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2007 MERGER PROCEEDING
WITNESS: LINCOLN WEBB

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of **PUGET HOLDINGS LLC** **And** **PUGET SOUND ENERGY, INC.** **For an Order Authorizing Proposed Transaction**	**Docket No. U-072375**

THIRD EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
LINCOLN WEBB
ON BEHALF OF PUGET HOLDINGS LLC

JULY 2, 2008

PRI

An initiative of the
UN Secretary-General
implemented by
UNEP Finance Initiative
and the
UN Global Compact

Principles for Responsible Investment

THE GLOBAL COMPACT

UNEP Finance Initiative
Innovative financing for sustainability

Message from the UN Secretary-General

In early 2005, I invited a group of leaders from the international investment community to develop a set of global best-practice principles for responsible investment. That initiative had its roots in the growing understanding that while finance fuels the global economy, investment decision-making and ownership practices do not sufficiently reflect social and environmental considerations. Indeed, I was concerned that the tenets of sustainable development, despite increasingly strong political backing and grassroots support, would continue to have a hard time gaining traction unless they were better integrated into investment analysis and assessment.

One of the main problems has long been the troubling disconnect between corporate responsibility as a broadly stated management imperative, and the actual behaviour of financial markets, which are too often guided primarily by short-term considerations at the expense of longer-term objectives. In recent years, even as more and more companies have embraced corporate responsibility – including through the UN Global Compact initiative – their efforts, with only rare exceptions, have not been recognized or rewarded by the financial community. This does not mean there is a lack of interest or desire on the part of investors. Rather, the predominant factor has been the absence of a set of common guidelines that individual and institutional investors can use to assess risks and opportunities fully.

The Principles for Responsible Investment respond to this need. Developed by leading institutional investors in a process overseen by the UN Environment Programme Finance Initiative and the UN Global Compact, the Principles include environmental, social and governance criteria, and provide a framework for achieving better long-term investment returns and more sustainable markets. It is my hope that the Principles will help to align investment practices with the goals of the United Nations, thereby contributing to a more stable and inclusive global economy. I invite institutional investors and their financial partners everywhere to embrace the Principles and bring them to life in their daily activities and decision-making. By acting collectively on the basis of the Principles for Responsible Investment, we can help protect all the world's precious assets.

Kofi A. Annan
UN Secretary-General

There is a growing view among investment professionals that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. Investors fulfilling their fiduciary (or equivalent) duty therefore need to give appropriate consideration to these issues, but to date have lacked a framework for doing so. The Principles for Responsible Investment provide this framework.

The Principles are voluntary and aspirational. They are not prescriptive, but instead provide a menu of possible actions for incorporating ESG issues into mainstream investment decision-making and ownership practices.

Signing represents a very real commitment to the Principles, demonstrating support from the top-level leadership of the whole investment business. And applying the Principles should not only lead to better long-term financial returns but also a closer alignment between the objectives of institutional investors and those of society at large.

Developing the Principles for Responsible Investment

In early 2005 the United Nations Secretary-General invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment (PRI). Individuals representing 20 institutional investors from 12 countries agreed to participate in the Investor Group. The Group accepted ownership of the Principles, and had the freedom to develop them as they saw fit.

The Group was supported by a 70-person multi-stakeholder group of experts from the investment industry, intergovernmental and governmental organizations, civil society and academia. The process, conducted between April 2005 and January 2006 involved a total of five days of face-to-face deliberations by the investors and four days by the experts, with hundreds of hours of follow-up activity. The Principles for Responsible Investment emerged as a result of these meetings.

The process was coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact. The PRI reflects the core values of the group of large investors whose investment horizon is generally long, and whose portfolios are often highly diversified. However, the Principles are open to all institutional investors, investment managers and professional service partners to support.

Following the launch of the Principles, Phase 2 of the process will promote adoption of the Principles by additional investors, provide comprehensive resources to assist investors in implementing the Principles and actions, and facilitate collaboration among signatories.

The Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

4 We will promote acceptance and implementation of the Principles within the investment industry.

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

5 We will work together to enhance our effectiveness in implementing the Principles.

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

6 We will each report on our activities and progress towards implementing the Principles.

Possible actions:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'[1] approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

1. The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

Frequently asked questions

What is the overall goal of the Principles for Responsible Investment (PRI) project?

The Principles for Responsible Investment aim to help integrate consideration of environmental, social and governance (ESG) issues by institutional investors into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries.

Why do we need these principles?

Institutional investors have a duty to act in the best interests of those for whose assets they are responsible. This duty involves giving appropriate consideration to any factor, including ESG issues, that materially affects performance.

Despite much important work in this area for several years by asset owners and investment managers, large institutional investors lack a framework for the systematic integration of ESG issues into investment decision-making and ownership practices. The PRI provides this framework.

Who developed the Principles for Responsible Investment?

The Principles were developed by a group of investment professionals representing 20 large institutional investors from 12 countries who came together at the invitation of the UN Secretary-General, Kofi Annan. They were supported by a 70-person multi-stakeholder group of experts from the investment industry, intergovernmental and governmental organizations, civil society and academia.

The process was coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact.

How will implementing the Principles influence returns?

Implementing the Principles will lead to a more complete understanding of a range of material issues, and this should ultimately result in increased returns and lower risk. Signatories will be part of a network, which creates opportunities to pool resources, lowering the costs of research and active ownership practices. The Principles also allow investors to work together to address a range of systemic problems that, if remedied, may then lead to more stable, accountable and profitable market conditions overall.

What are the implications for fiduciary duty?

The Principles are based on the premise that ESG issues can affect investment performance and that the appropriate consideration of these issues is part of delivering superior risk-adjusted returns and is therefore firmly within the bounds of investors' fiduciary duties. The Principles clearly state they are to be applied only in ways that are consistent with those duties.

How do the Principles relate to Socially Responsible Investment (SRI)?

The Principles are designed to be compatible with the investment styles of large, diversified institutional investors that operate within a traditional fiduciary framework. The Principles apply across the whole investment business and are not designed to be relevant only to SRI products. However, the Principles do point to a number of approaches – such as active ownership and the integration of ESG issues into investment analysis – that SRI and many corporate governance fund managers also practise.

Do the Principles call for exclusion or screening out of particular companies or sectors?

No. The Principles suggest a policy of engagement with companies rather than screening or avoiding stocks based on ESG criteria (although this may be an appropriate approach for some investors). The Principles are generally designed for large investors that are highly diversified and have large stakes in companies, often making divestment or avoidance impractical.

What does this mean for the investment supply chain?

For institutional investors to make these Principles work, they will need to encourage a change in the way that their agents incorporate ESG issues into their processes. Principles 1 and 4 have some suggestions on how this may be done. It is also likely that the supply chain – fund managers, analysts and consultants – will respond to the Principles by offering products and services to help in implementation.

How will the PRI help investors in their day-to-day work?

The PRI provides investors with a high-level framework for integrating ESG issues into investment decisions. And as signatories develop policies and procedures for integration, the PRI secretariat will be on hand to help investors implement them.

The PRI will also stimulate better research on the impacts of these issues on investments, which will lead to a broader range of products and services for investors.

What are the benefits of signing?

Benefits for signatories include:

- a common framework for integrating ESG issues
- implementation support from a PRI secretariat that will produce guidance materials and facilitate working groups exploring issues of common interest
- access to examples of good practice from a global network of peers (including many of the world's largest institutional investors)
- opportunities to collaborate with other signatories, reducing research and implementation costs
- reputational benefits from publicly demonstrating top-level commitment to integrating ESG issues.

Who can sign?

There are three main categories of signatory. Commitment is expected from the top-level leadership of the organisation across the whole investment business.

Asset owner: Organizations that represent end-asset owners who hold long-term retirement savings, insurance and other assets. Examples include pension funds, government reserve funds, foundations, endowments, insurance and reinsurance companies and depository organizations. This is the principal category of signatory.

Investment manager: Investment management companies that serve an institutional and/or retail market and manage assets as a third-party provider.

Signatories self-select the category they fall into, but the Board of the PRI will reserve the right to make category adjustments if appropriate. While the categories are not designed to be overly prescriptive, the general rule is that an investor would be considered an asset owner rather than an investment manager if it manages more of its own funds than of third-party clients.

Professional service partner: Organizations that offer products or services to asset owners and/or investment managers. Although such professional service partners are not stewards or managers of assets in their own right, they do have considerable influence over how their clients address ESG issues. For this group, becoming a signatory is an acknowledgement of the relevance of ESG issues to investment management. It also represents a commitment to providing services that support the implementation of the Principles by clients, and to improving such services over time.

Can we sign up on behalf of our SRI fund or ESG practice only?

No. The objective is for the Principles to be integrated within the mainstream investment and ownership practices across the investment functions of an entire organization. They are not just applicable within specific asset classes or product lines (this applies for all categories of signatory). The Principles have been designed as a commitment from the top-level leadership of the whole investment business. It is recognized that this may take some time, but on balance, the drafting signatories believe that a whole-of-organization commitment is important to the mainstreaming process.

Does signing involve a financial commitment?

There is no compulsory fee associated with signing the Principles. However, there is a suggested (but entirely voluntary) fee of $5,000-10,000 to help the work of the secretariat in supporting signatories and promoting the Principles.

What resources will be required to implement the Principles?

Investors will choose to implement the Principles in different ways, and those choices will affect resource requirements. At a minimum, institutions should allocate sufficient staff time to properly understand the types of activities that are suggested in the Principles, investigate how other investors have used them and begin the implementation process.

What happens if we sign but can't comply?

There are no legal or regulatory sanctions associated with the Principles. They are designed to be voluntary and aspirational. There may be reputational risks associated with signing up and then failing to take any action, but the commitments are, for most signatories, a work in progress and a direction to head in rather than a prescriptive checklist with which to comply. The initial focus is on innovation, collaboration and learning by doing. As the project develops over time, the Board will consider how signatories can monitor and report on progress.

Who governs the Principles for Responsible Investment project?

The Principles will be governed by a board, a majority of whom will be asset owners, elected from within the asset owner category of signatories. The UN will be represented and there will be space for additional members to be appointed by the board as required.

What difference will the Principles make in the world?

While these Principles are designed to enhance the delivery of long-term returns to beneficiaries, their implementation will also focus greater attention on ESG issues throughout the investment and corporate sectors. New research and better metrics will be developed to support investors as they become increasingly active owners. Encouraged to adopt a more systematic approach to managing ESG issues, corporate management will take more interest in these extra-financial drivers of risk and reward, which will come to define corporate profitability in the medium and longer term. In this way, the Principles for Responsible Investment will contribute to improved corporate performance on environmental, social and governance issues.

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