

**EXH. SZ-1T
DOCKET U-180680
WITNESS: STEVEN ZUCCHET**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**IN THE MATTER OF THE JOINT
APPLICATION OF PUGET SOUND
ENERGY, ALBERTA INVESTMENT
MANAGEMENT CORPORATION,
BRITISH COLUMBIA INVESTMENT
MANAGEMENT CORPORATION,
OMERS ADMINISTRATION
CORPORATION, AND PGGM
VERMOGENSBEHEER B.V. FOR AN
ORDER AUTHORIZING PROPOSED
SALES OF INDIRECT INTERESTS
IN PUGET SOUND ENERGY**

Docket U-180680

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

STEVEN ZUCCHET

ON BEHALF OF OMERS ADMINISTRATION CORPORATION

SEPTEMBER 5, 2018

OMERS ADMINISTRATION CORPORATION

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
STEVEN ZUCCHET**

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OMERS ADMINISTRATION CORPORATION

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1 **OMERS ADMINISTRATION CORPORATION**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **STEVEN ZUCCHET**

4 **I. INTRODUCTION**

5 **Q. Please state your name, business address, and position with OMERS**
6 **Infrastructure Management Inc.**

7 A. My name is Steven Zucchet. My business address is 900-100 Adelaide Street
8 West, Toronto, Ontario M5H 0E2. I am a Managing Director of OMERS
9 Infrastructure Management Inc. (“OMERS Infrastructure”), the dedicated
10 infrastructure investment and management arm of OMERS Administration
11 Corporation (“OAC”).

12 **Q. Have you prepared an exhibit describing your education, relevant**
13 **employment experience, and other professional qualifications?**

14 A. Yes, I have. It is Exhibit No. SZ-2.

15 **Q. What are your duties as Managing Director at OMERS Infrastructure?**

16 A. As Managing Director of OMERS Infrastructure, I am responsible for originating
17 and leading the pursuit of energy and regulated utility assets, primarily in North
18 America. I have led numerous transactions with respect to energy and regulated
19 utility investments, and I have or had asset management responsibilities for
20 several of OAC’s indirect investments including Oncor Electric Delivery
21 Company LLC (“Oncor”), Midland Cogeneration Venture Limited

1 Partnership (“MCV”), Vento II, and Bruce Power Inc. (“Bruce Power”).

2 Additionally, I serve as a member of the board of both Oncor and Bruce Power.

3 **Q. Please summarize the purpose of this prefiled direct testimony.**

4 A. My prefiled direct testimony provides support for the indirect acquisition of
5 approximately 24 percent of the equity interest in Puget Holdings by OAC,
6 through a newly formed Ontario limited partnership. First, I provide an overview
7 of (i) the proposed transaction, (ii) OAC and its affiliates, and (iii) OAC’s
8 investment strategy. Second, I explain that PSE’s strong management, focus on
9 environmental sustainability, and supportive regulatory environment make it an
10 attractive investment for OAC. Third, I discuss why OAC’s indirect purchase of
11 an approximately 24 percent equity interest in Puget Holdings, and indirect
12 interest in PSE, is consistent with the public interest.

13 **II. DESCRIPTION OF THE PROPOSED TRANSACTION AND**
14 **OAC’s QUALIFICATION AS AN INVESTOR**

15 **A. Description of the Proposed Transaction**

16 **Q. What is the nature of the transaction for which OAC seeks Commission**
17 **approval?**

18 A. OAC is one of four investors that intends to purchase the equity interest in Puget
19 Holdings currently held by funds managed by Macquarie Infrastructure Partners
20 (“MIP Funds”) and a Macquarie entity, Padua MG Holdings LLC (collectively,
21 “Macquarie”). Macquarie currently owns a 43.99 percent equity interest in Puget
22 Holdings and intends to sell all of its ownership interest in Puget Holdings. OAC

1 intends to indirectly purchase 23.94 percent of the equity interest in Puget
2 Holdings. With the closing of the sale, OAC would own a non-controlling,
3 indirect interest in PSE of approximately 24 percent. OAC will indirectly own its
4 interest in Puget Holdings through an Ontario limited partnership. A copy of the
5 transaction documents by which OAC is indirectly acquiring 23.94 percent of the
6 equity interest in Puget Holdings are provided as Exh. SZ-3.

7 **Q. Why is OAC seeking commission approval of the transaction?**

8 A. OAC's understanding is that the Commission must approve any sale that
9 constitutes ten percent or more of the equity ownership of Puget Holdings or PSE
10 pursuant to the terms of the 2008 Acquisition Order.¹

11 **B. Description of the Ontario Municipal Employees Retirement System**

12 **Q. What is the Ontario Municipal Employees Retirement System?**

13 A. The Ontario Municipal Employees Retirements System ("OMERS"), based in
14 Ontario Canada, is composed of the OMERS pension plans (collectively, the
15 "Pension Plans"), which include the OMERS Primary Pension Plan. The OMERS
16 Primary Pension Plan is one of Canada's largest multi-employer defined benefit
17 pension plans and as of December 31, 2017, serves nearly 1,000 participating
18 employers and almost 500,000 employees and former employees of municipal

¹ *In re the Joint Application of Puget Holdings LLC and Puget Sound Energy, Inc. For an Order Authorizing Proposed Transaction, Docket U-072375, Attachments A and B to Order 08, Approving and Adopting Settlement Stipulation; Authorizing Transaction Subject to Conditions (the "2008 Acquisition Order").*

1 governments, school boards, libraries, police and fire departments, children's aid
2 societies, and other local agencies across the province of Ontario.

3 **Q. What is the relationship between the Ontario Municipal Employees**
4 **Retirement System, OAC and OMERS Infrastructure?**

5 A. OAC acts as administrator of the OMERS Pension Plans and trustee of the funds
6 pursuant to the Ontario Municipal Employees Retirement System Act, 2006, S.O.
7 2006, c. 2 ("OMERS Act"). OAC is responsible for investment, plan
8 administration, and services to plan participants. OAC has more than C\$95 billion
9 in net assets and, as of December 31, 2017, has a AA+ credit rating from Standard
10 & Poor's and a AAA rating from DBRS.² OAC's investment entities' employees
11 work in Toronto and other major cities across North America, the U.K., Europe,
12 Asia and Australia, originating and managing a diversified portfolio of
13 investments in public markets, private equity, infrastructure and real estate.
14 OMERS Infrastructure is the dedicated infrastructure investment and management
15 arm of OAC.

16 With respect to the Puget Holdings transaction, OMERS Infrastructure originated
17 and is structuring OAC's purchase of an indirect interest in Puget Holdings.
18 Additionally, OMERS Infrastructure will manage OAC's indirect investment in
19 Puget Holdings pursuant to delegated authority and an existing management
20 agreement between OAC and OMERS Infrastructure.

² DBRS is a global credit rating agency founded in 1976 (originally known as Dominion Bond Rating Service) in Toronto.

1 **Q. What is the OMERS Act?**

2 A. The OMERS Act came into force in 2006 and transferred sponsorship of the
3 OMERS Pension Plans from the province of Ontario to groups representing
4 employers and employees who pay into the OMERS Pension Plans. The OMERS
5 Act established a new and independent dual governance model for OMERS under
6 which two distinct corporations have specific roles and responsibilities with
7 respect to the OMERS Pension Plans. As previously discussed, OAC acts as the
8 administrator of the OMERS Pension Plans. A second corporation, the OMERS
9 Sponsors Corporation, which is a separate entity, is responsible for plan design,
10 including setting benefit levels and contribution rates. The bylaws of the OMERS
11 Sponsors Corporation empower it to appoint its own board members as well as
12 the OAC board of directors.

13 **Q. Is either OAC or OMERS Sponsors Corporation an agency of the province**
14 **of Ontario?**

15 A. No, the OMERS Act expressly states that the Sponsors Corporation and OAC are
16 not agencies of the Crown (i.e., the province). Further, the Sponsors Corporation
17 and OAC were established under the OMERS Act as corporations without share
18 capital. Accordingly, the province does not own any shares or any other equity
19 interest in the Sponsors Corporation or OAC, nor does any other person or entity.

20 **Q. Please describe the governance of the Sponsors Corporation and OAC.**

21 A. Under the governance model established by the OMERS Act and existing to the
22 present day, each of the Sponsors Corporation and OAC are governed by their

1 own board of directors. The Sponsors Corporation Board is comprised of
2 14 members, half of whom are appointed by employer groups, and half of whom
3 are appointed by unions and associations of the Primary Pension Plan
4 representing employees. The OAC Board is comprised of 14 members nominated
5 by sponsor organizations and appointed by the Sponsors Corporation Board, in
6 addition to an independent chair, also appointed by the Sponsors Corporation
7 Board in a joint process with the OAC Board.

8 **Q. Could the province of Ontario remove board members from either the OAC**
9 **or the OMERS Sponsors Corporation?**

10 A. No. As previously noted, by law, OMERS Sponsors Corporation appoints its own
11 board members and also appoints the board members for OAC. Neither of these
12 corporations are agencies of the province of Ontario, and the province does not
13 hold any shares of these corporations.

14 **Q. Could the province of Ontario attempt to block OAC's indirect acquisition of**
15 **a non-controlling interest in Puget Holdings?**

16 A. No, as discussed, the legislation governing OAC does not provide the province of
17 Ontario with any authority to involve itself in this transaction. Moreover, as the
18 administrator of the OMERS Pension Plans, OAC is charged with investing on
19 behalf of pensioners in stable long-term investments to achieve fair returns. As
20 such, the proposed indirect acquisition of a minority stake in PSE is both within
21 our business model and consistent with our responsibility to our pensioners.

1 **Q. How will OAC fund its indirect acquisition of this non-controlling interest in**
2 **Puget Holdings?**

3 A. OAC will fund its acquisition with 100 percent equity from the OMERS Pension
4 Plans. This funding will occur through the use of a special-purpose vehicle (i.e.,
5 Moby Canada Limited Partnership)

6 **Q. What is Moby Canada Limited Partnership?**

7 A. Moby Canada Limited Partnership is an Ontario limited partnership formed for
8 the purpose of acquiring a non-controlling 23.94 percent interest in Puget
9 Holdings, with Moby GP Canada Corporation (“Moby GP”) acting as its general
10 partner. OAC, through its wholly-owned subsidiaries, indirectly holds 100 percent
11 of the economic interests in Moby GP.

12 **C. OAC’s Investment History and Investment Strategy**

13 **Q. Please describe the investment strategy of OAC.**

14 A. OAC indirectly invests in a diversified portfolio that includes investments in
15 public markets, private equity, infrastructure and real estate. OAC’s investment
16 entities are active on four continents, managing approximately 60 indirectly held
17 investments headquartered across nine countries. With respect to public markets,
18 OAC indirectly invests in value stocks to create its public equity portfolio. It
19 invests in bonds and other interest-bearing investments such as federal bonds;
20 provincial bonds; mortgages with a mix of commercial, industrial, and multi-
21 residential loans; real return bonds issued by governments; investment grade

1 corporate bonds; private placements; and short-term cash-equivalent securities for
2 its fixed income portfolio.

3 **Q. Has OAC previously invested in infrastructure and energy assets in the**
4 **United States?**

5 A. Yes. OMERS Infrastructure has made significant investments on behalf of OAC
6 in the infrastructure and energy industries in both the United States and abroad,
7 providing substantial experience investing in regulated energy and utility sectors.
8 Infrastructure and energy investments of this kind are made on a long-term basis
9 and are diversified geographically and across utility sectors.

10 **Q. Please describe OAC's investments in the energy and utility sectors in the**
11 **United States.**

12 A. OAC's investments in the energy and utility sector include the following:

- 13 o **Oncor.** Since 2008, OAC has indirectly owned
14 approximately ten percent of Oncor, the largest
15 transmission and distribution company in Texas.
- 16 o **Vento II.** In 2012, OAC indirectly invested in this portfolio
17 of wind projects in Oregon, Texas, Minnesota, and Illinois
18 that provide a combined 559 MW of output. OAC holds an
19 indirect ownership interest in approximately 49 percent of
20 the project.
- 21 o **MCV.** Since 2014, OAC has indirectly owned
22 approximately 68 percent of MCV, which is the United
23 States' largest natural gas-fired combined heat and power
24 plant.
- 25 o **Leeward Renewable Energy, LLC ("Leeward").** On
26 March 22, 2018, OAC announced the planned indirect
27 acquisition of 100 percent of Leeward, a leading owner,
28 operator, and developer of wind projects across the United

1 States. Leeward currently has 19 operating projects in nine
2 states³ with a total installed capacity of 1.7 GW. Leeward
3 continues to explore ways to expand its generation
4 capabilities through the use of new technological mixes
5 (e.g., through the potential use of combined solar and
6 battery storage) and by developing new wind projects.
7 OAC's indirect investment in Leeward is expected to close
8 in September 2018, subject to customary approvals.

9 **Q. What investments in the energy and utility sectors has OAC made outside the**
10 **United States?**

11 A. In addition to its investments in the United States, OAC has made indirect
12 investments in the energy and utility sectors across the globe, including the
13 following:

- 14 o **Bruce Power.** Since 2003, OAC has held an indirect
15 ownership interest of approximately 48 percent in Bruce
16 Power, an 8 reactor site with total capacity of 6,300 MW
17 and Canada's only private sector nuclear generator
18 supplying approximately one-third of Ontario's electricity.
- 19 o **Scotia Gas Networks.** Since 2005, OAC has held an
20 indirect interest of approximately 25 percent in Scotia Gas
21 Networks, the second largest gas distribution network in
22 the United Kingdom serving approximately 5.8 million
23 customers in Scotland and Southeast England.
- 24 o **Net4Gas.** Since 2013, OAC has held an indirect interest of
25 approximately 50 percent in Net4Gas, the exclusive gas
26 transmission system operator in the Czech Republic.
27 Net4Gas operates more than 3,600 kilometers of pipelines
28 and transports 35 billion cubic meters of natural gas
29 annually.
- 30 o **Caruna.** Since 2013, OAC has held an indirect interest of
31 approximately 20 percent interest in Caruna, Finland's
32 largest electricity distribution network.

³ None of these projects are in Washington State.

- 1 o **Ellevio AB.** Since 2015, OAC has held an indirect interest
2 of approximately 27 percent in Ellevio AB, Sweden’s
3 second-largest electricity distributor.

- 4 o **Thames Water.** Since 2017, OAC has held an indirect
5 interest of approximately 10 percent interest in Thames
6 Water, the largest water utility in England and Wales,
7 providing services to approximately 9 million water and
8 15 million wastewater customers.

9 **III. PSE IS AN ATTRACTIVE INVESTMENT DUE TO ITS**
10 **STRONG MANAGEMENT, ENVIRONMENTAL FOCUS AND**
11 **SUPPORTIVE REGULATORY ENVIRONMENT**

12 **Q. Why is OAC interested in acquiring an indirect interest in PSE?**

13 A. PSE is a well-managed company with a proven track record, which is an
14 important factor for OMERS Infrastructure when considering investment
15 opportunities on behalf of OAC. Additionally, PSE has a strong environmental
16 focus as is evidenced by its (i) commitment to reduce greenhouse gases
17 50 percent by 2040, (ii) significant investment in renewable energy, (iii) steps to
18 transition the state of Washington away from coal, and (iv) decades-long
19 leadership in energy efficiency. This focus on environmental sustainability is
20 consistent with OAC’s investment philosophy, as addressed in more detail later in
21 this prefiled direct testimony.

22 More generally, the acquisition of an indirect interest in PSE, a regulated utility,
23 fits well with OAC’s investment strategy. OAC has the responsibility to invest
24 plan member contributions to meet its long-term pension obligations that are
25 required to be paid out over future decades. Having such a long-term planning
26 horizon means that OAC must seek to invest in secure and stable cash flows that

1 are anchored in businesses and industries with a proven track record. Rate
2 regulated utilities have long been viewed as an ideal investment sector for OAC,
3 and pension plans in general. This thesis has been proven out for almost a decade
4 through OAC's indirect investment in Oncor, a rate regulated utility based in
5 Texas, as well as OAC's investment in a number of European utilities.

6 Another important factor OAC considers is regulatory risk. OMERS
7 Infrastructure has spent years carefully considering opportunities to invest in well-
8 run utilities with constructive regulatory relationships, like PSE. PSE's
9 established and well-functioning regulatory environment, combined with the
10 utility's social, and governance performance were essential factors in OAC's
11 decision to acquire an indirect interest in PSE.

12 **Q. Do you foresee any changes to the governance or management of Puget**
13 **Holdings or PSE as a result of your acquisition?**

14 A. No. Following the closing of the proposed transaction, OAC expects both Puget
15 Holdings and PSE to continue operating in much the same way they have
16 operated over the past several years. With respect to the governance of Puget
17 Holdings, the existing LLC Agreement that has governed board activities for the
18 past decade will continue to govern the board of Puget Holdings after the sale of
19 Macquarie's interest. OAC will be a minority, indirect owner of Puget Holdings,
20 and neither OAC nor any of the other indirect owners of PSE will hold a
21 controlling interest in Puget Holdings or PSE. This is consistent with the current
22 ownership structure of Puget Holdings.

1 With respect to the management of PSE, OAC wishes to acquire an indirect
2 ownership interest in PSE precisely because it is a reputable, well-run utility with
3 stable regulatory oversight and a strong management team. OMERS Infrastructure
4 expects PSE to continue to operate in the same manner as it has been operating
5 over the past several years, and firmly supports the continuity of PSE's
6 management.

7 **IV. OAC'S ACQUISITION OF A NONCONTROLLING,**
8 **INDIRECT OWNERSHIP INTEREST IN PSE IS CONSISTENT**
9 **WITH THE PUBLIC INTEREST**

10 **Q. Why is the acquisition of an indirect ownership interest in PSE by OAC**
11 **consistent with the public interest?**

12 A. OAC will join the other Canadian pension plans and the PGGM Infrastructure
13 Fund as a long-term investor in PSE. Having an established, long-term investor
14 group affords the Commission and stakeholders confidence that there will be
15 stability in the ownership of PSE.

16 As a steward of key infrastructure assets on four continents, OMERS
17 Infrastructure has a strong track record of working constructively with
18 management teams, all levels of government, the local communities its businesses
19 serve, regulators and other key stakeholders.

20 OMERS Infrastructure focuses on making investments in well-run organizations
21 and supporting further improvements in operational performance at those
22 companies. As with OAC's other infrastructure investments as cited above,

1 OMERS Infrastructure looks forward to supporting PSE's commitment to
2 continue to invest in the reliability of its systems while maintaining high standards
3 of customer service and a strong commitment to the environment.

4 **Q. Has OMERS Infrastructure made regulatory commitments that are**
5 **consistent with the public interest?**

6 A. Yes. OMERS Infrastructure acknowledges and affirms its support for the
7 commitments that have been made, and approved by the Commission in the
8 following proceedings, to the extent that those commitments remain applicable:

- 9 (i) the commitments set forth in in Docket U-072375,
10 Attachments A and B to Order 08, *Approving and Adopting*
11 *Settlement Stipulation; Authorizing Transaction Subject to*
12 *Conditions* (the "2008 Acquisition Order");
- 13 (ii) the commitments intended to provide ring-fencing
14 protections separating the operations and financing of PSE
15 from the Puget LNG LLC subsidiary set forth in Docket
16 UG-151663, Order 10, *Final Order Approving and*
17 *Adopting Settlement Stipulation; Reopening Record and*
18 *Amending Order 08 in Docket U-072375*, dated
19 November 1, 2016; and
- 20 (iii) the commitments relating to the Colstrip generating facility
21 set forth in the Multiparty Settlement Stipulation and
22 Agreement, dated September 15, 2017, in Dockets UE-
23 170033 & UG-170034, and authorized to be implemented
24 in Order 08, *Final Order Rejecting Tariff Sheets;*
25 *Approving and Adopting Settlement Stipulation; Resolving*
26 *Contested Issues; and Authorizing and Requiring*
27 *Compliance Filing*, dated December 5, 2017.

1 **Q. Will OMERS Infrastructure promote sustainability and carbon reduction in**
2 **its role as an indirect owner of PSE?**

3 A. Yes, OMERS Infrastructure commits to support PSE's goal to reduce its carbon
4 footprint by 50 percent by 2040. In addition, as previously noted, OMERS
5 Infrastructure acknowledges and affirms the existing commitments relating to the
6 Colstrip generating facility set forth in the Multiparty Settlement Stipulation and
7 Agreement, dated September 15, 2017, in Dockets UE-170033 & UG-170034.

8 **Q. What is OMERS Infrastructure's philosophy on sustainability and carbon**
9 **reduction?**

10 A. OMERS Infrastructure's approach to sustainable investing is founded on the
11 belief that well-run organizations with sound environmental, social and
12 governance ("ESG") practices will perform better in the long term, and that the
13 consideration of such factors is consistent with OAC's long-term payment
14 obligations to its members. By considering the risks and opportunities associated
15 with ESG factors, OMERS Infrastructure believes it will achieve a better
16 understanding of investment opportunities, which enables OMERS Infrastructure
17 to make and manage better investments over the long term. OAC incorporates
18 sustainability into its investment decisions, consistent with OAC's commitment to
19 its members, and with OAC's stated approach to sustainable investing and
20 corporate responsibility. OAC also considers opportunities to enhance ESG
21 practices through governance of its portfolio companies. Generally, OAC has

1 influence over governance through holding board seats, active involvement in
2 strategy setting, and through direct contact with management teams.

3 As previously noted, OAC has invested in wind generation projects across the
4 United States through its 2012 investment in Vento II, and is in the process of
5 finalizing the acquisition of Leeward—a leading renewable developer and
6 operator that continues to explore new options for expanding decarbonized energy
7 generation.

8 Additionally, in support of Ontario's phase out of all coal-fired generation, OAC
9 implemented a moratorium on any investment of coal based generation. Recently,
10 OAC lifted the moratorium and would support an investment in an asset that
11 included coal, provided that it would eventually lead to the eventual phase out of
12 this form of generation. The fact that the Commission has approved the eventual
13 shutdown of Colstrip Units 1 and 2 and the earlier depreciation schedule for
14 Colstrip Units 3 and 4 was viewed positively by OAC's Investment Committee.

15 The largest investment OAC has made to date is in Bruce Power. Bruce Power is
16 a 6,300 MW nuclear generating site based in Ontario, and was a major factor in
17 helping the Province of Ontario meet its goal of decarbonizing energy production
18 when it shut down all of its coal fired facilities.

19 **Q. Are there customer benefits that will result from the proposed transaction?**

20 A. Yes, I believe that customers will receive benefits as a result of the transaction.

21 OAC's infrastructure investments are made on a long-term basis, rather than
22 through a time-limited fund. OAC is financially strong, as evidenced by its funds

1 under management and AAA credit rating. PSE and its customers will benefit
2 from OAC's long-term commitment and investment philosophy as well as its
3 ability and willingness to invest in PSE's capital needs.

4 As previously stated, OAC has a broad perspective on the energy industry and the
5 utility industry globally. OAC carries out leadership conferences where senior
6 management from all of its investment entities are invited to attend. This allows
7 for each of the CEOs to share and benefit from listening to best practices and
8 lessons learned from each other's organizations. It also opens lines of
9 communication between OAC's investee companies so that they can follow up
10 with responses on issues that might come up in the future. Ultimately, this
11 increased communication and sharing of best practices with PSE's existing
12 management team, Board, and operating personnel, will benefit customers.

13 **V. CONCLUSION**

14 **Q. Does this conclude your prefiled direct testimony.**

15 **A. Yes, it does.**