

**EXH. KJH-1T
DOCKET U-180680
WITNESS: KIMBERLY J. HARRIS**

**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

KIMBERLY J. HARRIS

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 5, 2018

PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
KIMBERLY J. HARRIS**

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PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
KIMBERLY J. HARRIS**

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1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **KIMBERLY J. HARRIS**

4 **I. INTRODUCTION**

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

7 A. My name is Kimberly J. Harris. My business address is 10885 NE Fourth Street,
8 P.O. Box 97034, Bellevue, WA 98009-9734. I am the President and Chief
9 Executive Officer of 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, I have. It is Exh. KJH-2.

13 **Q. What are your duties as President and Chief Executive Officer of PSE?**

14 A. I have overall management responsibility for PSE. In consultation with our
15 executive team and Board of Directors, I set PSE’s strategic business goals and
16 direct our efforts to achieve those goals. I also serve on the boards of PSE, Puget
17 Energy, and Puget Holdings LLC (“Puget Holdings”).

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

19 A. First, I will introduce the four investors who are each acquiring a portion of the
20 approximately 44 percent, minority, non-controlling interests in Puget Holdings

1 that has been held by funds managed by Macquarie Infrastructure Partners Inc.
2 (“MIP Funds”) and a Macquarie entity, Padua MG Holdings LLC (together with
3 the MIP Funds, “Macquarie”). Two of these purchasers are existing institutional
4 investors who are increasing their ownership interest, and two are new, long-term
5 institutional investors. Each of them have entered into a purchase and sale
6 agreement with Macquarie (the “Proposed Transactions”). We are pleased to
7 welcome the new investors and continue working with the existing investors.

8 Second, I will briefly review PSE’s history and how it came to be a privately-
9 owned company. I will discuss PSE’s vision that drives our interactions with
10 customers, and I will highlight the accomplishments PSE has achieved under the
11 private ownership structure that has been in place since 2009.

12 Third, I will explain that the Proposed Transactions will not affect the day-to-day
13 operations of PSE. We expect PSE to continue providing safe, reliable, and
14 efficient electric and natural gas service in an environmentally responsible way
15 following the close of the Proposed Transactions.

16 Fourth, as a board member of PSE, Puget Energy, and Puget Holdings, I will
17 explain that the Proposed Transactions will not affect commitments PSE has
18 made with respect to the composition of the PSE board. PSE will continue to have
19 local directors and an independent director serving on its board. Additionally,
20 PSE will continue to be indirectly owned by a consortium of well-qualified
21 investors, none of which will hold a majority or controlling interest in Puget
22 Holdings or PSE.

1 Finally, I will explain that the Proposed Transactions are consistent with the
2 public interest and do not harm customers. The commitments that were
3 established and approved by the Commission in the 2008 acquisition order in
4 Docket U-072375 (“2008 Acquisition Order”), and that remain in effect, will
5 continue to protect customers from potential risks at the parent company, just as
6 they were designed to do. Each of the new and existing investors is a well-
7 qualified, institutional investor, with significant experience investing in the
8 energy sector, renewable energy, and regulated utilities. Their investment
9 philosophies match well with PSE’s business model. Each is committed to
10 sustainability and carbon reduction, and each is committed to PSE’s mission
11 statement to be Safe. Dependable. Efficient. In summary, customers can expect to
12 see business as usual upon completion of the Proposed Transactions.

13 **II. THE PROPOSED TRANSACTIONS INVOLVE A CHANGE**
14 **IN A MINORITY, NON-CONTROLLING UPSTREAM INTEREST**

15 **Q. Please describe the current ownership structure of Puget Holdings and the**
16 **Proposed Transactions.**

17 A. PSE is indirectly owned by a consortium of investors who are members of Puget
18 Holdings. Table 1 below shows the current ownership structure of Puget
19 Holdings.

1

Table 1. Current Equity Interests in Puget Holdings

MIP Funds	43.89%
Padua MG Holdings LLC	0.10%
Canada Pension Plan Investment Board	31.57%
British Columbia Investment Management Corporation	16.86%
Alberta Investment Management Corporation	7.59%
Total	100.00%

2

Macquarie has executed purchase and sale agreements with four buyers to sell all of its 43.99 percent interest in Puget Holdings. Two of these buyers are existing investors in Puget Holdings—Alberta Investment Management Corporation (“AIMCo”) and British Columbia Investment Management Corporation (“BCI”).

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We consider the expansion of their indirect ownership interest in PSE to be a vote of confidence in the direction, operations and management of PSE. The Prefiled Direct Testimony of Lincoln Webb, Exh. LW-1T, on behalf of BCI, and the Prefiled Direct Testimony of Ahmed Mubashir, Exh. AM-1T, on behalf of AIMCo, provide additional description of these two current investors and why they have decided to increase their indirect ownership in PSE.

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Q. Who are the two new investors in Puget Holdings?

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A. The two new investors in Puget Holdings are OMERS Administration Corporation (“OAC”) and PGGM Vermogensbeheer B.V.¹ We are pleased to welcome these two new investors, each of which is a highly-qualified, pension

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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 plan manager, with a long-term investment horizon. OAC manages pension plans
2 for employees of municipalities, school boards, libraries, police, fire departments,
3 children's aid societies and other local agencies across Ontario, Canada. The
4 economic beneficiaries of PGGM are five Dutch pension funds, including pension
5 plans for the health care and social work sectors in The Netherlands. More detail
6 about OAC is provided in the Prefiled Direct Testimony of Steven Zucchet,
7 Exh. SZ-1T, and more detail about PGGM is provided in the Prefiled Direct
8 Testimony of Martijn J. Verwoest, Exh. MJV-1T.

9 **Q. What percentage of the Puget Holdings equity interest will each of these**
10 **investors purchase?**

11 A. The four purchasers are buying Macquarie's entire 43.99 percent interest in Puget
12 Holdings. Table 2 below shows the share of Puget Holdings that will be
13 purchased by each of the investors.

14 **Table 2. Purchasers of the Macquarie Interest in Puget Holdings**
15 **and Percent of Equity Interest in Puget Holdings Being Purchased²**

OMERS Administration Corporation	23.94%
PGGM	10.02%
Alberta Investment Management Corporation	6.01%
British Columbia Investment Management Corporation	4.01%
Total	43.99%

² The percentage ownership reflects each Purchaser's share of the MIP Funds 43.89 percent ownership interest in Puget Holdings, as set forth in each Purchaser's respective Purchase and Sale Agreement, as well as each Purchaser's share of the 0.10 percent interest held by Padua MG Holdings LLC, as set forth in each Purchaser's respective Joinder Agreement. The sum of the individual percent equity interests varies from the "Total" due to rounding.

1 **Q. What will be the ownership structure of Puget Holdings following the**
2 **completion of the Proposed Transactions?**

3 A. The ownership structure following the completion of the Proposed Transactions is
4 shown in Table 3 below.

5 **Table 3. Equity Interests in Puget Holdings**
6 **Resulting from the Sale of Macquarie Interest in Puget Holdings³**

Canada Pension Plan Investment Board	31.57%
OMERS Administration Corporation	23.94%
British Columbia Investment Management Corporation	20.87%
Alberta Investment Management Corporation	13.60%
PGGM	10.02%
Total	100.00%

7 As Table 3 demonstrates, no owner will hold a controlling interest in Puget
8 Holdings following the completion of the Proposed Transactions.

9 **Q. Is Canada Pension Plan Investment Board (“CPPIB”) participating in the**
10 **Proposed Transactions?**

11 A. No, CPPIB is the only current investor in Puget Holdings that is not participating
12 in the Proposed Transactions, either as a buyer or a seller. As shown above,
13 CPPIB will continue to hold a 31.57 percent equity interest in Puget Holdings
14 after the completion of the Proposed Transactions.

³ *Id.*

1 **Q. Is CPPIB supportive of the Proposed Transactions?**

2 A. Yes, Christopher Hind represents CPPIB on the boards of PSE, Puget Energy and
3 Puget Holdings. Exh. KJH-3 is a letter from Christopher Hind expressing
4 CPPIB's support for the Proposed Transactions.

5 **III. PSE HAS ACCOMPLISHED GREAT THINGS UNDER**
6 **PRIVATE OWNERSHIP AND WILL CONTINUE TO DO SO**
7 **AFTER THE PROPOSED TRANSACTIONS**

8 **Q. Please briefly describe PSE's history including its current private ownership.**

9 A. For over 100 years, PSE has provided its customers and local communities with
10 electric and/or natural gas service. In 1898, the company built the world's first
11 fully underground hydroelectric plant, under 260 feet of volcanic rock at
12 Snoqualmie Falls. That plant still operates today, providing clean energy to
13 thousands of homes. PSE has been providing safe, dependable, and reliable
14 service to its customers for more than a century.

15 Approximately ten years ago, PSE underwent an ownership change. A consortium
16 of investors, which included Macquarie and three Canadian pension funds—
17 CPPIB, BCI and AIMCo—took the company private, converting the utility
18 holding company from being a publicly-traded stock. Since that time, PSE has
19 maintained and grown its local work force, maintained its headquarters in
20 Bellevue, and appointed to its board independent, local board members, including
21 the current board chair, Steven Hooper.

1 Additionally, PSE has made significant investments in clean energy, energy
2 efficiency, local infrastructure and customer service. Most recently, in 2017, PSE
3 and its board committed to reducing PSE’s carbon impact by 50 percent by 2040,
4 further extending its leadership in renewable energy and sustainability.

5 **Q. What is your vision for PSE, now and in the future?**

6 A. My vision, as well as the vision of our board, is best exemplified by PSE’s
7 mission statement: “Safe. Dependable. Efficient.” The objectives that underlie this
8 vision statement are foundational and are reflected in PSE’s Integrated Strategic
9 Plan (“ISP”) and build on one another. These objectives begin with safety; then
10 focus on the people who serve our customers, our employees; then focus on the
11 processes and tools to achieve operational excellence; which allows us to be our
12 customers’ energy partner of choice, and ultimately to increase our financial
13 strength. These ISP objectives are illustrated in the following Table 4.

14 **Table 4. PSE Objectives Supporting Safe. Dependable. Efficient. Mission**

Financial	Which will increase our Financial Strength .
Customer	We can be our Customers’ Energy Partner of Choice
Processes & Tools	And we achieve Operational Excellence
People	And we are a Great Place to Work
Safety	If Nobody Gets Hurt Today

1 **Q. How does PSE implement the ISP?**

2 A. PSE's Integrated Strategic Plan guides the company on its mission to be Safe.
3 Dependable. Efficient. Since 2013, we have operated under the Integrated
4 Strategic Plan to provide employees a clear line of sight that can align their daily
5 work with the corporate strategies of the organization. We are focused on our
6 customers, and we drive our strategies from that focal point.

7 **Q. Please briefly describe PSE's service territory and the customers PSE serves.**

8 A. PSE serves 1.5 million customers, primarily in the Puget Sound region of Western
9 Washington. PSE's service territory spans hundreds of miles through diverse
10 geography and heavily wooded areas. Our customers are diverse as well—from
11 the high-tech urban areas of Bellevue to the agricultural and forest lands in Skagit
12 County. We are committed to knowing what is important to our customers and we
13 strive to deliver quality customer service to all customers—safely, reliably, and
14 affordably—always looking to improve our ease of interaction and our focus on
15 sustainability.

16 Here in Western Washington, we live in one of the fastest growing economies in
17 the United States, and we are fortunate to have a wide array of businesses in the
18 region, including Amazon, Boeing, Microsoft, Starbucks, Costco and Expedia, to
19 name a few. These companies are experiencing tremendous growth. Given this, it
20 is not surprising that a large portion of our customer base is tech-savvy and
21 expects us to be as well. These customers do not compare PSE to other utilities;

1 they compare PSE to Amazon and Starbucks, and they expect to have the same
2 ease of interaction and level of service from PSE.

3 **Q. How has PSE addressed customers' demands for ease of interaction and a**
4 **high-tech customer service?**

5 A. For several years we have been focused on how to improve our customers'
6 experience at PSE. Through our "Get To Zero" initiative, we seek to transform
7 how the customer interacts with our customer service agents, and also how
8 technology monitors, integrates and communicates internally and operationally.
9 The initiative began as an effort to more effectively deal with customer
10 complaints about outages, billing, payments, and the move-in/move out
11 experience. We have spent time building an understanding of customers' issues
12 and the ways we can improve our interactions and communications with
13 customers. We analyzed our internal tools, processes, and challenges, and we
14 benchmarked our performance against the best in our industry and in other
15 industries. Our plan includes the integration of advanced metering, online and
16 mobile technology, integrated work management tools and robust communication
17 options for our customers.

18 **Q. Has PSE's board been supportive of these customer focused initiatives?**

19 A. Yes. Annually, the board reviews and approves PSE's operational budgets that are
20 built off the key driving initiatives and projects that are tied to the Integrated
21 Strategic Plan. Further, the board expressly supports PSE's business efforts and
22 requires regular updates regarding the progress towards fulfillment of our efforts.

1 **Q. Are there other notable customer expectations that PSE strives to meet?**

2 A. Yes, in general our customers embrace sustainability and environmental
3 stewardship, and they expect PSE to do the same. We live in a beautiful corner of
4 the world, and many of our customers are focused on preserving and protecting
5 the beautiful, natural environment we enjoy. PSE is focused on this also. PSE has
6 been a leader in wind generation, cost-effective conservation, and energy
7 efficiency for many years. We are helping the state of Washington transition away
8 from coal. We have established tariffs that allow residential and commercial
9 customers to choose green, renewable energy. Additionally, in recognition of the
10 fact that 43 percent of the state's emissions come from transportation, we are
11 promoting cleaner options for transportation fuel, including electricity and
12 alternative fuels.

13 **Q. Please summarize the accomplishments PSE has achieved since the**
14 **acquisition of Puget Energy by a consortium of investors in 2009.**

15 A. Under the private ownership that has been in place since 2009, PSE has taken
16 actions and made investments that benefit its customers and the community, and
17 has worked constructively with the Commission and stakeholders. PSE intends to
18 continue working with its customers and stakeholders to pursue these and other
19 similar goals. Some of the accomplishments PSE has made under private
20 ownership in the last decade include:

- 21 • Sustaining and growing a company-wide safety culture benefitting
22 customers and employees, with emphasis on areas such as pipeline
23 safety, gas leak detection and mitigation, emergency response

1 services, and spill prevention and management, among others. We
2 achieved first quartile national electric utility ranking for employee
3 safety for the last five years.

- 4 • Helping Washington state transition away from coal, with the
5 retirements of Colstrip Units 1 and 2 no later than July 2022 and
6 the Centralia Coal Plant by 2025.
- 7 • Bringing more clean energy to the Northwest with the expansion of
8 the Wild Horse Wind Project, construction of the Lower Snake
9 River Wind Project, and upgrades and modernization of the Baker
10 River and Snoqualmie River hydroelectric facilities. PSE is the
11 largest producer of wind energy in Washington state, and the third
12 largest utility owner of wind power in the nation.
- 13 • Investing \$1 billion in customers' homes and businesses to help
14 them reduce their energy use and consistently exceed all state-
15 mandated energy conservation savings targets.
- 16 • Creating an innovative industry-leading renewable energy program
17 for PSE's large business and municipal customers to enable
18 100 percent renewable generation now.
- 19 • Launching the Pacific Northwest's first utility-led electric vehicle
20 program with at-home fast charging units.
- 21 • Investing more than \$7 billion in electric and natural gas projects,
22 improving critical infrastructure on which PSE's communities
23 depend.
- 24 • Earning recognition as a national leader (first quartile) in
25 Corporate Citizenship, Communications, Outage Information,
26 Environmental Stewardship, Billing & Payment, Price, and Energy
27 Efficiency by J. D. Power surveys 2017-2018.

28 **Q. Has PSE been able to keep its rates in line with other area utilities?**

29 A. Yes, PSE has been able to accomplish much while keeping rates in line with other
30 surrounding utilities. The average monthly PSE residential electric bill, based on
31 monthly usage of 1,000 kWh, is lower than both Seattle City Light and
32 Snohomish PUD as of July 1, 2018.

1 **IV. THE PROPOSED TRANSACTIONS WILL NOT AFFECT**
2 **PSE'S DAY-TO-DAY OPERATIONS OR MANAGEMENT**

3 **Q. Do you foresee changes to the operations of PSE as a result of the Proposed**
4 **Transactions?**

5 A. No. Upon completion of the Proposed Transactions, I expect PSE to continue
6 operating as we have operated over the past several years. The change in upstream
7 owners will not affect PSE's day-to-day operations. Nearly a quarter of the
8 ownership interest held by Macquarie is being purchased by existing indirect
9 owners of PSE who want to increase their ownership share. I consider this to be a
10 vote of confidence in the current operations and management of PSE. The two
11 new investors in Puget Holdings are like-minded, institutional investors, who
12 elected to purchase an indirect ownership interest in PSE precisely because it is a
13 well-managed company.

14 **V. THE PSE BOARD OF DIRECTORS WILL CONTINUE TO**
15 **INCLUDE LOCAL DIRECTORS AND AN INDEPENDENT**
16 **DIRECTOR**

17 **Q. How will the membership of the board change as a result of the Proposed**
18 **Transactions?**

19 A. Macquarie will no longer hold a direct or indirect ownership interest in Puget
20 Holdings or PSE, and therefore will no longer serve on the PSE Board of
21 Directors or on the boards of any of PSE's parent companies. The remaining
22 existing investors in Puget Holdings, including CPPIB, and the two new investors,
23 will be represented on the boards of PSE and its parent companies.

1 **Q. Will the PSE Board of Directors include independent directors?**

2 A. Yes, the new investors in Puget Holdings have acknowledged and affirmed the
3 commitment and condition to the 2008 Acquisition Order that requires the board
4 of directors for PSE to include one independent director and at least three
5 directors who are residents of Washington state, one of whom shall be the CEO of
6 PSE. Additionally, the board of directors of Puget Energy will include at least two
7 directors who are residents of Washington state, one of whom shall be the CEO of
8 PSE. These commitments ensure that valuable insights and governance
9 contributions are made by locally-based and experienced board members.

10 **VI. THE PROPOSED TRANSACTIONS ARE CONSISTENT**
11 **WITH THE PUBLIC INTEREST**

12 **Q. Are the Proposed Transactions consistent with the public interest?**

13 A. Yes. As I have discussed throughout my testimony, the Proposed Transactions
14 involve a change in a minority, non-controlling, upstream interest in PSE's parent
15 company, Puget Holdings, and will not affect PSE's day-to-day operations and
16 will not harm customers. All the ongoing commitments—including the ring-
17 fencing commitments that protect customers from potential risks associated with
18 upstream ownership changes—that were put in place in 2008 will remain, with
19 minor clarifications and updates as discussed in the Prefiled Direct Testimony of
20 David E. Mills, Exh. DEM-1T and the Prefiled Direct Testimony of Daniel A.
21 Doyle, Exh. DAD-1T. The purchasers have also acknowledged and affirmed
22 commitments made by PSE regarding Puget LNG and Colstrip in more recent

1 settlement agreements approved by the Commission. Additionally, the purchasers
2 have committed that they support the goal of reducing PSE's carbon footprint by
3 50 percent by 2040.

4 The new and existing investors are each well-qualified, institutional investors,
5 with significant experience investing in the energy sector, renewable energy and
6 regulated utilities. Their investment philosophies match well with PSE's business
7 model, creating an important and strong alignment of purpose. They are
8 committed to sustainability and carbon reduction, and they are committed to
9 PSE's mission statement to be Safe. Dependable. Efficient. We plan to continue
10 accomplishing great things at PSE, and we welcome the commitment, experience,
11 and guidance these new investors will provide.

12 VII. CONCLUSION

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

14 **A. Yes, it does.**