

Exh. MCC-1T
Docket U-180680
Witness: Melissa Cheesman

**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

TESTIMONY OF

MELISSA CHEESMAN

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Commission Staff's Testimony in Support of Settlement

January 18, 2019

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1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Melissa Cheesman. My business address is the Richard Hemstad
5 Building, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,
6 Washington 98504. My email address is melissa.cheesman@utc.wa.gov.

7

8 **Q. By whom are you employed and in what capacity?**

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (Commission) as a Regulatory Analyst in the Energy Section of the Regulatory
11 Services Division.

12

13 **Q. How long have you been employed by the Commission?**

14 A. I have been employed by the Commission since 2012.

15

16 **Q. Would you please state your educational and professional background?**

17 A. I graduated magna cum laude from Seattle University, Albers School of Business
18 and Economics in 2010, with a Bachelor of Arts degree in Business Administration
19 with a focus in accounting. In 2012, I earned a Masters of Professional Accounting
20 (MPAC) degree from Seattle University, Albers School of Business and Economics.

21 I attended the Western NARUC Utility Rate School in 2013 and the 2013
22 Staff Water Policy Forum of the National Association of Water Companies. I have
23 provided accounting guidance in various energy dockets; for example, in UG-170929

1 (general rate case with tax reform), UE-170327/UG-170328 (accounting petition
2 related to AMI investment), UE-160100 (accounting petition related to AMI
3 investment), and UE-151871/UG-151872 (tariff revision related to leases). Prior to
4 moving to the energy section in June 2016, I audited and reviewed water and solid
5 waste filings.

6
7 **Q. Have you testified previously before the Commission?**

8 A. Yes. I provided testimony before the Commission in Cascade Natural Gas's 2017
9 general rate case (Docket UG-170929), Puget Sound Energy's (PSE) 2017 electric
10 and gas general rate cases (Dockets UE-170033 and UG-170034), Avista's 2016
11 electric and gas general rate cases (Dockets UE-160228 and UG-160229), and solid
12 waste Dockets TG-130501, TG-130502, and TG-140560. In these dockets I testified
13 as an expert witness on behalf of Commission Staff (Staff) on a variety of issues
14 including revenue requirement and specific adjustments, rate spread and rate design,
15 and the treatment of tax reform.

16
17 **Q. Have you previously provided recommendations to the Commission on
18 transfers of property filings?**

19 A. Yes. I made recommendations to the Commission on the transfer of property
20 applications in Dockets UW-150742 and UW-150743. I also reviewed and advised
21 the Commission on two filings concerning the internal reorganization of upstream
22 owners and the sale of non-material interests in Puget Holdings, and indirectly in
23 PSE, in Dockets U-171039 and U-171127, respectively.

1 **II. SCOPE AND SUMMARY OF TESTIMONY**

2
3 **Q. Please explain the purpose of your testimony.**

4 A. The purpose of my testimony is to articulate Staff’s support of the Settlement
5 Stipulation and Agreement (Settlement) entered into by most of the parties to this
6 docket (the Settling Parties).¹ The Settlement expresses the Settling Parties’ support
7 of the proposed sale of approximately 44 percent equity interest in Puget Holdings
8 LLC (Puget Holdings) to four different buyers. The four buyers along with PSE are
9 collectively the “Joint Applicants.” The sales of interest to each of the proposed
10 buyers are collectively referred to as the “Proposed Transaction.” The foundation of
11 support of the Proposed Transaction rests on the commitments that the Settling
12 Parties have agreed upon, which are attached to the Settlement as Appendix A
13 (Commitments). My testimony will discuss the important role of the Commitments
14 in protecting the public interest.

15
16 **Q. Has Staff already provided its recommendation to the Commission regarding**
17 **the sale of a non-controlling interest in Puget Holdings?**

18 A. Yes. Staff filed comments on October 24, 2018, with proposed revisions to the set of
19 commitments the Joint Applicants had proposed in their application (the “Joint
20 Application”). Staff provided verbal and written recommendations, supported by

¹ Parties included in the settlement are the Joint Applicants (Puget Sound Energy, Alberta Investment Management Corporation, British Columbia Investment Management Corporation, OMERS Administration Corporation, and PGGM Vermogensbeheer B.V.), Commission Staff, the Public Counsel Unit of the Washington Office of Attorney General, the Alliance of Western Energy Consumers, The Energy Project, and Northwest Energy Coalition.

1 additional transaction information submitted with Staff's memo to the Commission
2 at the November 5, 2018, recessed open meeting. On November 7, 2018, Staff filed
3 an update to the proposed revisions that reflected agreement on a set of commitments
4 between the Joint Applicants and Staff.

5 The Commitments in the settlement stipulation include and build upon the set
6 of commitments that the Joint Applicants and Staff had agreed to previously.

7
8 **Q. What is Staff's interest in this proceeding?**

9 A. Staff is interested in ensuring that the Proposed Transaction meets the Commission's
10 standard for approval, meaning that the Proposed Transaction meets the no harm
11 standard and is in the public interest.

12
13 **III. PROPOSED TRANSACTION**

14
15 **Q. Please briefly explain the Proposed Transaction.**

16 A. On September 5, 2018, Puget Sound Energy (PSE) filed a joint application with
17 Alberta Investment Management Corporation (AIMCo), British Columbia
18 Investment Management Corporation (BCI), OMERS Administration Corporation
19 (OAC), and PGGM Vermogensbeheer B.V. (PGGM) for the proposed sale of a
20 minority interest of approximately 44 percent ownership in Puget Holdings currently
21 held by Macquarie Infrastructure Partners, Inc. (MIP) and Padua MG Holdings LLC,
22 a Macquarie entity (collectively "Macquarie"). Puget Holdings indirectly holds 100
23 percent ownership interest in PSE.

1 **Q. Will Macquarie continue to be an owner of Puget Holdings?**

2 A. No. Macquarie intends to sell all of its interest in Puget Holdings to four different
3 buyers. Two of the buyers are existing owners and the remaining two buyers are
4 potential new owners.

5
6 **Q. Please identify the proposed buyers and the percentage amounts of equity
7 interest each is acquiring.**

8 A. The four buyers are: (1) current owner AIMCo; (2) current owner BCI; (3) new
9 proposed owner OAC; and (4) new proposed owner PGGM. Current owner Canada
10 Pension Plan Investment Board (CPPIB) is not a party to the application and is not
11 changing its current equity interest in Puget Holdings. The following table
12 summarizes the proposed amounts of equity interest being acquired and the proposed
13 change of ownership in Puget Holdings.

TABLE 1 – SUMMARY OF PUGET HOLDINGS OWNERSHIP

Entities	Equity Interest Percentage	Equity Purchase and (Sale)	Proposed Equity Interest
Macquarie, collectively	43.99%	(43.99)%	0.00%
Canada Pension Plan Investment Board	31.57%	0.00%	31.57%
OMERS Administration Corporation	0.00%	23.94%	23.94%
British Columbia Investment Management Corporation	16.86%	4.01%	20.87%
Alberta Investment Management Corporation	7.59%	6.01%	13.60%
PGGM Vermogensbeheer B.V.	0.00%	10.02%	10.02%
Total	100%	0.00%	100%

1 **Q. What legal standard applies to the Proposed Transaction?**

2 A. The “no harm” legal standard applies to this transaction. RCW 80.12.020 prohibits a
3 public service company from transferring property unless it secures authorization
4 from the Commission. Pursuant to WAC 480-143-170, the Commission will
5 authorize a transfer of property that is consistent with the public interest: “If, upon
6 the examination of any application and accompanying exhibits, or upon a hearing
7 concerning the same, the Commission finds the proposed transaction is not
8 consistent with the public interest, it shall deny the application.” The Commission
9 refers to this standard as the “no harm” standard, because the transaction “must not
10 harm the public interest in order to be approved.”² As the Commission recently
11 stated, this standard “require[s] that ratepayers be, at worst, *indifferent* to the
12 proposed transfer of property.”³

13 If a transaction results in the acquisition of a controlling interest in a gas or
14 electrical company, under RCW 80.12.020 the Commission cannot approve the
15 transaction without a finding that the proposed transaction provides a net benefit to
16 customers. In this proceeding, the Commission has already found that the Joint
17 Application represents a proposed transfer of a *non-controlling* interest in Puget
18 Holdings and, therefore, the “no harm” legal standard, and not the net benefit
19 standard, applies.⁴

20

² See *In the Matter of the Joint Application of Puget Holdings LLC and Puget Sound Energy, Inc., for an Order Authorizing Proposed Transaction*, Docket U-072375, Order 08, ¶ 6 (Dec. 30, 2008) (Macquarie Order).

³ *In the Matter of the Joint Application of Hydro One Ltd. and Avista Corp. For an Order Authorizing Proposed Transaction*, Docket U-170970, Order 07, ¶ 29 (Dec. 5, 2018) (emphasis in original).

⁴ Docket U-180680, Order 01, 3, ¶ 12.

1 **Q. What is the purpose of the Commitments?**

2 A. The Commitments are intended to insulate ratepayers from risk of harm and render
3 the Proposed Transaction in the public interest. In other words, the commitments
4 provide protections ranging from no rate recovery of costs associated with the
5 Proposed Transaction to financial and ring-fencing provisions that protect PSE's
6 assets from bankruptcy. The Settlement builds off of the work the Joint Applicants
7 and Staff completed earlier in this proceeding and incorporates feedback and
8 concessions from a diverse group, the Settling Parties, all with diverse interests.

9

10 **Q. What impact does the Proposed Transaction have on the current governance**
11 **boards?**

12 A. The overall governance of Puget Holdings has not changed substantially since the
13 Macquarie acquisition was approved in 2008 (Macquarie Order). The composition of
14 both Puget Holdings' and PSE's boards will change subsequent to the closure of the
15 Proposed Transaction consistent with the addition of two more owners. These
16 changes to each of the boards include an increase of two seats and changes in
17 individuals participating on the boards. Essentially, though, the Proposed
18 Transaction and the resulting changes in board composition represent a dilution of
19 ownership that reduces the influence of the owner with the largest interest
20 percentage. The current form of the Puget Holdings LLC Agreement as well as
21 PSE's current bylaws are attached to the Commitments.

22

1 **IV. STAFF’S SUPPORT OF THE SETTLEMENT**

2

3 **Q. What is Staff’s recommendation?**

4 A. Staff recommends that the Commission approve the Settlement without condition.

5

6 **Q. Provide an overview of Staff’s review of the Proposed Transaction.**

7 A. Staff’s review included careful examination of the filing, independent research,
8 review of informal and formal discovery responses, formulation of written analysis
9 during the Open Meeting process, and discussions with the other parties that
10 ultimately lead to the multiparty settlement.

11

12 **Q. Have the purchasers in the Proposed Transaction demonstrated their**
13 **respective financial and managerial fitness?**

14 A. Yes. As previously stated in Staff’s comments and open meeting memo, which are
15 on file in this docket, all four purchasers have demonstrated through testimony and
16 discovery responses their respective financial and managerial fitness. Staff is
17 satisfied that all four purchasers are financially fit, have the ability to access capital,
18 and have experience with managing and investing in the utility industry.

19

20 **Q. Please explain why Staff supports the Commitments.**

21 A. First, the Commitments include Staff’s set of commitments filed with the
22 Commission on November 7, 2018, which Staff at that time determined to be

1 sufficient to meet the no harm standard. Second, the Commitments continue to
2 support public interest factors that the Commission has previously addressed.

3 The Commission has previously identified factors that weigh in favor of the
4 public interest, in Docket U-072375, Order 08, at paragraph 115. In doing so, the
5 Commission identified public service obligations related to customer service, safety,
6 reliability, resource adequacy including energy efficiency and conservation, support
7 for low-income customers and environmental stewardship. Staff believes that the
8 Commitments related to public service obligations continue to be consistent with the
9 public interest.

10 Additionally, the regulatory, and the ring-fencing and financial commitments
11 guard against financial risk and rate increases related to the Proposed Transaction.
12 Staff believes that these Commitments further the public interest.

13

14 **Q. Are the Commitments similar to the commitments made in the Macquarie**
15 **acquisition in Docket U-072375?**

16 A. Yes, a majority of the commitments made in the Macquarie acquisition in Docket U-
17 072375 (Macquarie Acquisition) have been retained. Where necessary, they have
18 been updated.

19

20 **Q. Did Staff carefully analyze which of the Macquarie Acquisition commitments**
21 **should be retained, which ones were no longer necessary, and which ones should**
22 **be updated?**

1 A. Yes. Staff compared the commitments that the Joint Applicants proposed with the
2 body of commitments from the Macquarie Acquisition. As I will explain next, Staff
3 reviewed the commitments to ensure that current important commitments would still
4 exist going forward. Specifically, Staff wanted to ensure that commitments related to
5 public service obligations, financial risk, ring-fencing, and regulation are relevant
6 and will continue after the Commission issues an order approving the Proposed
7 Transaction.

8 Staff reviewed all Macquarie Acquisition commitments that had expired or
9 had been otherwise satisfied. Staff believes that expired and satisfied commitments
10 should be removed. For example, Macquarie Acquisition commitment number 42
11 was related to increasing the bill assistance program funding to \$15 million. PSE's
12 current bill assistance program funding is approximately \$24 million, and so the
13 previous commitment has been fully satisfied and is no longer relevant. Other
14 examples include commitments regarding conservation. Macquarie Acquisition
15 commitment 47 required the development of a study to identify potential energy
16 efficiency improvements in PSE's distribution, transmission, and generation assets.
17 PSE has satisfied this commitment and has made this part of its daily operations.
18 Macquarie Acquisition commitment 49 set the objective to acquire renewable
19 resources to meet 10 percent of PSE's load by 2013. This commitment has been
20 satisfied and has since expired. Currently, PSE's renewable resource obligation is
21 defined by WAC 480-109-200, which requires PSE to use renewable resources to
22 meet 15 percent of its load by 2020.

1 The commitments from the Macquarie Acquisition, and in particular the ring-
2 fencing commitments, have served PSE’s customers well for a decade and will
3 continue to serve PSE’s customers if approved by the Commission. In that time there
4 have been no enforcement proceedings at the Commission concerning violations of
5 these commitments, and Staff is not aware of any allegations of wrongdoing
6 concerning any of the consortium investors or Puget Holdings. This is evidence that
7 the commitments work and are in the public interest.

8 Staff also ensured that those commitments that have stood the test of time
9 were updated to reflect current data and references. Updating the commitments
10 ensures that they remain relevant, and ensures that PSE and Puget Holdings will be
11 responsive to the Commission. Commitment 39, for example, was updated to
12 reference current funding for corporate contributions and community support.

13
14 **Q. Please discuss the public interest protections that the Commitments provide.**

15 A. The Commitments provide financial and ring fencing protections and also provide
16 protection from risk in the areas of identified public service obligations related to
17 customer service, safety, reliability, resource adequacy including energy efficiency
18 and conservation, support for low-income customers, and environmental
19 stewardship. The Commitments are now organized in a manner that make it easier to
20 identify commitments in various categories.

21 Regulatory, and Ring-Fencing and Financial Commitments protect ratepayers
22 from financial risk. These Commitments prohibit PSE from making loans to or
23 pledging assets to Puget Energy and Puget Holdings (Regulatory Commitment 6);

1 require that PSE and its ratepayers be held harmless for financial risk associated with
2 Puget Energy or Puget Holdings (Regulatory Commitments 6 and 8); support
3 maintaining the financial health of PSE (Regulatory Commitment 7); and restrict
4 upward distributions (Ring-Fencing Commitments 28, 30, and 31). Another Ring-
5 Fencing and Financial Commitment that remains supports PSE's access to capital by
6 ensuring that Puget Holdings has the ability to raise capital in public markets on
7 PSE's behalf (Commitment 29).

8 Governance and Operations Commitments provide protection related to
9 customer service, which is one of the areas identified as a public service obligation
10 that should be protected. These Commitments require PSE to maintain staffing and
11 presence in its communities of operation (Commitment 3), keep PSE's corporate
12 headquarters in PSE's service territory (Commitment 4), and honor PSE's labor
13 contracts (Commitment 2).

14 The Commitments also support the maintenance of safety and reliability.
15 Commitment 15 provides that PSE will continue its Service Quality program, and
16 Commitment 3, referenced above, supports safety and reliability by maintaining
17 staffing and presence in communities in which PSE operates, specifically to maintain
18 the provision of safe and reliable service. In addition, Commitment 37, which
19 requires Puget Holdings to make meeting capital requirements of PSE a high
20 priority, also supports reliability.

21 The Commitments provide assurances relating to environmental concerns. In
22 support of renewable energy, Puget Holdings commits to support PSE's obligations
23 under Washington's Renewable Portfolio standards and work with PSE to acquire all

1 renewable energy resources required by law and or deemed reasonable in accordance
2 with its biennial intergrated resource planning process (Environmental Commitments
3 49 and 50). In addition, Community and Low-Income Commitment 40 commits PSE
4 to increase funding of low-income energy efficiency programs in future years at a
5 level commensurate with increases in funding for energy efficiency programs for
6 other residential customers through the Conservation Resource Advisory Group
7 process. The Commitments support environmental stewardship through the goals to
8 reduce by 50 percent of PSE's 2016 greenhouse gas footprint by 2040 and annual
9 greenhouse gas inventory reporting (Environmental Commitments 51 and 52).

10 Last but certainly not least, the Commitments provide additional protections
11 for low-income customers. The Community and Low-Income Commitments require
12 PSE to maintain existing low-income programs and to increase funding for low-
13 income energy efficiency programs in future years (Commitment 40). And PSE and
14 Puget Holdings commit to continue to work with low-income agencies to address
15 issues of low-income customers (Commitment 41).

16
17 **Q. Are there specific provisions that Staff advocated for that are included in the**
18 **Commitments?**

19 A. Yes. Early on, Staff worked with the Joint Applicants to increase the protections
20 provided by the existing commitments. To provide additional assurance that the
21 commitments will continue to be adhered to going forward, Staff advocated for
22 Regulatory Commitment 64. In the event PSE or Puget Holdings fail to meet any of
23 the Commitments, Commitment 64 requires timely reporting of non-compliance with

1 any of the Commitments and a description of the action taken to correct the failure.
2 Commitment 64 also requires Puget Holdings to submit to the jurisdiction of
3 Washington courts for enforcement of the Commitments and subsequent
4 Commission orders affecting PSE.

5 Staff also advocated for additions to Regulatory, and Ring-Fencing and
6 Financial Commitments. Staff proposed revisions to Regulatory Commitment 5
7 which ensure that none of the costs of the Proposed Transaction can be recovered
8 through PSE's rates. In Ring-Fencing and Financial Commitment 35, Staff added
9 additional Sarbanes-Oxley Act sections to strengthen controls over PSE's and Puget
10 Energy's financial reporting. Specifically, Staff added Section 303, which prohibits
11 officers and directors from taking any action to coerce an external auditor's opinion;
12 Section 402, which explicitly prohibits providing personal loans to directors or
13 executive officers (or the equivalent thereof); and Section 409, which requires real-
14 time disclosures to the public with regard to material changes to PSE's financial
15 condition or operations.

16
17 **Q. Please discuss new commitments that resulted from the settlement negotiations.**

18 A. The Settling Parties have agreed to additional items related to energy efficiency, low-
19 income support and regulatory commitments. For example, Energy Efficiency
20 Commitment 53 requires PSE to continue to support and participate in the Northwest
21 Energy Efficiency Alliance. Energy Efficiency Commitment 54 requires PSE to
22 accelerate its business case review of on-bill repayment program for customer
23 investments in energy efficiency. Energy Efficiency Commitment 55 provides that

1 PSE will work with the Northwest Energy Efficiency Council and the Conservation
2 Resource Advisory Group to adaptively manage and modify PSE's "Pay for
3 Performance" pilot to attract more participants. Staff supports these additions
4 because they further the public interest as it relates to cost effective conservation.

5 Community and Low-Income Commitments 43, 44, 45, and 46 strengthen
6 PSE's support of its low-income weatherization program. Commitment 43 provides
7 for an annual base funding level of \$4.43 million through December 31, 2022 for
8 low-income weatherization programs. Commitment 46 requires Puget Holdings to
9 make a one-time \$2 million shareholder contribution to the Low-Income
10 Weatherization Program to be disbursed over a five-year period. These commitments
11 protect the public interest by specifying PSE and Puget Holding's commitment to the
12 communities in which PSE operates and safeguarding assistance for the most
13 vulnerable customers.

14 New Regulatory Commitments address specific risks associated with the new
15 owners. Regulatory Commitment 22 includes language that requires PSE to file with
16 the Commission notice of changes in Canadian law affecting the Canadian investors,
17 including reporting on the laws that restrict Canadian pension funds from acquiring
18 more than 30 percent of the voting stock of a company. Regulatory Commitment 23
19 requires PSE to file a notice with the Commission of any changes to voting
20 requirements, or of the creation of additional voting agreements between the
21 members of Puget Holdings. These commitments protect the public interest by
22 ensuring that the Commission is kept abreast of changes to Puget Holdings' and
23 PSE's corporate governance.

1 **Q. In Staff's view, should the Commission grant the Joint Application and approve**
2 **the Proposed Transaction?**

3 A. Yes. The Commitments provide robust protections relating to governance and
4 operations, regulation and enforcement, ringfencing and financial matters,
5 community support and low-income concerns, and energy efficiency and the
6 environment. These Commitments serve to protect ratepayers from harm and render
7 the Proposed Transaction consistent with the public interest.

8

9 **Q. Does this conclude your testimony?**

10 A. Yes.