

**EXH. DEM-1T
DOCKET U-180680
WITNESS: DAVID E. MILLS**

**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

DAVID E. MILLS

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 5, 2018

PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
DAVID E. MILLS**

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PUGET SOUND ENERGY

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1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **DAVID E. MILLS**

4 **I. INTRODUCTION**

5 **Q. Please state your name, business address, and position with Puget Sound**
6 **Energy.**

7 A. My name is David E. Mills. My business address is 10885 NE Fourth Street, P.O.
8 Box 97034, Bellevue, WA 98009-9734. I am Senior Vice President of Policy and
9 Energy Supply for Puget Sound Energy (“PSE”).

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

12 A. Yes. It is Exh. DEM-2.

13 **Q. What are your duties as Senior Vice President of Policy and Energy Supply?**

14 A. As Senior Vice President of Policy and Energy Supply, my responsibilities
15 include oversight of PSE’s Power and Gas Supply Operations, Load Serving
16 Operations, Transmission Contracts, Energy Operations Policy, Planning &
17 Compliance, State and Federal Regulatory Affairs, Energy Efficiency, and
18 Product and Service Developments groups. I am also responsible for certain
19 strategic customer initiatives related to customer experience and satisfaction.

1 **Q. Please summarize the purpose of your direct testimony.**

2 A. My direct testimony explains that the proposed acquisition by four investors who
3 are each acquiring a portion of the approximately 44 percent minority interest in
4 Puget Holdings LLC (“Puget Holdings”) that has been held by funds managed by
5 Macquarie Infrastructure Partners Inc. (“MIP Funds”) and a Macquarie entity,
6 Padua MG Holdings LLC (together with the MIP Funds, “Macquarie”) represent
7 a vote of confidence in the direction, operations and management of PSE by
8 investors who share in PSE’s vision for the future.

9 My direct testimony further introduces and discusses the proposed commitments
10 made by the Joint Applicants in this proceeding (i.e., PSE, Alberta Investment
11 Management Corporation, British Columbia Investment Management
12 Corporation, OMERS Administration Corporation, and PGGM Vermogensbeheer
13 B.V.¹) in support of the proposed transactions. These proposed commitments
14 reflect an acknowledgement, affirmation, and acceptance of existing
15 commitments approved by the Commission, updated to reflect current facts and
16 circumstances and to clarify the wording of the commitments.

¹ PGGM Vermogensbeheer B.V. is the fund manager of the PGGM Infrastructure Fund, for whose benefit Stichting Depository PGGM Infrastructure Funds holds title to its assets (together, “PGGM”). See further description of the PGGM entities in the Prefiled Direct Testimony of Martijn J. Verwoest, Exh. MJV-1T.

1 **II. THE PROPOSED TRANSACTIONS REPRESENT A VOTE**
2 **OF CONFIDENCE IN THE DIRECTION, OPERATIONS**
3 **AND MANAGEMENT OF PSE BY INVESTORS**
4 **WHO SHARE IN PSE’S VISION FOR THE FUTURE**

5 **Q. Please provide a high-level overview of PSE and its vision for the future.**

6 A. PSE and its predecessor companies have served Western Washington for more
7 than a century. In that time, customers’ needs have continuously evolved, with
8 today’s customers having increasing expectations for energy services and
9 customer experience. PSE is committed to meeting those expectations and has
10 built its vision for the future on that “voice of the customer.” Currently, PSE hears
11 its customers continue to demand safe, reliable and affordable energy service, but
12 also lower emission energy sources and options for choice and control from their
13 utility.

14 PSE is Washington’s largest electric and natural gas utility, with approximately
15 1.1 million electric customers and approximately 800,000 natural gas customers.
16 PSE employs approximately 3,000 Washington residents and covers a service
17 territory that spans approximately 6,000 square miles in ten counties. PSE owns
18 and maintains more than 20,000 miles of electric transmission and distribution
19 lines and underground cables to deliver electricity to its customers. Additionally,
20 PSE owns and maintains approximately 26,000 miles of natural gas lines that
21 serve its natural gas customers.

22 PSE has been a leader in the development of renewable and low-carbon resources,
23 and it is PSE’s vision to serve customers’ needs with an increasingly cleaner

1 portfolio of energy resources. PSE remains one of the country's largest utility-
2 owners of wind assets, and its power portfolio includes more than 800 MW of
3 wind generation. Throughout its history, PSE has built, owned and operated
4 FERC-licensed hydroelectric plants that have provided low-cost, reliable, carbon-
5 free energy to Washington residents for more than a hundred years. PSE
6 continues that legacy through recent upgrades to its Snoqualmie Falls and Baker
7 River Hydroelectric Projects. Those recent upgrades increased the carbon-free
8 power generated from those plants and ensured compliance with FERC license
9 requirements.

10 PSE's bedrock is the delivery of safe, dependable, and reliable electric and natural
11 gas service at a reasonable price. PSE's vision going forward is to build upon that
12 bedrock with greater offerings that give customers choices in their source of
13 power, ability to monitor and conserve usage, and avenues for contacting PSE.
14 PSE is offering greater options for customers who want to purchase renewable
15 power in the future. PSE has long been a leader in energy efficiency and
16 conservation programs and will continue to work with stakeholders to develop
17 incentives that encourage the efficient use of energy by customers. PSE will
18 increase its capacity to anticipate customer needs and provide more options for
19 customers to interact with their utility.

1 **Q. What steps has PSE taken to provide reliable utility service that protects the**
2 **environment and gives customers more choices?**

3 A. Customers have a growing interest in the environmental impact of their energy
4 consumption. The preeminent environmental issue being discussed today is how
5 to address factors that contribute to global climate change, particularly the
6 emission of carbon dioxide (CO₂). As owners of some of the largest stationary
7 sources of CO₂, utilities are a key stakeholder in that discussion. PSE, its
8 customers, and the state of Washington, recognize the need to address climate
9 change, and CO₂ emissions in particular. PSE understands this concern and is
10 offering solutions to increase sources of clean energy and reduce sources of
11 carbon-intensive energy.

12 For example, PSE recently began offering a voluntary tariffed service that allows
13 larger customers the option to purchase renewable energy from resources PSE
14 owns or contracts for, and also to purchase renewable energy credits (“RECs”)
15 generated from electric production. This initiative supplements PSE’s successful
16 green power program that allows customers to support locally-sourced Green-e
17 certified energy sources. This program is structured around the purchase of RECs
18 that supplement the revenues received by the green resource owners through their
19 traditional power sales agreements.

20 Another step PSE has taken to address environmental concerns is a commitment
21 to decommission Colstrip Units 1 and 2, of which PSE is a 50 percent owner.
22 Colstrip Units 1 and 2 have been generating reliable, base load, coal-fired

1 electricity for nearly half a century. However, they are the source of a significant
2 amount of CO₂ emissions, and the units are reaching the end of their useful lives.
3 Therefore, PSE plans to retire Colstrip Units 1 and 2 by July 1, 2022, which will
4 result in a significant decrease in carbon emissions.

5 **Q. What steps has PSE taken to adapt to the changing, modern digital**
6 **environment?**

7 A. PSE has taken several steps to adapt to the changing, modern digital environment.
8 For example, the Commission approved an accounting petition filed by PSE that
9 allows consumers to pay their utility bills with credit cards without incurring a
10 fee.² Additionally, PSE is in the beginning stages of replacing its aging automated
11 meter reading system with advanced metering infrastructure that will enable
12 future abilities for customers to monitor and control their energy usage.
13 PSE is also engaged in a long-term initiative that will facilitate customers' ability
14 to do most, if not all, of their business with PSE through computers or smart
15 phones and other devices, rather than talking with an agent in the call center. The
16 goal of this initiative is to anticipate customer needs and provide customers with
17 their preferred pathways to address these needs, rather than requiring customers to
18 call in and speak to a customer service representative. PSE will focus on
19 addressing the operational and service issues that spur customers to pick-up the

² See *In the Matter of the Petition of Puget Sound Energy For an Order Authorizing Accounting and Ratemaking Treatment of Fees for Payments Made by Residential and Small-Business Customers*, Dockets UE-160203 & UG-160204, Order 01, Order Granting Amended Accounting Petition (Mar. 24, 2016).

1 phone. This program will look to further improve customer experience by
2 providing more self-service options that customers are requesting, developing
3 new ways to proactively communicate with customers and creating seamless,
4 integrated operations to tie all of PSE's business processes together.

5 **Q. What steps has PSE taken to improve its operational efficiency?**

6 A. There are several steps PSE has taken to improve its efficiency. Among the most
7 prominent examples are the successful launch of PSE's "Big S" project, which
8 included a new customer information system, as well as a geographical
9 information system and outage management system completed in 2013.

10 The "Big S" project provided a significant risk mitigation by replacing an aging,
11 obsolete system.

12 In terms of production efficiency, in October 2016, PSE began participating in the
13 Energy Imbalance Market ("EIM") operated by the California Independent
14 System Operator ("CAISO"). The CAISO EIM is an automatic, sub-hourly means
15 to economically match customer demand (load) and supply (dispatch of
16 resources). The market is operated by an independent market operator—CAISO—
17 which optimizes and leverages generation resources within the CAISO EIM
18 footprint, dispatching the most economic resources to serve intra-hour changes in
19 supply or demand.

1 **Q. Will the proposed transactions affect PSE’s ability to realize its vision for the**
2 **future?**

3 A. No. Each investor recognizes the fact that PSE operates in an economically
4 strong, dynamic, and progressive service territory with a focus on achieving
5 sustainable sourcing of electricity. By investing in PSE, each investor supports the
6 development of sustainable forms of electricity generation. Each investor supports
7 PSE’s strong environmental focus as is evidenced by PSE’s (i) commitment to
8 reduce greenhouse gases by 50 percent by 2040, (ii) significant investment in
9 renewable energy, (iii) steps to transition Washington State away from coal, and
10 (iv) decades-long leadership in energy efficiency. In sum, each investor supports
11 PSE’s strong management, its focus on environmental sustainability, and the
12 regulatory environment in which it operates; nothing in the proposed transactions
13 will affect PSE’s ability to realize its vision for the future.

14 **III. COMMITMENTS PROPOSED BY THE JOINT**
15 **APPLICANTS IN SUPPORT OF THE PROPOSED**
16 **TRANSACTIONS**

17 **Q. Have each of PSE, Alberta Investment Management Corporation, British**
18 **Columbia Investment Management Corporation, OMERS Administration**
19 **Corporation, and PGGM proposed commitments that will continue the**
20 **commitments made in Docket U-072375 and subsequent proceedings?**

21 A. Yes. Each of the Joint Applicants have acknowledged, affirmed, and accepted the
22 commitments that have been made and approved by the Commission in the
23 following proceedings, to the extent that those commitments remain effective:

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- (i) the commitments set forth in in Docket U-072375, Attachments A and B to Order 08, *Approving and Adopting Settlement Stipulation; Authorizing Transaction Subject to Conditions* (the “2008 Acquisition Order”);

- (ii) the commitments intended to provide ring-fencing protections separating the operations and financing of PSE from the Puget LNG subsidiary set forth in Docket UG-151663, Order 10, *Final Order Approving and Adopting Settlement Stipulation; Reopening Record and Amending Order 08 in Docket U-072375*, dated November 1, 2016 (the “LNG Order”); and

- (iii) the commitments relating to the Colstrip generating facility set forth in the Multiparty Settlement Stipulation and Agreement, dated September 15, 2017, in Dockets UE-170033 & UG-170034, and authorized to be implemented in Order 08, *Final Order Rejecting Tariff Sheets; Approving and Adopting Settlement Stipulation; Resolving Contested Issues; and Authorizing and Requiring Compliance Filing*, dated December 5, 2017 (the “2017 GRC Order”).

These reaffirmed commitments that emphasize important public service obligations include:

- financial integrity commitments that protect PSE’s financial health;

- regulatory and ring-fencing commitments that protect PSE from any financial distress experienced by other companies within the holding company structure;

- staffing, management, governance, recordkeeping and reporting commitments that protect and promote the Commission’s ability to regulate PSE in the public interest;

- local presence commitments at the levels of directors, officers, line employees, and corporate headquarters;

- protections for customers from rate increases that might otherwise result from the proposed transactions;

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- quality of service commitments;
- low-income assistance commitments; and
- environmental, renewable-energy, and energy efficiency commitments.

For the past decade, the commitments made in the 2008 Acquisition Order and reaffirmed in this proceeding have served PSE, its customers, and the Commission well. There will be no harm to customers as a result of the proposed transactions.

Q. Have the Joint Applicants made additional commitments in connection with Commission approval of this transaction?

A. Yes. In addition to the acknowledgement, affirmation, and acceptance of the commitments that were made in the three proceedings identified above and which remain effective, Joint Applicants have made the following commitments:

- (i) The Joint Applicants support PSE’s goal to reduce its carbon footprint by 50 percent by 2040.
- (ii) The Joint Applicants support PSE’s existing level of corporate contributions and community support in the State of Washington.

These additional commitments emphasize the fact that the proposed transactions represent a vote of confidence in the direction, operations, and management of PSE by investors who share in PSE’s vision.

1 **Q. Will the Joint Applicants promote sustainability and carbon reduction in**
2 **their roles as indirect owners of PSE?**

3 A. Yes. The Joint Applicants support PSE's goal of reducing its carbon footprint by
4 50 percent by 2040. In addition, as previously noted, the Joint Applicants have
5 acknowledged, affirmed, and accepted 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. Have the Joint Applicants modified any of the existing commitments?**

9 A. The Joint Applicants have not modified any of the existing commitments, except
10 to update them to reflect current facts and circumstances and to clarify certain
11 wording. Please see the Second Exhibit to the Prefiled Direct Testimony of
12 David E. Mills, Exh. DEM-3, for a copy of the commitments proposed by the
13 Joint Applicants in this proceeding. Please see the Third Exhibit to the Prefiled
14 Direct Testimony of David E. Mills, Exh. DEM-4, for a comparison of (i) the
15 commitments proposed by the Joint Applicants in this proceeding against (ii) the
16 commitments contained in the 2008 Acquisition Order, the LNG Order, and the
17 2017 GRC Order.

18 The Joint Applicants have not included commitments made in the
19 2008 Acquisition Order that are either no longer relevant or have already been
20 achieved (i.e., Commitments 3, 7, 8, 11, 15, 25, 32, 34, 42, 47-50, 54, 55, 57, and
21 59-63 from the 2008 Acquisition Order.) Similarly, the Joint Applicants have not
22 included commitments made in the LNG Order that have already been achieved

1 (i.e., commitments to (i) form Puget LNG as a non-regulated subsidiary of Puget
2 Energy, (ii) obtain and file an updated non-consolidation opinion, and (iii) file a
3 Joint Ownership Agreement between PSE and Puget LNG).

4 As noted above, the Joint Applicants have modified existing commitments to
5 reflect current facts and circumstances and to clarify the wording of the
6 commitments. Commitment 6 from the 2008 Acquisition Order (“Puget Holdings
7 commits to and supports PSE’s Greenhouse Gas and Carbon Policy contained in
8 PSE’s current Integrated Resource Plan”) has been modified in proposed
9 Commitment 5 to reflect a commitment by Puget Holdings that it supports PSE’s
10 goal to reduce its carbon footprint by 50 percent by 2040. The Joint Applicants
11 have also modified language in commitments from the 2008 Acquisition Order
12 for purposes of clarification. For example, references to “Joint Applicants” in
13 some of the commitments have been changes to “Puget Holdings and PSE” to
14 more accurately reflect the entities to which such commitments apply, and
15 language has been inserted to clarify that some exhibits referenced in the
16 commitments are exhibits filed with the Commission in prior dockets. These
17 modifications are purely updates to the commitments and do not withdraw any
18 preexisting protections.

19 Finally, the Commission clarified some of the commitments in the
20 2008 Acquisition Order or modified them in the LNG Order. The Joint Applicants
21 have incorporated these clarifications and modifications in the proposed

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commitments found in the Second Exhibit to the Prefiled Direct Testimony of David E. Mills, Exh. DEM-3.

IV. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes, it does.