

## Puget Sound Energy Shuffleton Surplus Property Sale Background Discussion

Puget Sound Energy (PSE) is proposing to sell its surplus utility property surrounding our Shuffleton Switching Station located at 1095 Lake Washington Boulevard. PSE's current holdings at this location total 10.09 acres. PSE is proposing to sell 7.74 acres and retain 2.35 acres for continuing operation of its electrical system. The site plan, included as Exhibit 3 to the Application, shows the proposed sale property as lot 1 ("Shuffleton Surplus Property") and the retained property as lot 2.

Lot 2 represents the property dimensions required for the Shuffleton Switching station including required lot-line set-backs, maintenance area, and access. PSE will also retain operating easements on lot 1 for transmission lines, utilities, and ingress/egress. A portion of lot 1 south of the Shuffleton Switching Station will be provided by the purchaser to the City of Renton for an extension of Park Avenue to the Southport development.

PSE's current Shuffleton property is the remainder of a historical holding acquired for the Shuffleton oil-fired steam generator built in 1929. The steam plant was replaced in PSE's generating portfolio by more efficient resources and demolished in 2001. Following demolition, the westerly portion of the property including the Lake Washington frontage was sold and subsequently developed by SECO Development Inc. ("SECO") into a large mixed-used commercial development called Southport on Lake Washington.

PSE currently uses the majority of the Shuffleton Surplus Property for the storage of major electrical equipment including transmission level transformers and circuit breakers. There is also a small building on site used for substation operations. PSE is planning to move these functions to owned locations in the Kent Valley.

PSE, through its commercial broker CBRE, began marketing the property in the Spring of 2017. SECO rapidly emerged as the most motivated and logical purchaser of the property. Among the reasons SECO is a motivated purchaser are:

- SECO is able to strategically plan for development of Shuffleton Surplus Property to complement its Southport on Lake Washington Development;
- SECO has a Master Development Agreement and longstanding relationships with the City of Renton that provide SECO with familiarity and confidence in good regulatory outcomes;

- Without the Shuffleton Surplus Property, access to the Southport development is a single entrance shared with the City of Renton's Gene Coulon Beach Park. Purchase of Shuffleton Surplus Property supports development of a primary entrance by extending Park Avenue to Southport;
- SECO has constructed a multi-story parking structure central to both Southport and future developments on Shuffleton Surplus Property that allows parking to the entire complex to be managed as a single development.

From a buyer's perspective, the Shuffleton Surplus Property comes with many encumbrances (such as ingress/egress to the Shuffleton Switching Station and multiple transmission line easements) that restrict overall development. PSE and Southport West LLC were able to work through these issues because SECO is a motivated buyer.

PSE entered a sale agreement on November 27, 2018 with Southport West LLC for \$13,500,000 for Shuffleton Surplus Property. Southport West LLC is controlled SECO whose principals developed and operate the adjacent Southport development. An appraisal was performed and the purchase price was above the appraisal value. The sale agreement includes, as a condition to closing, approval by the WUTC for PSE's sale of utility property. PSE and Southport West LLC have executed 5 amendments to the original sales agreement to extend the time to conduct due diligence and complete conditions precedent.

For a number of years, the City of Renton has been interested in PSE moving its industrial use adjacent to the City's heavily used Gene Coulon Beach Park. To further their land use objectives, the City changed zoning for the site to mixed commercial in its comprehensive plan dated June 22, 2015. PSE was allowed to remain as an existing or grandfathered use. However, PSE cannot invest more in redevelopment than the value of current improvements on the site. With the main improvement on the site being the low-value steel framed office, PSE is prevented from redeveloping the site for any long-term utility use.

Timing for this sale is driven by the status of the existing Southport Development and PSE's desire to maximize value of its existing property. Final construction on the parking garage is underway and leasing is underway for the office space. From the SECO website:

Situated on the south shore of Lake Washington, Southport is a mixed-use development of 17.1 acres of waterfront property and will include three, 9-story buildings consisting of 712,752 SF of Class "A" office space, together with 664,277 GSF of parking, currently under construction. The offices will join the 383 units of luxury, multi-family housing completed in 2008 and the 347-room Hyatt Regency Lake Washington at Seattle's Southport. Upon completion, the Southport campus will feature four restaurants and

additional first floor retail space. (from <https://www.secodev.com/southport-office> on 6/11/2019)

Completion of the parking garage and the office space is expected to put tremendous traffic through the single access road that Southport shares with Gene Coulon Beach Park. The negotiated sale maximizes PSE's value and allows Southport West to jointly plan the second access road with the City to maximize their development opportunities. Without the negotiated sale, the City may have faced increasing public pressure to use its condemnation authority to address the traffic issues.

There will be a period of time following closing where PSE will lease-back a portion of the Shuffleton Surplus Property until Kent Valley locations are ready to receive the current substations operations and equipment storage.