

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

July 7, 2014
6:00 p.m.

Council Conference Room
Bellevue, Washington

PRESENT: Mayor Balducci, Deputy Mayor Wallace, and Councilmembers Chelminiak, Robertson, Robinson, and Stokes

ABSENT: Councilmember Lee

1. Executive Session

Deputy Mayor Wallace called the meeting to order at 6:04 p.m., and declared recess to Executive Session for approximately 30 minutes to discuss one item of property acquisition and one item of potential litigation.

The meeting resumed at 7:02 p.m., with Mayor Balducci presiding.

2. Study Session

(a) Energize Eastside Project Briefing

City Manager Brad Miyake opened discussion regarding the City's public engagement process related to Puget Sound Energy's Energize Eastside project.

Mike Brennan, Director of the Development Services Department (DSD), introduced Mark Vasconi, Director of Regulatory Services, Washington Utilities and Transportation Commission (WUTC) and Juliana Williams, Regulatory Analyst in the Conservation and Energy Planning Division, WUTC.

Mr. Brennan recalled that, following Council direction, a community forum was held on June 3, and PSE's Citizens Advisory Group (CAG) provided an update to the Council on June 16. Tonight is the requested update on the policy and regulatory framework applicable to the development of new electrical utility facilities, learn about the role of the WUTC, and receive direction from Council on pursuing an update to the Electrical Reliability Study.

Mr. Brennan said the City's policy framework includes the Utilities Element of the Comprehensive Plan, Land Use Code Electrical Utility Facilities provisions, and permit authority for project components within city boundaries.

Nicholas Matz, Senior Planner, said the Utilities Element of the Comprehensive Plan is required to ensure that utilities are providing sufficient service to local citizens. It encourages reliable service that balances safety and health with fair and reasonable prices and Bellevue's natural environment, regulates facilities permitting in a fair and predictable manner, and encourages technologies that improve service and balance health and safety, economic, aesthetic and environmental factors. Mr. Matz said staff uses these policies to guide the City's stakeholder role.

Mr. Matz described Figure UT-5a from the Comprehensive Plan depicting the New or Expanded Electrical Facilities map, which is based on PSE's planning. This is used by the City to identify sensitive sites versus non-sensitive sites.

Carol Helland, Land Use Director, described the application of Land Use Code and permitting regulations to electrical utility facilities including environmental review, completion of an Alternate Siting Analysis, Conditional Use Permit (CUP) approval, and compliance with decision criteria and design standards. The City updated the Land Use Code provisions in 2008 in response to the siting of the Lochleven substation. The permit process is determined based on the sensitive site map, and sensitive sites are required to go through the CUP process. Non-sensitive sites go through the Administrative CUP process.

Ms. Helland said environmental review is required under the State Environmental Policy Act (SEPA), and an environmental impact statement (EIS) will be completed for the Energize Eastside project. Ms. Helland said City staff is involved in discussions with PSE about the appropriate level of SEPA review. That process will be broken into two phases due to concerns by the public that the EIS not prematurely foreclose the evaluation of alternatives. Phase 1 of the EIS is a broad programmatic review (i.e., determining the need for the project and evaluating alternatives), and Phase 2 is the project-level review of the top three or four alternatives, design, and mitigation.

Ms. Helland said the CUP process does not begin until the EIS is completed. She highlighted the differences in the CUP process for the alignment within the East Bellevue Community Council (EBCC) jurisdiction versus the alignment outside of that boundary. In the former, the Hearing Examiner makes a recommendation to City Council. Council issues a final decision and EBCC would then initiate approval or disapproval over the final decision. If siting occurs outside of the EBCC boundaries, the Hearing Examiner issues the decision, which may be appealed to the City Council. If an appeal occurs, the Council makes the final decision.

Responding to Mayor Balducci, Ms. Helland confirmed that the CUP process would be a dual process. Disapproval of the Hearing Examiner's recommendation or decision would need to be based on the record and involve a finding that the decision was erroneous.

Ms. Helland described Bellevue's role in the Energize Eastside project. The City is the permit authority and lead agency for the multi-jurisdictional EIS. Data will be verified using independent, third party review, and City staff will support neighborhood participation in the outreach, policy, and permitting process. The Council will ultimately approve amendments proposed for the 10-year Comprehensive Plan Update.

Mr. Matz said the City regulates PSE through franchise agreements related to use of the right-of-way (ROW). As a result of the 2012 Electrical Reliability Study, the City and PSE hold annual reliability and planning coordination meetings. Reliability discussions are held in the spring, and planning coordination meetings are held in the fall.

Mr. Matz noted that a number of federal and state agencies are involved in the regulatory environment including the Federal Energy Regulatory Commission, North American Reliability Corporation, Bonneville Power Administration, Western Electricity Coordinating Council, and the Washington Utilities and Transportation Commission.

Mr. Brennan asked the WUTC staff to provide additional details.

Mr. Vasconi said the WUTC is responsible for setting rates for investor-owned utilities but does not deal with public utilities like Tacoma Power or Seattle City Light. The agency is tasked with trying to find balance between fair rates for consumers and sufficient profit to attract investors.

Mr. Vasconi said the WUTC does not pre-approve, authorize, or permit facilities that have not yet been constructed. By the time the WUTC sees the costs of facilities and projects, the project has been built. The WUTC is largely an economic regulator and takes a detailed view of the costs presented by the utility company in their efforts to determine appropriate rates.

Mr. Vasconi noted that Ms. Williams has expertise in integrated resource plans (IRPs), which typically cover a 10-20 year time horizon. Investor-owned utilities file an IRP every two years. The WUTC reviews the plans and works with the utilities to understand their operations. The WUTC will issue an opinion about what needs to be done during the next process but does not approve or disapprove a project.

Councilmember Robertson said her understanding is that the most recent IRP from Puget Sound Energy (PSE) generated concerns expressed by the WUTC. If an IRP was considered to be inadequate or not substantiated, and a capital project was completed that was significantly greater than needed to serve the growth, is it possible that the WUTC could declare that the project was too large and that there was not sufficient justification to pass that on to the ratepayers?

Mr. Vasconi said yes, it is clearly within the authority of the WUTC to do that. In formal terms, there is what is called a prudency review. When a utility lists the projects that have been brought into the rate case, the group that Ms. Williams works with is responsible for conducting the prudency reviews. The WUTC can disallow all or a portion of the capital costs.

Ms. Williams said the WUTC has established certain criteria for conducting the prudency review. Companies know what the WUTC is looking for and what information they need to provide to support a rate case. When a company conducts its modeling to determine whether a resource should be acquired or built, it goes through a couple of different rounds of analysis. Generally the need will be identified in the IRP in a general sense of the types of resources that could meet that need. Typically a company would issue a request for proposals (RFP) and then conduct the second analysis. If there are areas in which the modeling needs improvement, there is time for the companies to adjust their modeling and to make sure the WUTC will have a sufficient level of comfort with the analysis.

Responding to Councilmember Robertson regarding PSE's 2013 IRP, Ms. Williams said the WUTC is following up on issues to the extent it is able. PSE's 2013 IRP did not show an immediate near-term resource need, so they did not immediately issue a RFP. However, PSE has worked with company staff to make sure they are tightening the connection between the IRP and the transmission planning analysis. The 2013 acknowledgement letter regarding the IRP indicated that the connection seemed to be very loose, and it was not clear how the resource need tied to the analysis of transmission constraints. The WUTC is working with PSE to improve their modeling process.

Councilmember Robertson asked whether Ms. Williams could provide an opinion on whether another 230 transmission line is needed. Ms. Williams said she did not believe she could provide that opinion. One of the pieces of information the WUTC looks at in a prudency review is the analysis of need, and one of the areas that the WUTC would look to is the evaluations that Columbia Grid has done in regional planning. The Energize Eastside project has not yet come before the WUTC for recovery; therefore, the prudency review has not yet been conducted.

Councilmember Chelminiak observed that the WUTC's response to PSE's 2013 IRP includes a number of comments related to the lack of work exhibited by PSE. He asked whether the load growth projections were important to whether or not a company would build a transmission line through Bellevue and other Eastside communities. Is that part of the prudency test?

Mr. Vasconi said yes, it would be. Aside from load growth, there are issues of reliability to be considered. He said the area has been in a period of relatively low load growth. However, companies have been investing in reliability measures and the rehabilitation and replacement of facilities. Mr. Chelminiak asked whether PSE's 2013 IRP falls into that category of projects. Mr. Vasconi said Columbia Grid provides the function of transmission planning for the region. He would think they are looking at both load growth and reliability in their efforts. Columbia Grid highlighted six projects in the Puget Sound area in its 2011 report, and Energize Eastside is one of those projects.

Mr. Chelminiak said PSE has stated that the Eastside will reach a point in 2017 in which the need for more electricity intersects the demand for electricity. He asked staff to comment on that.

Ms. Williams said a number of elements go into determining when a resource deficit will occur. These include the load growth forecast and the presence of existing resources and/or expiring

resources. If there are resources the company could acquire but there is not sufficient transmission capacity to get the resources to the load, this is a case in which additional transmission lines are needed. Ms. Williams said her understanding is that transmission and distribution planning typically occurs in a department that is different from the group/department preparing the IRP. The WUTC is trying to strengthen that connection and understand the communication and analysis.

Councilmember Chelminiak said the WUTC made several statements about items that need to be covered in the 2015 IRP. How does that bear on a decision to build or not build this transmission line?

Ms. Williams said that, when a company develops its IRP, it builds cost assumptions around each of the different resource alternatives. Generally one of the costs that would be included is a generic cost of transmission, which is region specific. She said that, although the IRP did not have certain information the WUTC wants to see, that does not mean that PSE does not have the information.

Councilmember Chelminiak observed that the conclusion of the WUTC letter was fairly strong in indicating that, in several areas, PSE's IRP fails to meet the WUTC's expectations of clarity, transparency, and thoroughness. He is trying to understand how that affects decisions related to the Energize Eastside project. While there is an interrelationship, it does not appear to be a direct one.

Mr. Chelminiak questioned whether anyone has ever built a transmission line and had the WUTC question the ability of the utility to get their money back. Mr. Vasconi said he was not aware of such a situation. He said IRPs have historically been focused on power generation resources and not so much on transmission resources. However, he believes we are in a period of constrained transmission capabilities with both electricity and natural gas. Mr. Vasconi speculated that the State might start seeing more of that type of project.

Councilmember Chelminiak questioned who decides who pays if a project is undergrounded. Are there rules that there must be a direct benefit to someone from the underground utility?

Mr. Vasconi said the WUTC has struggled with the idea of undergrounding from the standpoint of storm reliability. The costs are substantially higher than overhead facilities, and the WUTC's pricing guidance is that cost causers are cost payers. The WUTC is cautious around the idea of any kind of cross-subsidy.

Mr. Chelminiak questioned how the WUTC determines who should pay for underground lines within a local area. Mr. Vasconi said RCW35.96.030 deals with the conversion of electric and communications facilities to underground facilities. It establishes the ability of cities to create local improvement districts for the assessment of those costs that are unique to that jurisdiction.

Mayor Balducci stated her understanding that, if a decision was made to build an underground transmission line, the WUTC would review the rates after the fact and determine whether the

project was a prudent decision that was required to meet the standard of reliability for the entire system. Mr. Vasconi concurred. In further response, Mr. Vasconi said the WUTC could deny the recovery of costs if they were determined to not be necessary. Another thing the WUTC could do is to look at what a similar overhead transmission system would cost and to look at reliability, load growth, and other issues.

Ms. Balducci said it is difficult to conceptualize the post hoc nature of the WUTC's review. If certain costs were disallowed by the WUTC, what would happen?

Mr. Matz clarified that, with the question of undergrounding, the situation would never get that far. The tariff schedule does not let the utility company decide to underground. The costs for undergrounding must be paid up front. The question does not go before the WUTC in that form because the tariff schedule prevents it from going that far. In further response to Mayor Balducci, Mr. Matz said there are statutory rate structures that dictate how a utility pays for undergrounding.

Responding to the issue of the potential disallowance of capital costs or expenses, Mr. Vasconi said the WUTC wants to ensure there is some shareholder risk that a project's costs might not be approved. If there is no risk to shareholders, there is the potential for company management and/or shareholders to see the situation as basically a blank check. That is the rationale for the post hoc review, to leave some level of uncertainty about whether costs will be deemed warranted. Mr. Vasconi said companies always have the option of taking a matter to the courts.

Councilmember Robinson referred to PSE's projected energy demands over the next five years and questioned the data and calculations involved in those projections. She said it appears that PSE used data from the past two years only to extrapolate five years into the future. She questioned whether there are standards for developing projections that would be more reliable.

Ms. Williams said that, when a company develops its IRP, it takes into account local, regional and national economic data including employment rates, population growth, housing construction, and other factors. Her understanding is that quarterly economic data since 1990 is used in developing the projections. Companies typically develop multiple scenarios (i.e., low, medium, and high load growth) based primarily on economic factors of the region. They make adjustments for known major changes (e.g., a significant corporate facilities expansion). Ms. Williams said PSE updates its conservation estimates every two years.

Ms. Robinson asked whether, even though the PSE report refers to data since 2012, Ms. Williams knows that PSE is using the older data. Ms. Williams said yes, PSE uses the historical data to build the trends and extrapolates that forward.

Responding to Robinson, Ms. Williams said the general modeling approach used by PSE is considered by the WUTC to be basically sound. While the acknowledgement letter was rather firm in a number of areas, those areas do not indicate the need to overhaul their entire modeling approach.

Mayor Balducci thanked the guests and staff for the presentation.

At 8:01 p.m., Mayor Balducci declared recess to Regular Session.

Myrna L. Basich, MMC
City Clerk

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