

**EXHIBIT NO. \_\_\_(LW-1T)  
DOCKET NO. U-072375  
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**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF  
LINCOLN WEBB  
ON BEHALF OF PUGET HOLDINGS LLC**

**JULY 2, 2008**

**PUGET HOLDINGS LLC**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF  
LINCOLN WEBB**

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1 **PUGET HOLDINGS LLC**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**  
3 **LINCOLN WEBB**

4 **I. INTRODUCTION**

5 **Q. Will you please state your name and business address?**

6 A. My name is Lincoln Webb. My business address is Sawmill Point, 2940 Jutland  
7 Road, Victoria, British Columbia, Canada, V8T 5K6.

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

9 A. I am employed by the British Columbia Investment Management Corporation  
10 (“bcIMC”) as Vice President, Private Placements, and in furtherance of my  
11 duties, I also serve as President of 6860141 Canada Inc., the trustee of Padua  
12 Investment Trust, which was created by bcIMC to make an investment in PSE.

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

15 A. Yes, I have. It is Exhibit No. \_\_\_\_ (LW-2).

16 **Q. Please summarize the purpose of your rebuttal testimony.**

17 A. This rebuttal testimony responds to criticisms by the Staff of the Washington  
18 Utilities and Transportation Commission (“Commission Staff”) and the Public

1 Counsel Section of the Washington State Attorney General’s Office (“Public  
2 Counsel”) regarding the structure of the transaction, the duration of the proposed  
3 transaction, and the governance model to be employed by the Investor  
4 Consortium for each of Puget Energy, Inc. (“Puget Energy”) and Puget Sound  
5 Energy, Inc. (“PSE”).

6 **II. bcIMC IS AN EXPERIENCED INVESTOR WITH AN**  
7 **INTEREST IN LONG-TERM INVESTMENTS**  
8 **IN QUALITY ASSETS, SUCH AS PSE**

9 **Q. What is bcIMC?**

10 A. bcIMC is a trust company authorized to carry on trust and investment  
11 management services on behalf of its clients. bcIMC was created by special act  
12 of the British Columbia government, the *Public Sector Pension Plans Act*, S.B.C.  
13 1999 c. 44 (the “Act”), to form and manage pooled investment portfolios on  
14 behalf of trust funds, special funds and public monies of government bodies and  
15 designated institutions, however, it operates at arm’s length from government.  
16 bcIMC’s investment activities help to finance the retirement benefits of more than  
17 400,000 residents of the Province of British Columbia including college  
18 instructors and staff, municipal and healthcare workers, firefighters, police  
19 officers, public servants and teachers; the staff and faculty at the University of  
20 Victoria; and employees of WorkSafeBC, Insurance Corporation of British  
21 Columbia amongst others. In addition, bcIMC’s investment activities help to  
22 finance the insurance funds that cover almost two million workers and 173,000

1 employers in the Province of British Columbia. Please see Exhibit No. \_\_\_(LW-  
2 3) for a copy of the 2006-2007 Annual Report for information about bcIMC.

3 **Q. What is the value of assets under administration of bcIMC?**

4 A. bcIMC is one of the largest institutional investors in Canada, with assets under  
5 management of C\$85.016 billion as of March 31, 2008. bcIMC has holdings in  
6 all major asset classes, including short-term and fixed income securities,  
7 mortgages, Canadian, US and international equities, as well as private  
8 placements, real estate, infrastructure and currency. Public and private equity  
9 holdings include shares in more than 3,000 companies around the globe.

10 **Q. Are the assets under administration of bcIMC growing?**

11 A. bcIMC's asset base is growing and its four-year growth history is demonstrated in  
12 the table below:

	Mar. 31, 2005	Mar. 31, 2006	Mar. 31, 2007	Mar. 31, 2008
Assets Under Management	C\$67.310 billion	C\$76.253 billion	C\$83.444 billion	C\$85.016 billion

13 **Q. Please describe the investment objectives of bcIMC.**

14 A. bcIMC is accountable to its clients to provide professional fund management for  
15 all asset classes. bcIMC seeks to exercise the highest standards of prudence and  
16 fiduciary responsibility to deliver the highest return for a given level of risk at a  
17 reasonable cost. bcIMC's investment philosophy and approach includes the  
18 following principles and beliefs:

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- Asset allocation is the primary determinant of risk and return and accordingly strategies are customized to reflect the purpose of each fund, its investment time horizon, legal constraints, liquidity requirements and the risk tolerance of governing fiduciaries.
- bcIMC exists to serve its clients; this not only means managing clients' assets in a prudent and appropriate fashion, but also helping trustees and other governing fiduciaries understand the implications of key decisions made on behalf of funds.
- Managing risks is as important as generating rates of return and is accomplished through prudent investment diversification, a disciplined approach to asset management, extensive due diligence of investment opportunities, and active monitoring of investments.
- Good investment performance results from maintaining a high level of professional expertise among bcIMC's staff and external fund managers.
- bcIMC considers the implications of its investments on governance, society and the environment in making investment decisions on behalf of its clients.

**Q. What is the magnitude of bcIMC's investments in infrastructure assets?**

A. bcIMC's Strategic Investments and Infrastructure Program, valued at over C\$2.64 billion at March 31, 2008, was established in 2002 to offer clients the ability to gain investment exposure to long-term interests in tangible assets traditionally associated with the core infrastructure of modern economies. bcIMC's asset base, the forecast growth in its assets, as well as the existing infrastructure asset allocation together provide significant room for the acquisition of additional infrastructure investments and additional equity commitments to existing portfolio investments.

1 **Q. Is bcIMC an active investor in infrastructure assets?**

2 A. bcIMC's Strategic Investment and Infrastructure Program has made significant  
3 infrastructure investments and has committed substantial capital to future  
4 investments in infrastructure assets. The program has holdings in North America,  
5 Europe and Latin America. Major direct investments have been made in water  
6 utilities (Corix, Thames Water, and Aquarion Company) and energy and power  
7 companies (Transelec SA and InterGen NV). Our investments are based on  
8 thorough due diligence and made with a commitment to good governance and  
9 respect for environmental and social principles.

10 bcIMC is committed to a responsible investment program that is consistent with  
11 its risk/return duty as a fiduciary and the values of the pension plan and trust  
12 beneficiaries bcIMC serves. bcIMC takes an active ownership approach to its  
13 equity investments and encourages positive environmental, social, and  
14 governance (ESG) practices in its voting decisions, direct company contact, and  
15 responses to regulators and policymakers, including working collaboratively with  
16 other shareholders. bcIMC is a member of the investor coalitions listed in the  
17 chart below.

<b>Coalition Memberships</b>	<b>Since</b>
Canadian Coalition for Good Governance (CCGG)	2003
International Corporate Governance Network (ICGN)	2004
Asian Corporate Governance Association (ACGA)	2005
Investor Network on Climate Risk (INCR)	2006
United Nations Environment Program Finance Initiative (UNEP FI)	2006
Carbon Disclosure Project (CDP)	2006

1 As a signatory to the United Nations Principles for Responsible Investment,  
2 bcIMC has voluntarily committed to consider the impact that non-financial  
3 considerations may have on long-term investment performance. As signatories,  
4 bcIMC has agreed to include environmental, social, and governance (ESG) issues  
5 in making its investment decisions, to collaborate on implementation of  
6 principles, to become active equity owners, to request good ESG disclosure by  
7 companies, and to report on bcIMC's ESG accomplishments. Please see Exhibit  
8 No. \_\_\_(LW-4) for a copy of the UN Principles to which bcIMC has ascribed.  
9 bcIMC also is a signatory, together with other investors, to the Declaration on  
10 Climate Change through the UN Environment Program, which emphasizes the  
11 importance of setting standards to reduce greenhouse gas emissions.

12 **Q. Why does bcIMC consider infrastructure assets to be good investments?**

13 A. bcIMC typically makes investments in infrastructure assets that are stable cash-  
14 yielding assets, which, over a long-term period, offer the potential to produce  
15 moderate returns in a relatively low risk context. Often the resulting cash flows  
16 generated by these assets are indexed to inflation and are therefore appropriate for



1 holding periods of well in excess of ten years. Longer hold periods are aligned  
2 with the long-term focus and liability streams of many of bcIMC's clients.

3 **III. THE MEMBERS OF THE INVESTOR CONSORTIUM**  
4 **WILL SERVE AS EXCELLENT**  
5 **CORPORATE STEWARDS FOR PSE**

6 **Q. Is Public Counsel's assertion that Puget Holdings LLC is a partnership in**  
7 **which "Macquarie is the general or lead partner and the other members of**  
8 **the Investor Consortium are the limited partners" correct? (Exhibit**  
9 **No. \_\_\_(SGH-1THC) at page 13, lines 1-3.)**

10 A. Public Counsel's assertion is not correct. First, Puget Holdings LLC is a limited  
11 liability company and not a limited partnership. Second, bcIMC is not  
12 participating in the investment as a passive partner, rather, it expects to be an  
13 active shareholder and will assume a voting seat on the boards of Puget  
14 Holdings LLC and Puget Energy/PSE. bcIMC is committed to exercising the  
15 highest standards of prudence and fiduciary responsibility and has actively  
16 negotiated governance arrangements with the Investor Consortium to ensure that  
17 its voice is heard and its vote counts at the board table.

18 Before the signing of the Merger Agreement, bcIMC actively negotiated  
19 governance terms with the Investment Consortium. The LLC Agreement Term  
20 Sheet sets out standard terms that will govern the relationship among the Investor  
21 Consortium as arms-length participants, thereby preserving the interests of  
22 minority investors and not permitting undue influence on the part of any one

1 member of the Investment Consortium. In particular, bcIMC will have the right  
2 to appoint one director and one observer to the boards based on its proposed  
3 equity interest of 14.1%. Voting thresholds, majority and supermajority, have  
4 been set to avoid undue influence by any one party. In addition provisions have  
5 been agreed which preclude parties from voting on issues in which they have a  
6 conflict of interest.

7 From a governance perspective, bcIMC's intention is to further its interests and  
8 those of PSE's stakeholders by ensuring that PSE continues to carry out its public  
9 service responsibilities and regulatory contract in a safe, efficient, and effective  
10 manner. As part of this commitment, bcIMC supported and fully endorsed the  
11 appointment of William Ayer, Herbert Simon, and Stephen Reynolds as local  
12 directors to the board of PSE.

13 bcIMC strongly disagrees with the inference by Public Counsel that Macquarie is  
14 the general partner and the "other" members of the Investor Consortium are  
15 "passive" limited partners. *See* Exhibit No. \_\_\_(SGH-1THC) at page 12, lines 9,  
16 through page 15, line 7. This characterization does not reflect the structure of the  
17 legal agreements in place, the governance term sheets carefully negotiated by the  
18 Investor Consortium, or the role of the Investor Consortium in pursuing the  
19 acquisition. Public Counsel's comments fail to recognize that Macquarie is but  
20 one partner in the Investment Consortium and does not control the Investment  
21 Consortium.

1 **Q. What is the intention of bcIMC with regards to the management of its**  
2 **investment?**

3 A. bcIMC intends to work with the new board of directors and senior management of  
4 PSE to help provide governance to PSE. bcIMC also plans to participate on  
5 subcommittees of the Board. With respect to the day-to-day operations of PSE, as  
6 is typical with our infrastructure investments, bcIMC will rely on the  
7 demonstrated capabilities of existing local management and staff of PSE.

8 **Q. What will be the role of bcIMC in the corporate governance of PSE?**

9 A. As noted above, bcIMC will have a right to appoint one director and one observer  
10 to the board of directors based on its expected equity interest of 14.1%.

11 **Q. Will bcIMC play an active role in the day-to-day management issues of PSE,**  
12 **such as customer satisfaction, reliable service, and investment in**  
13 **infrastructure?**

14 A. bcIMC will not play an active role in the day-to-day management of PSE, rather,  
15 through our position on the Board. bcIMC will oversee the activities and  
16 performance of senior management. It is in bcIMC's best interests, and the best  
17 interests of the Investor Consortium, to ensure that the PSE management team  
18 continues to operate PSE in a safe, effective and efficient manner.

1 **Q. Does bcIMC view its interests in the Proposed Transaction as a short-term or**  
2 **long-term investment?**

3 **A.** bcIMC seeks to hold investments in infrastructure investments, such as Puget  
4 Energy, for the long term. With a long-term view, bcIMC expends significant  
5 resources and carefully reviews opportunities before making investment  
6 commitments.

7 bcIMC made an initial commitment to an investment in Puget Energy of \$445  
8 million, representing 14.1% of total equity requirements of \$3.2 billion. This  
9 investment commitment was made after a thorough due diligence process that  
10 included a team of bcIMC investment professionals as well as external advisors,  
11 and after careful consideration of each of the investment partners. As experienced  
12 infrastructure investors, bcIMC carefully reviewed the merits and risks of the  
13 proposed investment. bcIMC's analysis and review included, but was not limited,  
14 to the following:

- 15 ■ Review and sign-off of due-diligence undertaken by the team of  
16 independent advisors, including follow-up discussions with advisors.  
17 Through this process, all significant modeling assumptions were vetted,  
18 including estimates of non-discretionary and discretionary capital  
19 expenditures.
- 20 ■ Review and financial modeling of business aspects of the transaction, key  
21 assumptions and sensitivity analysis of financial forecasts. In conducting  
22 its due diligence, bcIMC carefully considered key transaction risk  
23 elements and developed sensitivities of key variables. In addition, bcIMC  
24 stress tested returns and solvency by assuming a downside case for key  
25 drivers.

1 After a lengthy due-diligence, analysis, negotiating, and structuring process,  
2 bcIMC concluded that it was prepared to make a sizeable investment commitment  
3 to PSE in support of its on-going operations and public service requirements.

4 The intention of bcIMC is to maintain an investment in Puget Energy over the  
5 long term. bcIMC's clients do not require bcIMC to dispose of assets within a  
6 specific time frame. The arrangements made by bcIMC with the Investment  
7 Consortium do not reflect a limited life.

8 **Q. Is Public Counsel correct that the Investor Consortium “has to ultimately**  
9 **liquidate the investment in order to return capital to the” Investor**  
10 **Consortium? (Exhibit No. \_\_\_(SGH-1HCT) at page 32, lines 20-21.)**

11 A. This assertion is incorrect as bcIMC's pension clients, who would ultimately be  
12 invested in Puget Holdings LLC, are active pension funds and do not have a  
13 stated finite life. In undertaking investment due diligence, the key consideration  
14 in return analyses was receiving stable distributions over an extended period of  
15 time rather than a one time sale of the company.

16 **Q. What priority will bcIMC give to PSE's capital requirements?**

17 A. As with all significant investments made by bcIMC, we will continue to monitor  
18 the PSE's ongoing capital needs and requirements to continue operations in an  
19 efficient and effective manner. Through the investment due diligence process,  
20 bcIMC has a thorough understanding of PSE's future capital expenditure plan and

1 fully supports the strategy of developing PSE's generation capabilities, which, in  
2 turn, are expected to provide significant benefits to PSE's customers.

3 **Q. Would bcIMC be willing to invest more equity into Puget Holdings LLC if**  
4 **the opportunity arises?**

5 A. As bcIMC continues to expand its infrastructure investment portfolio, it  
6 welcomes the opportunity to invest additional equity capital in the growth and  
7 development of infrastructure companies such as PSE.

8 **Q. What is the expectation of bcIMC with respect to returns likely to be earned**  
9 **by PSE if the proposed transaction were approved by the Commission?**

10 A. bcIMC expects to earn a return on its investment in Puget Energy that is  
11 commensurate with the risks of its investment. PSE is a well-managed low risk  
12 enterprise, and bcIMC's return expectations are accordingly moderate. bcIMC  
13 strongly disagrees with the inferences of Public Counsel that liken the Proposed  
14 Transaction to traditional leveraged buyouts/private equity transactions  
15 characterized by higher leverage levels, shorter investment timelines, higher risks  
16 and therefore higher required investor returns. *See* Exhibit No. \_\_\_(SGH-1THC)  
17 at page 12, line 8, through page 28, line 4.

18 bcIMC disagrees that the Proposed Transactions shares attributes with traditional  
19 leveraged buyouts/private equity investments and would not have made the  
20 decision to invest in the Proposed Transaction if that were the case. bcIMC

1 considers its investment in PSE to be lower risk than those associated with  
2 traditional leveraged buyouts/private equity investments, and bcIMC has adjusted  
3 its return expectations to fall within its infrastructure portfolio of assets because  
4 bcIMC's return expectations are lower for the Proposed Transaction than would  
5 be expected from a traditional leveraged buyouts/private equity investment.

6 **IV. CONCERNS OF PUBLIC COUNSEL WITH RESPECT TO**  
7 **MACQUARIE**

8 **Q. Has bcIMC previously partnered with a Macquarie entity in any**  
9 **investment?**

10 A. Yes. bcIMC has invested alongside Macquarie entities in two water utilities—  
11 Thames Water and Aquarion Company. Furthermore, bcIMC is a limited partner  
12 in four Macquarie unlisted funds.

13 **Q. Does bcIMC have a concern with respect to Macquarie?**

14 A. Macquarie is viewed as an experienced and capable investment partner. The  
15 RiskMetrics report provided by Public Counsel as Exhibit No. \_\_\_(SGH-5)  
16 focuses on publicly-traded infrastructure funds and does not address the  
17 investment structure relevant to this transaction. The Investor Consortium has  
18 worked hard to ensure that shareholder arrangements reflect standard arms-  
19 lengths terms, which are congruent with, and supportive of, Puget Energy's and  
20 PSE's business plan goals, commitments and public service obligations. bcIMC  
21 and the other members of the Investor Consortium have negotiated a clear set of

1 governance rights with respect to this transaction and expect that all services  
2 provided to Puget Energy and PSE, whether by Macquarie or any other advisor,  
3 will be procured on market terms.

4 **V. CONCLUSION**

5 **Q. Does that conclude your prefiled rebuttal testimony?**

6 A. Yes.