



City of Bainbridge Island Municipalization – Preliminary Feasibility Study Key Points

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Concentric Energy Advisors (Concentric), a management consulting and financial advisory firm focused on the North American energy industry, was retained by Puget Sound Energy to perform a preliminary independent assessment of the cost and implications of the City of Bainbridge Island (City) acquiring PSE existing utility assets and assuming responsibility for providing electric service to PSE's Bainbridge Island customers.

Overview of the study

The study compares the cost for the City to acquire and run the existing electric utility to the projected cost of Bainbridge Island customers continuing to take service from PSE over a twenty-year period.

The study does not consider the additional costs of investments such as undergrounding distribution lines, new substation or transmission lines, or major storm damage. Any investments and ongoing operating costs related to these additional investments would be incremental to the annual costs considered in the study and therefore are incremental operating risks.

The Initial investment is estimated to be \$146.8 million based on an acquisition date of 2021 including:

- Acquisition cost: \$109 million for the purchase of PSE's electric infrastructure, easements and property.
- Transaction costs: \$8.7 million for legal, consulting, and financing costs to pursue condemnation and close the transaction.
- Start-up costs: \$29 million, which include the cost of new systems, resources, inventory, machinery and services that will be necessary to operate and maintain the utility and to manage customer relationships, data, billings and to provide sufficient financial reserves.

Ongoing Annual Revenue Requirement under City ownership and operation is estimated to be \$30 million in 2021, escalating over time.

- The study compares PSE and City operations on an "apples-to-apples" basis including in the City annual revenue requirement projected costs for all services that are currently included in PSE's rates: purchased power, transmission expense, O&M, A&G and customer care low income assistance, energy efficiency, local property taxes and debt service (based on the acquisition and ongoing capital requirements).

Scenario analysis

Concentric prepared three scenarios representing three purchase dates and cost structures. Despite the reasonable assumptions, none of these scenarios result in a lower cost of operation from a City-run electric utility. The following summarizes the incremental cost over a 10-year period

- **Base Case:** acquisition date of 2021 results in an incremental cost of \$36.6 million.
- **Lower Bound:** acquisition date of 2020, lower operating and financing cost assumptions, results in an incremental cost of \$8.7 million.
- **Upper bound:** assumes acquisition in 2024, higher operating and financing cost assumptions results in an incremental cost of \$87.6 million.