

**EXH. DEM-3
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

**SECOND EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF**

DAVID E. MILLS

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 5, 2018

1 **PROPOSED COMMITMENTS OF THE JOINT APPLICANTS IN**
2 **SUPPORT OF THE PROPOSED TRANSACTIONS**

3 The following list sets forth those commitments offered by PSE, Alberta
4 Investment Management Corporation, British Columbia Investment Management
5 Corporation, OMERS Administration Corporation, and PGGM
6 Vermogensbeheer B.V. in Docket U-180680.

7 **Definitions**

8 Certain terms used below were originally developed in reference to a specific
9 underlying proceeding with different underlying transactions and parties. For the
10 sake of clarity and for ease of reference, these terms are defined below, and are
11 periodically clarified in the commitments where noted.

12 “2008 Acquisition Order” means In the Matter of the Joint Application of Puget
13 Holdings LLC and Puget Sound Energy, Inc., For an Order Authorizing Proposed
14 Transaction, Docket U-072375, Order 08, Approving and Adopting Settlement
15 Stipulation; Authorizing Transaction Subject to Conditions (Dec. 30, 2008).

16 “2008 Transaction” means the transaction proposed in Docket U-072375, and
17 which established the current PSE ownership structure.

18 “2017 GRC Order” means Washington Utilities & Transportation Commission v.
19 Puget Sound Energy, Dockets UE-170033 & UG-170034, Order 08, Final Order
20 Rejecting Tariff Sheets; Approving and Adopting Settlement Stipulation;
21 Resolving Contested Issues; and Authorizing and Requiring Compliance Filing
22 (Dec. 5, 2017).

23 “Commission” means the Washington Utilities and Transportation Commission.

24 “Commission Staff” means the Staff of the Washington Utilities and Transportation
25 Commission.

26 “EBITDA” means earnings before interest, taxes, depreciation, and amortization.

27 “Joint Parties” means the signatories to the Multiparty Settlement Stipulation in
28 Docket U-072375, including Puget Holdings, PSE, Commission Staff, Industrial
29 Customers of Northwest Utilities, Northwest Industrial Gas Users, The Energy
30 Project, NW Energy Coalition, and The Kroger Company.

31 “LNG Order” means In the Matter of the Petition of Puget Sound Energy, Inc. for
32 (i) Approval of a Special Contract for Liquefied Natural Gas Fuel Service with
33 Totem Ocean Trailer Express, Inc. and (ii) a Declaratory Order Approving the

1 Methodology for Allocating Costs Between Regulated and Non-regulated
2 Liquefied Natural Gas Services, Docket UG-151663, Order 10 at 8, Final Order
3 Approving and Adopting Settlement Stipulation; Reopening Record and Amending
4 Order 08 in Docket U-072375 (Nov. 1, 2016).

5 “Proposed Transactions” mean the proposed transactions seeking Commission
6 approval in Docket U-180680.

7 “PSE” means Puget Sound Energy, Inc.

8 “Public Counsel” means the Public Counsel Section of the Washington State
9 Attorney General’s Office.

10 “Puget Energy” means Puget Energy, Inc.

11 “Puget Equico” means Puget Equico LLC.

12 “Puget Holdings” means Puget Holdings LLC

13 “Puget Intermediate” means Puget Intermediate Holdings Inc.

14 “Puget LNG” means Puget LNG, LLC.

15 **Proposed Commitments**

- 16 1. PSE and Puget Holdings commit to continue the Service Quality measures
17 currently in place for PSE or as may be modified in any future proceeding.
- 18 2. Puget Holdings acknowledges PSE’s need for significant amounts of capital
19 to invest in its energy supply and delivery infrastructure and commits that
20 meeting these capital requirements will be considered a high priority by the
21 Boards of Puget Holdings and PSE.
- 22 3. Puget Holdings acknowledges PSE’s obligations under Washington’s
23 Renewable Portfolio Standard and commits to support PSE with additional
24 expertise and capital as necessary to enable PSE to fulfill those obligations.
- 25 4. Puget Holdings commits to work with PSE to acquire all renewable energy
26 resources required by law and such other renewable energy resources as
27 may from time to time be deemed advisable in accordance with its biennial
28 integrated resource planning process.
- 29 5. Puget Holdings commits to and supports PSE’s goal to reduce its carbon
30 footprint by 50 percent by 2040.

- 1 6. PSE will (i) maintain separate books and records; (ii) agree to prohibitions
2 against loans or pledges of utility assets to Puget Energy or Puget Holdings,
3 or any of their subsidiaries or affiliates, without Commission approval; and
4 (iii) generally hold PSE customers harmless from any business and financial
5 risk exposures associated with Puget Energy, Puget Holdings and its other
6 affiliates.
- 7 7. PSE will maintain separate debt and preferred stock, if any. PSE will
8 maintain its own corporate and debt credit rating, as well as ratings for long-
9 term debt and preferred stock.
- 10 8. Puget Holdings and PSE commit that PSE will honor its labor contracts.
- 11 9. PSE will maintain its pension funding policy in accordance with sound
12 actuarial practice.
- 13 10. PSE and Puget Holdings will maintain staffing and presence in the
14 communities in which PSE operates at levels sufficient to maintain the
15 provision of safe and reliable service and cost-effective operations.
- 16 11. At least one director of PSE will be an Independent Director who is not a
17 member, stockholder, director (except as such Independent Director of
18 PSE), officer, or employee of Puget Holdings or its affiliates. The
19 organizational documents for PSE will not permit PSE, without the
20 unanimous consent of all its directors including the Independent Director,
21 to consent to the institution of bankruptcy proceedings or the inclusion of
22 PSE in bankruptcy proceedings. The Chief Executive Officer of PSE will
23 be a member of the board of PSE. The Puget Holdings governance will be
24 on terms substantively the same as presented in the Draft LLC Agreement
25 Term Sheet presented at hearing (Exhibit 63HC in Docket U-072375),
26 including an Independent Manager as clarified by Exhibit 408 in Docket U-
27 072375. The Puget Energy, Puget Intermediate, and Puget Equico
28 governance agreements will also include an independent manager as
29 clarified by Exhibits 409 and 410 in Docket U-072375. The Puget Holdings,
30 Puget Intermediate, Puget Equico, and Puget Energy governance
31 agreements will be modified, as necessary, to require, in addition to
32 supermajority member approval, supermajority Board approval, including
33 the affirmative vote of the Independent Manager, of matters identified in
34 Appendix C to the Draft LLC Agreement Term Sheet, subparts (D), (E) and
35 (F).
- 36 12. PSE and Puget Holdings commit that PSE and Puget Energy corporate
37 headquarters will remain in PSE's service territory.
- 38 13. PSE and Puget Sound Energy Foundation will maintain its existing level of
39 corporate contributions and community support in the State of Washington,
40 as set forth in the current approved five-year business plan of PSE.

- 1 14. Puget Holdings and PSE will make reasonable commitments, consistent
2 with recent Commission merger orders, to provide access to PSE's books
3 and records; access to financial information and filings; audit rights with
4 respect to the documents supporting any costs that may be allocable to PSE;
5 and access to PSE's board minutes, audit reports, and information provided
6 to credit rating agencies pertaining to PSE.
- 7 15. Affiliate Transactions, Cross-Subsidization: PSE agrees (i) to file cost
8 allocation methodologies used to allocate Puget Energy or Puget Holdings
9 related costs to PSE; (ii) to propose methods and standards for treatment of
10 affiliate transactions; and (iii) that there will be no cross-subsidization by
11 PSE customers of unregulated activities. The cost-allocation methodology
12 filed pursuant to this Commitment 15 will be a generic methodology that
13 does not require Commission approval prior to its being proposed for
14 specific application in a general rate case or other proceeding affecting
15 rates.
- 16 16. Transaction Costs: PSE and Puget Holdings agree that there will be no
17 recovery of legal and financial advisory fees associated with the Proposed
18 Transactions in rates and no recovery of the acquisition premium in rates.
19 The scope of transaction costs in this Commitment 16 includes any
20 compensation of senior executives tied to the Proposed Transactions.
- 21 17. PSE and Puget Holdings commit to maintain existing low-income programs
22 or as such programs may be modified in any future proceeding. In addition,
23 PSE and Puget Holdings commit to increase the budgeted funding of low-
24 income energy efficiency programs in future years at a level commensurate
25 with increases in funding for energy efficiency programs for other
26 residential customers through the Conservation Resource Advisory
27 Group (CRAG) process.
- 28 18. PSE and Puget Holdings commit to continue to work with low-income
29 agencies to address issues of low-income customers.
- 30 19. Puget Holdings and PSE will not advocate for a higher cost of debt or equity
31 capital as compared to what PSE's cost of debt or equity capital would have
32 been absent the change in ownership at Puget Holdings.

33 For future ratemaking purposes Commitments 19, 20(a) and 6(iii) are
34 clarified as follows:

- 35 (a) Determination of PSE's debt and equity costs will be no
36 higher than such costs would have been assuming PSE's
37 credit ratings by S&P and Moody's in effect on the day
38 before the Proposed Transactions closed and applying those
39 credit ratings to then-current debt and equity markets, unless
40 PSE proves that a lower credit rating is caused by

1 circumstances or developments not the result of financial
2 risks or other characteristics of the Proposed Transactions.

- 3 (b) Determination of the allowed return on equity in future
4 general rate cases will include selection and use of one or
5 more proxy group(s) of companies engaged in businesses
6 substantially similar to PSE, without any limitation related
7 to PSE's ownership structure.

8 20. In furtherance of Commitment 6:

- 9 (a) Puget Holdings and PSE commit that PSE's customers will
10 be held harmless from the liabilities of any non-regulated
11 activity of PSE or Puget Holdings. In any proceeding before
12 the Commission involving rates of PSE, the fair rate of
13 return for PSE will be determined without regard to any
14 adverse consequences that are demonstrated to be
15 attributable to the non-regulated activities. Any new non-
16 regulated subsidiary will be established as a subsidiary of
17 either Puget Holdings, Puget Intermediate, or Puget Energy
18 rather than as a subsidiary of PSE. Measures providing for
19 separate financial and accounting treatment will be
20 established for each non-regulated activity.

- 21 (b) Puget Holdings and PSE will notify the Commission
22 subsequent to Puget Holdings' board approval and as soon
23 as practicable following any public announcement of:
24 (1) any acquisition of a regulated or unregulated business
25 representing 5 percent or more of the capitalization of Puget
26 Holdings; or (2) the change in effective control or
27 acquisition of any material part of PSE by any other firm,
28 whether by merger, combination, transfer of stock or assets.

- 29 (c) Neither PSE nor Puget Holdings will assert in any future
30 proceedings that the Commission is without jurisdiction over
31 any transaction that results in a change of control of PSE.

32 As regards Commitments 20(b), 20(c) and 22(c), within 14 days following
33 the notice required by Commitment 20(b) PSE and Puget Holdings will
34 seek Commission approval of any sale or transfer of: (1) any part of PSE
35 that will give a new or existing member of Puget Holdings effective control
36 of PSE, either in terms of ownership shares, or in terms of voting power
37 under the then-applicable Puget Holdings LLC Agreement, or; (2) any
38 material part of PSE. The term "material part of PSE" means any sale or
39 transfer of stock representing ten percent or more of the equity ownership
40 of Puget Holdings or PSE. (Exhibit 419 in Docket U-072375) No sale or

1 transfer subject to Commitment 26(b) may close prior to approval by the
2 Commission

3 21. In furtherance of Commitment 19:

4 (a) PSE and Puget Holdings will maintain the necessary books
5 and records so as to provide an audit trail for all corporate,
6 affiliate, or subsidiary transactions with PSE, or that result
7 in costs that may be allocable to PSE.

8 (b) PSE will provide Commission Staff and Public Counsel
9 access to books and records (including those of Puget
10 Holdings, including reports produced by Puget Holdings for
11 its members, or any affiliate or subsidiary companies)
12 required to be accessed to verify or examine transactions
13 with PSE, or that result in costs that may be allocable to PSE.
14 The Proposed Transactions will not result in reduced access
15 to the necessary books and records that relate to transactions
16 with PSE, or that result in costs that may be allocable to PSE,
17 and the Proposed Transactions and resulting corporate
18 structure will not be used by PSE as a basis to oppose
19 requests for such books and records made by the
20 Commission or by Commission Staff or Public Counsel.

21 (c) Nothing in the Proposed Transactions will limit or affect the
22 Commission's rights with respect to inspection of accounts,
23 books, papers and documents of PSE pursuant to
24 RCW 80.04.070 or RCW 80.16.030. Nothing in the
25 Proposed Transactions will limit or affect the Commission's
26 rights with respect to inspection of accounts, books, papers
27 and documents of Puget Holdings pursuant to
28 RCW 80.16.030; provided, that such right to inspection shall
29 be limited to those accounts, books, papers and documents
30 of Puget Holdings that pertain to transactions affecting
31 PSE's regulated utility operations.

32 (d) Puget Holdings and PSE will provide the Commission with
33 access to written information provided by and to credit rating
34 agencies that pertains to PSE. Puget Holdings and each of its
35 members will also provide the Commission with access to
36 written information provided by and to credit rating agencies
37 that pertains to Puget Holdings' subsidiaries to the extent
38 such information may potentially affect PSE.

39 22. In furtherance of Commitment 15:

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- (a) If and when any subsidiary of PSE becomes a subsidiary of Puget Holdings, Puget Intermediate, or Puget Energy, PSE will so advise the Commission within thirty (30) days and will submit to the Commission a written document setting forth PSE’s proposed corporate and affiliate cost allocation methodologies.
- (b) PSE will notify the Commission of any change in corporate structure that affects PSE’s corporate and affiliate cost allocation methodologies. PSE will propose revisions to such cost allocation methodologies to accommodate such changes. PSE will not argue that compliance with this provision constitutes approval by the Commission of a particular methodology for corporate and affiliate cost allocation.
- (c) PSE and Puget Holdings will comply with all applicable provisions of Title 80 RCW, including those pertaining to transfers of property under Chapter 80.12 RCW, affiliated interests under Chapter 80.16 RCW, and securities and the assumption of obligations and liabilities under Chapter 80.08 RCW.
- (d) With respect to the ratemaking treatment of affiliate transactions, PSE and Puget Holdings will comply with the Commission’s then-existing practice; provided, however, that nothing in this Commitment limits PSE from also proposing a different ratemaking treatment for the Commission’s consideration or limit the positions any other party may take with respect to ratemaking treatment.
- (e) PSE will bear the burden of proof in any general rate case that any corporate and affiliate cost allocation methodology it proposes is reasonable for ratemaking purposes. Neither PSE nor Puget Holdings will contest the Commission’s authority to disallow, for retail ratemaking purposes in a general rate case, unsupported, unreasonable, or misallocated costs from non-regulated or affiliate businesses to PSE’s regulated utility operations.

23. PSE and Puget Holdings acknowledge that all existing orders issued by the Commission with respect to PSE or its predecessors, Puget Sound Power & Light Company and Washington Natural Gas Company, will remain in effect, and are not modified or otherwise affected by the Proposed Transactions or any order of the Commission approving the Proposed Transactions. Notwithstanding the immediately preceding sentence, the

1 Commission's Order Accepting Stipulation and Approving Corporate
2 Reorganization to Create a Holding Company, With Conditions, dated
3 August 15, 2000, in Docket No. UE-991779 is acknowledged to be
4 superseded and replaced in its entirety by the 2008 Acquisition Order.

5 24. Nothing in these Commitments shall be interpreted as a waiver of Puget
6 Holdings' or PSE's rights to request confidential treatment for information
7 that is the subject of any of the Commitments.

8 25. PSE and Puget Holdings understand that the Commission has authority to
9 enforce these Commitments in accordance with their terms. If there is a
10 technical violation of the terms of these Commitments, then the offending
11 party may, at the discretion of the Commission, have a period of thirty (30)
12 calendar days to cure such technical violation. The scope of this
13 Commitment 25 includes the authority of the Commission to compel from
14 Puget Holdings and Puget Energy the attendance of witnesses pertinent to
15 matters affecting PSE. Puget Holdings waives its right to interpose any legal
16 objection it might otherwise have to the Commission's jurisdiction to
17 require the appearance of any such witnesses

18 26. Puget Holdings and PSE acknowledge that the Commitments are being
19 made by Puget Holdings and PSE and are binding only upon them (and their
20 affiliates where noted). Puget Holdings and PSE are not requesting in this
21 proceeding a determination of the prudence, just and reasonable character,
22 rate or ratemaking treatment, or public interest of the investments,
23 expenditures or actions referenced in the Commitments, and the Parties in
24 appropriate proceedings may take such positions regarding the prudence,
25 just and reasonable character, rate or ratemaking treatment, or public
26 interest of the investments, expenditures or actions as they deem
27 appropriate. The Commitments made by Puget Holdings and PSE also are
28 binding, upon their successors in interest.

29 27. PSE will have a common equity ratio of not less than 44 percent, except to
30 the extent a lower equity ratio is established for ratemaking purposes by the
31 Commission. PSE and Puget Holdings represent that Puget Holdings is not
32 prohibited from issuing new equity to third parties. PSE and Puget Holdings
33 will not amend the LLC Agreement or other transaction documents to
34 prohibit Puget Holdings from issuing new equity to third parties (including
35 public markets). The transaction documents also permit PSE to issue certain
36 hybrid securities to third parties (including public markets) and Puget
37 Holdings. If Puget Holdings makes a new equity issuance for the purpose
38 of (i) contributing the proceeds thereof (through its relevant subsidiaries) to
39 Puget Energy or PSE, or (ii) applying the proceeds thereof toward the
40 purchase from PSE of hybrid securities that are permitted to be issued under
41 the transaction documents, the proceeds of any such new equity issuances
42 by Puget Holdings shall be used for such purpose. PSE and Puget Holdings

1 will provide an annual certificate of an officer of Puget Holdings certifying
2 that neither Puget Holdings nor PSE is prohibited from undertaking the
3 transactions described above.

4 28. PSE shall not be permitted to declare or make any PSE distribution unless,
5 on the date of such PSE distribution, the PSE common equity ratio after
6 giving effect to such PSE distribution is not less than 44%, except to the
7 extent a lower equity ratio is established for ratemaking purposes by the
8 Commission.

9 29. Puget Energy may not declare or make a Puget Energy distribution, unless
10 on the date of such Puget Energy distribution, the ratio of consolidated
11 EBITDA to consolidated interest expense for the most recently ended four
12 fiscal quarter period prior to such date is equal or greater than 2.00 to 1.00.

13 30. All of the common stock of Puget Energy shall be owned by Puget Equico,
14 a Washington limited liability company. Puget Equico shall be a wholly-
15 owned subsidiary of Puget Intermediate. Puget Equico shall be a
16 bankruptcy-remote special purpose entity, and shall not have debt.

17 31. Each of Puget Energy and PSE will continue to be rated by both Standard
18 & Poor's Ratings Group and Moody's Investors Service, Inc.

19 32. PSE shall not declare or make any distribution, unless, on the date of such
20 distribution, either:

21 (a) The ratio of PSE EBITDA to PSE interest expense for the
22 most recently ended four fiscal quarter period prior to such
23 date is equal or greater than 3.00 to 1.00; or

24 (b) PSE's corporate credit/issuer rating is at least BBB- (or its
25 then equivalent) with S&P and Baa3 (or its then equivalent)
26 with Moody's.

27 However, if PSE satisfies part (a) above but its corporate credit/issuer rating
28 is downgraded to a level below BBB- (or its then equivalent) with Standard
29 & Poor's Ratings Group or Baa3 (or its then equivalent) with Moody's
30 Investors Service, Inc., then PSE shall provide notice to the Commission of
31 such downgrade within two business days of PSE's receipt of notice of such
32 downgrade. Following such downgrade, distributions by PSE to Puget
33 Energy shall be limited to an amount sufficient (i) to service debt at Puget
34 Energy, and (ii) to satisfy financial covenants in the credit facilities of Puget
35 Energy, and distributions by Puget Energy to Puget Equico shall cease. If
36 PSE seeks to make any distribution to Puget Energy greater than such
37 amount and Puget Energy seeks to make any distribution to Puget Equico
38 whatsoever, PSE and Puget Energy shall within forty-five calendar days of
39 such downgrade (or earlier if PSE anticipates that such a downgrade may

1 be forthcoming) file a petition with the Commission to show cause why
2 (i) PSE should be permitted to make any distribution to Puget Energy in
3 excess of such amount and (ii) Puget Energy should be permitted to make
4 any distribution to Puget Equico. It is the expectation of the Joint Parties
5 that the Commission within sixty (60) days after PSE's and Puget Energy's
6 filing of such petition will issue an order granting or denying such petition.
7 In considering such petition, due consideration shall be given to the
8 financial performance and credit rating of PSE and to whether PSE has, and
9 is expected to achieve, financial metrics that fall within the ranges used by
10 Standard & Poor's Ratings Group and Moody's Investors Service, Inc. for
11 investment grade-rated utility companies and any changes in such ranges
12 since the date of closing of the 2008 Transaction; provided that nothing in
13 this commitment shall prohibit the parties from advancing any arguments
14 regarding factors the Commission should consider. If PSE's corporate
15 credit/issuer rating is subsequently upgraded to BBB- (or its then
16 equivalent) or above with Standard & Poor's Ratings Group or Baa3 (or its
17 then equivalent) or above with Moody's Investors Service, Inc., then PSE
18 shall provide notice to the Commission of such upgrade within two business
19 days of PSE's receipt of notice of such upgrade, and neither PSE nor Puget
20 Energy shall be subject to any dividend restriction pursuant to this
21 Commitment as of the date PSE provides such notice to the Commission.

22 Commitments 28, 29, and 32, which limit upward dividends or distributions
23 from PSE to Puget Energy and from Puget Energy to Puget Equico, are
24 clarified as follows:

- 25 (a) If the ratio of PSE EBITDA to PSE interest expense is equal
26 to or greater than 3.0 and PSE's corporate credit/issuer rating
27 with S&P and Moody's (or their then equivalents) is
28 investment grade, distributions from PSE to Puget Energy
29 are not limited so long as PSE's equity ratio is equal to or
30 greater than 44 percent [Commitment 28] and distributions
31 from Puget Energy to Puget Equico are not limited so long
32 as consolidated PSE/Puget Energy EBITDA to consolidated
33 PSE/Puget Energy interest expense is equal to or greater than
34 2.0. [Commitment 29]
- 35 (b) If the ratio of PSE EBITDA to PSE interest expense is less
36 than 3.0, but PSE's corporate credit/issuer rating with S&P
37 and Moody's (or their then equivalents) is investment grade,
38 distributions from PSE to Puget Energy are not limited so
39 long as PSE's equity ratio is equal to or greater than 44
40 percent [Commitment 28] and distributions from Puget
41 Energy to Puget Equico are not limited so long as
42 consolidated PSE/Puget Energy EBITDA to consolidated

1 PSE/Puget Energy interest expense is equal to or greater than
2 2.0. [Commitment 29]

3 (c) If the ratio of PSE EBITDA to PSE interest expense is equal
4 to or greater than 3.0, but PSE's corporate credit/issuer
5 rating with either S&P or Moody's (or their then
6 equivalents) is not investment grade, distributions from PSE
7 to Puget Energy are limited as specified in Commitments 28
8 and 32, unless allowed by specific Commission approval. No
9 distributions are allowed from Puget Energy to Puget
10 Equico.

11 (d) If the ratio of PSE EBITDA to PSE interest expense is less
12 than 3.0 and PSE's corporate credit/issuer rating with either
13 S&P or Moody's (or their then equivalents) is not investment
14 grade, no distributions are allowed from PSE to Puget
15 Energy and no distributions are allowed from Puget Energy
16 to Puget Equico.

17 33. Puget Holdings and PSE commit that (i) the board of directors of PSE will
18 include at least three directors who are residents of the region, one of whom
19 shall be the chief executive officer of PSE, and (ii) the board of directors of
20 Puget Energy will include at least two directors who are residents of the
21 region, one of whom shall be the chief executive officer of PSE. The term
22 "regional" as it applies to Commitment 33 means Washington State.

23 34. PSE will to the extent practical, comply with the rules applicable to a
24 registrant under NYSE rules. Please see Exhibit No. 81 (EMM-11) at
25 pages 1-4 in Docket U-072375 for an analysis of PSE's present reporting
26 and governance obligations under NYSE Corporate Governance Standards.
27 Such analysis identifies the applicable NYSE rule, describes the current
28 requirement, describes the post-closing requirement, and sets forth PSE's
29 post-closing commitment with respect to each requirement in the event a
30 current requirement is not a continuing obligation. Such analysis also details
31 the requirements of the NYSE with respect to the following:

- 32 (a) annual report availability,
33 (b) interim financial statements,
34 (c) independent directors,
35 (d) director executive sessions,
36 (e) communication with non-management directors,
37 (f) nominating and governance committee matters,

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- (g) compensation committee matters,
- (h) the audit committee and committee membership,
- (i) the internal audit function,
- (j) corporate governance guidelines,
- (k) disclosure of corporate governance guidelines,
- (l) code of business conduct and ethics, and
- (m) officer certification.

Puget Energy and PSE will each comply with applicable NYSE rules and the requirements of the Sarbanes–Oxley Act as specified in Exhibit 422, Attachment A, column entitled “post-closing commitment” in Docket U-072375. Unless the Commission approves otherwise, Puget Energy and PSE will comply with any new NYSE rules, or rules not covered in Exhibit 422 in Docket U-072375. The independent managers or directors on the PSE, Puget Energy, and Puget Holdings boards will be members of the nominating/governance, compensation, and audit committees and their affirmative vote will be required on all matters subject to vote.

35. Puget Energy and PSE will continue to make the same SEC financial reporting requirements after closing of the Proposed Transactions with respect to the following:

- (a) Section 13(a) disclosure requirements,
- (b) Section 15(d) disclosure requirements, and
- (c) indenture covenants disclosure requirements.

36. PSE and Puget Holdings commit to the following commitments with respect to the Sarbanes-Oxley Act for both PSE and Puget Energy:

- (a) Section 201 guidance on the use of outside auditors,
- (b) Section 202 pre-approval requirements with respect to the engagement and compensation of auditors,
- (c) Section 203 requirements with respect to audit partner rotation,
- (d) Section 204 guidance with respect to the requirements of auditor reports to audit committees,

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- (e) Section 206 guidance with respect to auditor conflicts of interest,
- (f) Section 301 requirements with respect to audit committee requirements,
- (g) Section 302 requirements with respect to corporate responsibility for financial reports,
- (h) Section 401 requirements with respect to the form and content of periodic and annual reports,
- (i) Section 403 requirements with respect to disclosures of certain transactions involving management and shareholders,
- (j) Section 404 requirements with respect to management assessment of internal controls,
- (k) Section 406 requirements with respect to the code of ethics for senior financial officers,
- (l) Section 407 requirements with respect to disclosure of audit committee financial expert, and
- (m) Section 906 requirements with respect to corporate responsibility for financial statements.

- 37. PSE will continue to meet all the applicable FERC reporting requirements with respect to annual reports (FERC Form 1) and quarterly reports (FERC Form 3) after closing of the Proposed Transactions.
- 38. PSE will (i) continue to offer customers the investment cost recovery incentive authorized by RCW 82.16.120 each year for as long as the law is in effect and (ii) dedicate resources to market and promote net metering. Such a commitment, however, is contingent on the continuation of implementing tariffs supporting such net metering programs on file with the Commission.
- 39. PSE will continue to actively participate in national and regional forums regarding transmission issues, pricing policies, siting requirements, and interconnection and integration policies.
- 40. PSE will continue to produce an annual greenhouse gas emissions inventory report, including an inventory of total emissions from each of the sources listed in Table 2-1 of PSE's 2006 Greenhouse Gas Inventory Report, and

1 make such greenhouse gas emissions inventory report available to its
2 customers and stakeholders.

3 41. Puget Energy shall not operate or own any business other than PSE and
4 Puget LNG (“Puget LNG”). Puget LNG shall be a special purpose entity
5 formed by Puget Energy solely for the purposes of owning, developing, and
6 financing, as a tenant-in common with PSE, an LNG facility at the Port of
7 Tacoma (the “Tacoma LNG Facility”).

8 42. PSE and Puget Holdings commit that the current and any future capital
9 expenditure credit facilities will by their terms limit the use of such funds
10 only for financing capital expenditures of PSE and Puget LNG. Quarterly
11 officer certificates under each of the credit facilities of Puget Energy and
12 PSE will be made available to the Commission and other interested parties,
13 upon request and subject to the protective order in Docket No. U-072375.

14 43. PSE’s customers will be held harmless from the liabilities and financial
15 losses of any non-regulated activity of the Tacoma LNG Facility, including
16 any non-regulated activity of Puget LNG. Puget Energy guarantees and will
17 hold PSE’s customers harmless from all liabilities and financial losses of
18 Puget LNG resulting from:

19 (i) any non-regulated activity of the Tacoma LNG Facility,
20 including the sale or assignment of the assets of Puget LNG
21 to a third party; and

22 (ii) circumstances in which Puget LNG or any successor to
23 Puget LNG (a) becomes insolvent or is unable to pay its
24 debts when due, (b) files a petition in bankruptcy,
25 reorganization or similar proceedings (and if filed against,
26 such petition is not removed within 90 days),
27 (c) discontinues its business, or (d) a receiver is appointed or
28 there is an assignment for the benefit of creditors of Puget
29 LNG.

30 44. PSE will notify the Commission of any potential sale or transfer of all or
31 substantially all of the assets of the Tacoma LNG Facility or the potential
32 sale or transfer of Puget LNG’s non-regulated operations. PSE must give
33 this notice as soon as practicable.

34 45. At closure of Colstrip Units 1 and 2, PSE shall offset all additional
35 unrecovered plant balances for Colstrip Units 1 and 2 with monetized
36 production tax credits (“PTCs”). PSE assumes the risk that it is unable to
37 monetize the PTCs to offset additional unrecovered plant balances for
38 Colstrip Units 1 and 2; provided, however that if Colstrip Units 1 and 2
39 close prior to the monetization of sufficient PTCs to offset additional
40 unrecovered plant balances for Colstrip Units 1 and 2, PSE shall hold

1 remaining unrecovered plant balances of Colstrip Units 1 and 2 in a
2 regulatory asset in rate base until the earlier to occur of (i) the recovery of
3 all plant balances for Colstrip Units 1 and 2 through monetized PTC offsets
4 or (ii) December 31, 2029.

5 46. PSE shall place PTCs as they are monetized in a second, more flexible
6 account not established pursuant to Chapter 80.84 RCW. PSE shall use the
7 monetized PTCs in the second account in accordance with the following
8 priority for use: (i) to fund community transition planning funds of \$5
9 million, as identified in paragraph 118 of the Settlement in Dockets UE-
10 170033 & UG-170034; (ii) to recover unrecovered plant balances for
11 Colstrip Units 1 through 4; and (iii) to fund and recover prudently incurred
12 decommissioning and remediation costs for Colstrip Units 1 through 4. The
13 account shall be consistent with the discussion of the account set forth in
14 the Prefiled Rebuttal Testimony of Ms. Katherine J. Barnard, Exh. KJB-
15 17T in Dockets UE-170033 & UG-170034.

16 47. PSE shall engage in a process with stakeholders to develop a community
17 transition plan, including a funding mechanism, to address the transitioning
18 of PSE's interest in the community of Colstrip, Montana. PSE shall
19 contribute the following amounts to the community transition plan:
20 (i) \$5 million of shareholder dollars and (ii) \$5 million of monetized PTCs.
21 PSE shall place the \$5 million of shareholder dollars in an escrow account
22 (the "Escrow Account") by the end of calendar year 2018. PSE shall place
23 \$5 million of monetized PTCs, when available, from the account established
24 pursuant to paragraph 117 of the Settlement in Dockets UE-170033 & UG-
25 170034 in the Escrow Account. All such funds shall remain in the Escrow
26 Account until such time that there is a community transition plan, including
27 a funding mechanism, in place.

28 48. Beginning in 2018, on or before December 1 of each year, PSE shall provide
29 the Commission an annual report containing the following:

30 (i) the most recent estimate of the actual retirement date for
31 Colstrip Units 1 and 2 and Colstrip Units 3 and/or 4;

32 (ii) in the event of an estimated retirement date earlier than
33 July 1, 2022, for Colstrip Units 1 and 2, and upon the
34 determination by PSE of an estimated retirement date for
35 Colstrip Units 3 and/or 4, a discussion and evaluation of
36 consequences to customers arising from those estimated
37 retirement dates;

38 (iii) decommissioning and remediation expenditures associated
39 with Colstrip units since the time of the last report and
40 updated estimates of future costs;

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- (iv) an evaluation of the sufficiency of the retirement account established pursuant to Chapter 80.84 RCW to fund and recover decommissioning and remediation activities for Colstrip Units 1 and 2;
- (v) an evaluation of the sufficiency of existing depreciation rates for Colstrip Units 3 and 4 to cover decommissioning and remediation costs for those units; and
- (vi) for years in which PSE issues an Integrated Resource Plan, updated replacement power costs.

49. PSE is working with NorthWestern Energy and the other Colstrip Transmission System owners on the design and staffing of an operational study of transfer capability of the Colstrip Transmission System after Colstrip Units 1 and 2 retire. PSE agrees to work in good faith with the other Colstrip Transmission System owners to have this study completed by June 30, 2018. Upon completion of the study, study results will be submitted to the Commission and interested stakeholders, subject to the consent of the other Colstrip Transmission System owners and subject to disclosure restrictions, such as restrictions on disclosure of Critical Energy Infrastructure Information and non-public transmission information.