PUGET SOUND ENERGY

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Andrew W. Wappler
Vice President,
Customer Operations and Communications
Telephone: 425-456-2009

October 26, 2016

HAND DELIVERED

Mr. Douglas Schulze
City Manager
City of Bainbridge Island
280 Madison Avenue North
Bainbridge Island, WA 98110

Re: Information Request in Support of D. Hittle and Associates City-Run Electric Utility Feasibility Study

Dear Mr. Schulze:

Your recent letter requesting information and data in support of the D. Hittle and Associates ("Hittle") City-run electric utility feasibility study was directed to my attention. You are correct in stating that this is an awkward situation for PSE. The City's decision to request our help in supporting a study that could well recommend the purchase or condemnation of PSE's property in order to create a City-run electric utility is problematic. To be completely clear, **PSE is not for sale**.

As I personally stated to Council in public comment on both October 6, 2015 and April 19, 2016, we believe it benefits Bainbridge Island residents to **first** explore all avenues of working with PSE before embarking on the path of forming a new City-run utility. We would welcome an in-depth discussion into how PSE can best serve our Bainbridge customers. Unfortunately, any study that potentially supports a hostile takeover by the City is a harmful distraction that must postpone what I am confident would otherwise be a productive discussion. Accordingly, we must respectfully decline to provide the City's chosen consultant with the requested information, with the exception of the attached items, which have been shared with the community previously.

PSE remains dedicated to fulfilling the needs of its customers on Bainbridge Island and in all communities where PSE has the privilege of providing electric service. We have the strength, expertise, and programs **today** to partner with the City to meet your residents' goals and aspirations. PSE shares our Island customers' desire for improved reliability and a reduced carbon footprint. PSE is recognized as a leader in renewable resources and energy efficiency; we would welcome the opportunity to explore those and other new innovations. I sincerely hope that the City and PSE can focus on moving forward as partners and avoid the risky, expensive endeavor that is the creation of a new, City-run utility.

Separately, I am perplexed with your stated goal of wanting an "accurate and thorough analysis" in light of the City's decision to hire Hittle to complete the valuation study—an action that is quite inconsistent with your objective.

Hittle has previously undertaken "feasibility studies" in support of hostile acquisition campaigns targeting other portions of PSE's service territory (as well as that of other utilities) and has never failed to recommend that a jurisdiction proceed with the acquisition, or to offer its assistance in said acquisition. Hittle's work product has consistently been shown to be inaccurate. For example, in the case of Jefferson County, Hittle advised JPUD that they would incur a cost to acquire PSE's assets of approximately $47 million. As you may know, the fair market value and actual cost to acquired PSE's assets was approximately $115 million. Hittle's work product is no more likely to provide the City with an informed basis for decision making than it did in Jefferson County. You can expect PSE to objectively critique, not lend its support, to inaccurate studies. Our customers are also entitled to know the facts, and we will not fail them in this regard.

If you have any further questions concerning this matter, please contact me at 425-456-2009 or andy.wappler@pse.com.

Sincerely,

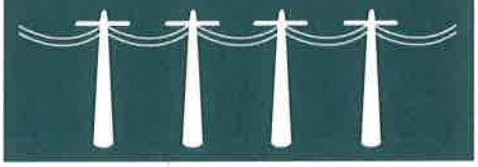
Andrew W. Wappler
Vice President
Customer Operations and Communications

cc: Val Tollefson

Attachments

PSE system facts for Bainbridge Island

307
Miles of distribution lines
165 Miles of underground distribution
22 Miles of distribution tree wire



50%
of distribution system is underground

$7 million
Planned infrastructure investments in 2016 and beyond

$2.8 million
Energy efficiency funding for residents and businesses

10.2%
Green Power participation (ranks 2nd overall in Washington)

50+
Full-time employees serving Bainbridge

$21 million
Infrastructure investments since 2010

$443,000
Solar incentives paid to residents in 2015

40+
Service partner employees serving Bainbridge

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PSE Investments

Bainbridge Island 2009 – 2017

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PSE vegetation management program

On Bainbridge Island:

Trees trimmed near our electric system on a 2, 3 and 4 year schedule

Pilot project on 4 circuits: Trim on a 2 year schedule (trim less, more often)

169 miles to trim (transmission and distribution)

13,000 trees trimmed (over past 2 years)

In PSE's entire system:

80% of tree-related outages are caused by trees outside the right-of-way

68% of trees causing outages look like healthy trees

20% of trees causing outages are dead or in poor health

PSE PUGET SOUND ENERGY

PSE Vegetation management program

Bainbridge Island 2014 – 2016

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Bainbridge Island Distibution Outages-Outage Count by Cause (2004-2016) al									
2004-2016 ALL-IN OUTAGE COUNT	2004	2005	2006	2007	2008	2009	2010	2011	2012
TREE	101	99	213	124	148	125	180	91	88
EQUIPMENT FAILURE	79	70	88	75	73	69	69	52	70
SCHEDULED OUTAGE	2	21	29	24	24	31	32	24	55
BIRD OR ANIMAL	25	24	27	15	14	18	16	9	10
UNKNOWN CAUSE	9	4	7	2	8	7	4	10	1
DIG UP UNDERGROUND	10	7	6	5	5	5	4	3	3
ELECTRICAL OVERLOAD		3	9	3	6	4	1	1	1
CAR POLE		2	4	2	1	3	3		3
PARTIAL OUTAGE			1		3	3	4	1	2
ACCIDENT OTHER, W/ FIRES	4	6	9	6	2	4	2	1	
CUSTOMER REQUEST		2			1				
FAULTY INSTALLATION	1		1	1	1			1	
OUTSIDE DISTURBANCE									
OPERATING ERROR	1		1	1			1		
ACCIDENT/VANDALISM	1			1		2			1
LIGHTNING	1	1	1						
TOTAL	234	239	396	259	286	271	316	193	234

Bainbridge Island Distribution Outages- Total Customer Minutes by Cause (2004-20									
2004-2016 ALL-IN CM	2004	2005	2006	2007	2008	2009	2010	2011	2012
TREE	6,430,668	3,183,201	34,077,714	4,579,444	7,333,606	6,117,924	21,743,905	2,503,065	1,361,78
UNKNOWN CAUSE	11,088	135,153	532,851	8,317	65,391	417,042	1,157,822	440,998	725,37
EQUIPMENT FAILURE	314,393	202,008	641,250	213,850	545,402	304,486	586,652	389,344	186,82
ELECTRICAL OVERLOAD		846,768	398,007	2,692	79,274	37,100	1,361	578	193,42
SCHEDULED OUTAGE	207,315	165,523	82,505	98,447	690,798	287,122	10,019	72,279	148,84
CAR POLE		122,155	65,767	4,519	3,248	170,944	215,330		36,53
BIRD OR ANIMAL	7,926	17,726	31,113	10,929	17,798	10,162	26,129	6,729	4,49
DIG UP UNDERGROUND	22,100	166,544	13,945	9,528	13,940	10,984	5,325	7,204	2,37
OUTSIDE DISTURBANCE									
ACCIDENT/VANDALISM	202			7,259		9,506			7
ACCIDENT OTHER, W/ FIRES	867	125,780	107,394	11,917	2,111	12,948	316	192	
OPERATING ERROR	72,965		1,413	130			1,875		
FAULTY INSTALLATION	153		399	97	94			1,574	
LIGHTNING	108	3,939	1,186,506						
PARTIAL OUTAGE			1,320		482	768	753	2,960	33
CUSTOMER REQUEST		541			45				
TOTAL	7,067,785	4,969,338	37,140,184	4,947,129	8,752,189	7,378,986	23,749,487	3,424,923	2,660,07

Bainbridge Island Transmission Outages- Outage Count by Cause (2004-2016) al									
2004-2016 ALL-IN OUTAGE COUNT	2004	2005	2006	2007	2008	2009	2010	2011	2012
BIRD OR ANIMAL									
TREE	2		2	2		2	2	2	1
UNKNOWN CAUSE									
TOTAL	2	0	2	2	0	2	2	2	1

Bainbridge Island Transmission Outages- Total Customer Minutes by Cause (2004-20									
2004-2016 ALL-IN CM	2004	2005	2006	2007	2008	2009	2010	2011	2012
BIRD OR ANIMAL									
TREE	1,170,083		814,320	840,924		367,260	5,690,906	1,124,119	1,985,085
UNKNOWN CAUSE									
TOTAL	1,170,083	-	814,320	840,924	-	367,260	5,690,906	1,124,119	1,985,085

2004-2016 ALL-IN OUTAGE COUNT	2013	2014	2015	2016*	Total
TREE	96	149	190	81	1685
EQUIPMENT FAILURE	55	65	65	21	851
SCHEDULED OUTAGE	17	30	28	20	337
BIRD OR ANIMAL	9	12	19	11	209
UNKNOWN CAUSE	5	19	17	4	97
DIG UP UNDERGROUND	3	2	5	2	60
ELECTRICAL OVERLOAD	5	4	3		40
CAR POLE	3		2	2	25
PARTIAL OUTAGE					14
ACCIDENT OTHER, W/ FIRES		1	2	2	39
CUSTOMER REQUEST		3			6
FAULTY INSTALLATION	1	1			7
OUTSIDE DISTURBANCE	1	1	1	1	4
OPERATING ERROR		1	1	1	7
ACCIDENT/VANDALISM	1				6
LIGHTNING	1		1	1	6
TOTAL	197	288	334	146	3,393

	all-in				
2004-2016 ALL-IN CM	2013	2014	2015	2016*	Total
TREE	3,401,020	6,005,465	13,213,471	8,550,645	118,501,913
UNKNOWN CAUSE	12,261	571,835	251,568	11,730	4,341,431
EQUIPMENT FAILURE	150,101	313,560	716,907	63,121	4,627,896
ELECTRICAL OVERLOAD	434,002	58,501	122,947		2,174,659
SCHEDULED OUTAGE	40,230	124,327	40,607	17,428	1,985,444
CAR POLE	136,467		6,670	4,343	765,977
BIRD OR ANIMAL	57,064	9,166	20,932	15,750	235,920
DIG UP UNDERGROUND	11,129	18,004	3,991	1,912	286,985
OUTSIDE DISTURBANCE	834	16,540	30,585	319	48,278
ACCIDENT/VANDALISM	30,461				47,506
ACCIDENT OTHER, W/ FIRES		2,777	12,921	6,255	283,478
OPERATING ERROR		12,831	284	15,867	105,365
FAULTY INSTALLATION	751	3,919			6,987
LIGHTNING	237		4,016	463	1,195,269
PARTIAL OUTAGE					6,615
CUSTOMER REQUEST		3,229			3,815
TOTAL	4,274,557	7,140,154	14,424,899	8,687,833	134,617,538

2004-2016 ALL-IN OUTAGE COUNT	2013	2014	2015	2016*	Total
BIRD OR ANIMAL		1			1
TREE	1	5	9	3	31
UNKNOWN CAUSE			1	1	2
TOTAL	1	6	10	4	34

	all-in				
2004-2016 ALL-IN CM	2013	2014	2015	2016*	Total
BIRD OR ANIMAL		213,456			213,456
TREE	1,800,578	2,605,945	13,243,303	3,626,006	33,268,529
UNKNOWN CAUSE			863,954	1,351,540	2,215,494
TOTAL	1,800,578	2,819,401	14,107,257	4,977,546	35,697,479

2016* Through June 30th

Bainbridge Island existing power grid

3 substations serve 12,300 island customers

Port Madison substation
Serving 4,000 customers

Originally built in 1980
New transmission line & improvements in 2000

Transmission lines above distribution lines on Madison Avenue NE

Transmission lines on Sportsman Club Road supplying power to Murden Cove substation

Transmission lines on Carmelita Lane supplying power to Winslow substation

Murden Cove substation
Serving 4,500 customers

Originally built in 1980

Winslow substation
Serving 3,800 customers

Originally built in 1960

Customer growth 2009-2016	
Year	**Customers**
2009	11,824
2010	11,789
2011	11,832
2012	11,848
2013	11,908
2014	12,167
2015	12,215
2016	12,314

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PSE Investments
Bainbridge Island 2009 - 2017

Completed projects (2009 – 2015)

Port Madison tap 115 kV

CONSTRUCTION: 2015

OBJECTIVE: Rebuild the line with larger wire and replace some existing poles with taller wood poles.

CUSTOMER BENEFIT: Capacity and reliability, especially during time of high energy use and/or when there is an outage.

Agate Pass tower replacement

CONSTRUCTION: 2014

OBJECTIVE: Replace two lattice steel towers with four steel poles, and upgrade the existing transmission lines that serve north Kitsap County and Bainbridge Island.

CUSTOMER BENEFIT: Improve reliability.

Baker Hill Rd distribution tree wire (WIN-13)

CONSTRUCTION: 2014

OBJECTIVE: Replace existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the area.

Fletcher Bay Rd distribution tree wire (WIN-12)

CONSTRUCTION: 2014

OBJECTIVE: Replace existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the area.

Eagle Harbor Dr (east of McDonald Ave) distribution tree wire (WIN-15)

CONSTRUCTION: 2013

OBJECTIVE: Replace existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the area.

New Sweden Ave distribution tree wire (WIN-15)

CONSTRUCTION: 2013

OBJECTIVE: Replace existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the area.

Eagle Harbor Dr (north of McDonald Ave) distribution tree wire

CONSTRUCTION: 2012/13

OBJECTIVE: Replace existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the area.

Eagle Harbor Dr NE and Bucklin Hill Rd NE underground (WIN-15 & WIN-16)

CONSTRUCTION: 2012/13

OBJECTIVE: Install an underground distribution line.

CUSTOMER BENEFIT: Improve reliability by undergrounding wire.

Madison Ave N underground (MUR-17)

CONSTRUCTION: 2012/13

OBJECTIVE: Install an underground distribution line.

CUSTOMER BENEFIT: Improve reliability by undergrounding wire.

NE New Brooklyn Rd distribution tree wire (WIN-12)

CONSTRUCTION: 2012

OBJECTIVE: Replace existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the area.

Miller Rd NE distribution tree wire (WIN-12)

CONSTRUCTION: 2011

OBJECTIVE: Replace existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the area.

Moran Rd NE, NE Lofgren Rd and Ferncliff Ave NE underground (MUR-13)

CONSTRUCTION: 2010

OBJECTIVE: Install an underground distribution line.

CUSTOMER BENEFIT: Improve reliability by undergrounding wire.

Agatewood Rd NE and NE Dolphin Dr mixed project (PMA-12)

CONSTRUCTION: 2009

OBJECTIVE: Install mixed project of undergrounding a distribution line and installing tree wire.

CUSTOMER BENEFIT: Improve reliability by a mixed project of undergrounding wire and installing overhead tree wire.

Definition:
Tree wire is a specially coated overhead wire, which is strong enough to withstand a tree limb falling into the line, and can significantly reduce the frequency of tree-related power outages.

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PSE Investments
Bainbridge Island 2009 - 2017

Current projects (2016 – 2017)

Port Madison distribution tree wire (PMA -12)

CONSTRUCTION: Dec. 2015 – Apr. 2016

OBJECTIVE: Replace approximately 3.5 miles of existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the Port Madison area.

CURRENT STATUS: Underway

Foss Corner – Port Madison 115 kV transmission line upgrade

CONSTRUCTION: Apr. – Sept. 2016

OBJECTIVE: Rebuild and upgrade the lines from our Foss Corner substation on the Kitsap Peninsula to the Port Madison substation on Day Road. Of the 9.4 mile project, 2.5 miles is on Bainbridge Island.

CUSTOMER BENEFIT: Capacity and reliability, especially during times of high energy use and/or when there is an outage.

CURRENT STATUS: Construction to begin in the spring 2016

Eagle Harbor Dr and Wyatt Way NW underground feeder tie (WIN-15 & WIN-16)

CONSTRUCTION: June 2016

OBJECTIVE: Install an underground distribution line along Eagle Harbor Dr and Wyatt Way NW.

CUSTOMER BENEFIT: Improve reliability by undergrounding an additional feeder tie.

CURRENT STATUS: Final design

Sunrise Dr distribution tree wire (PMA-16)

CONSTRUCTION: 2017

OBJECTIVE: Using an existing corridor, install approximately 3 miles of overhead distribution line connecting Murden Cove and Port Madison substations.

CUSTOMER BENEFIT: Improve reliability by installing tree wire and providing a third feeder tie to better link the two aforementioned substations.

CURRENT STATUS: Engineering

Point White Rd distribution tree wire (WIN-13)

CONSTRUCTION: 2017

OBJECTIVE: Replace existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the area.

CURRENT STATUS: Engineering

Brien Rd distribution tree wire (MUR-13)

CONSTRUCTION: 2017

OBJECTIVE: Replace existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the area.

CURRENT STATUS: Engineering

Lafayette Rd distribution tree wire (PMA-16)

CONSTRUCTION: 2017

OBJECTIVE: Replace existing overhead distribution line with specialized tree wire.

CUSTOMER BENEFIT: Will significantly reduce the frequency of tree-related outages to customers in the area.

CURRENT STATUS: Engineering

Definition:
Tree wire is a specially coated overhead wire, which is strong enough to withstand a tree limb falling into the line, and can significantly reduce the frequency of tree-related power outages.

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