoglund
City Clerk/Treasurer

