

**EXHIBIT NO. ___(MW-1T)
DOCKET NO. U-072375
2007 MERGER PROCEEDING
WITNESS: MARK WISEMAN**

**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
MARK WISEMAN
ON BEHALF OF PUGET HOLDINGS LLC**

JULY 2, 2008

PUGET HOLDINGS LLC

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
MARK WISEMAN**

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1 **PUGET HOLDINGS LLC**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **MARK WISEMAN**

4 **I. INTRODUCTION**

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

6 A. My name is Mark Wiseman. My business address is One Queen Street East,
7 Suite 2600, P.O. Box 101, Toronto, Ontario, Canada M5C 2W5.

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

9 A. I am employed by the Canada Pension Plan Investment Board (the “CPP
10 Investment Board” or “CPPIB”) as the Senior Vice President – Private
11 Investments.

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

14 A. Yes, I have. It is Exhibit No. ____ (MW-2).

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

16 A. This rebuttal testimony responds to criticisms of the Staff of the Washington
17 Utilities and Transportation Commission (“Commission Staff”) and the Public
18 Counsel Section of the Washington State Attorney General’s Office (“Public

1 Counsel”) regarding the structure of the transaction, the duration of the proposed
2 transaction, and the governance model to be employed by the Investor
3 Consortium for each of Puget Energy, Inc. (“Puget Energy”) and Puget Sound
4 Energy, Inc. (“PSE”).

5 **II. THE CPP INVESTMENT BOARD IS AN EXPERIENCED**
6 **INVESTOR WITH AN INTEREST IN LONG-TERM**
7 **INVESTMENTS IN QUALITY ASSETS, SUCH AS PSE**

8 **Q. What is the CPP Investment Board?**

9 A. CPP Investment Board is a Crown corporation created by an Act of Parliament in
10 December 1997. Its long-term goal is to contribute to the financial strength of the
11 Canada Pension Plan (“CPP”) and help sustain the pensions of 17 million
12 CPP contributors and beneficiaries by investing CPP assets (i.e., the funds not
13 needed by the CPP to pay current benefits) and to maximize returns without
14 undue risk of loss.

15 Contributions to the CPP are expected to exceed annual benefits paid through to
16 the end of 2019, providing a 12-year period before a portion of the investment
17 income is needed to help pay pensions. The Chief Actuary of Canada has
18 projected that CPP assets will grow to approximately C\$250 billion by 2016 and
19 that the CPP, as constituted, is sustainable throughout the 75-year period of his
20 report.

21 To diversify the portfolio of CPP assets further, the CPP Investment Board is

1 currently investing cash flows in a diversified portfolio of public equities, private
2 equities, real estate, inflation-linked bonds, infrastructure and fixed income. The
3 CPP Investment Board has invested approximately C\$65.1 billion in Canada
4 through a broadly diversified portfolio, while the rest is invested globally so that
5 income from these investments is available to help pay future pensions.

6 Our governance structure has received international acclaim as a model for
7 national pension plans. We operate independently of the Canada Pension Plan and
8 at arm's length from the federal and provincial governments that are jointly
9 responsible for the CPP.

10 Oversight of the CPP Investment Board is provided by an independent board of
11 directors. This board, not governments, approves investment policies and makes
12 critical operational decisions, such as the hiring of the president and chief
13 executive officer and the setting of executive compensation.

14 The board hires the president and CEO who, in turn, hires and leads the
15 management team. These investment professionals make portfolio decisions
16 within policies agreed to by the board of directors.

17 Please see Exhibit No. ___(MW-3) for a copy of the 2008 Annual Report for
18 information about the CPP Investment Board.

1 **Q. What is the value of assets under administration of the CPP Investment**
2 **Board?**

3 A. As of March 31, 2008, the CPPIB has approximately C\$122.7 billion of assets
4 under administration.

5 **Q. Are the assets under administration of the CPP Investment Board growing?**

6 A. Yes. The following table shows the growth of the assets under administration of
7 CPPIB:

	Mar. 31, 2005	Mar. 31, 2006	Mar. 31, 2007	Mar. 31, 2008
Assets Under Management	C\$81.3 billion	C\$98.0 billion	C\$116.6 billion	C\$122.7 billion

8 **Q. Please describe the investment objectives of the CPP Investment Board.**

9 A. The investment objective of the CPPIB is to invest the assets of the CPP in a way
10 that maximizes return without undue risk of loss.

11 The infrastructure group within the Private Investments division of CPPIB was
12 formed in fiscal 2006 to look at significant, global, private and public-to-private
13 infrastructure equity investment opportunities. Infrastructure investments fall
14 primarily within the real return asset portion of the CPP Fund portfolio, providing
15 a strong match with the fund's inflation-linked liabilities.

16 The infrastructure program is focused on assets with lower risk and return
17 characteristics, typically characterized by strong regulatory elements and with low

1 substitution risks. Such investments might include integrated utilities, electricity
2 transmission and distribution, gas transmission and distribution, water utilities,
3 toll roads, bridges and tunnels, airports, and ports.

4 The CPPIB infrastructure group is currently targeting investments that enable us
5 to contribute in excess of \$500 million of equity capital, and the CPPIB
6 infrastructure group generally participates in a consortia with partners that have
7 similar stated investment objectives.

8 The CPPIB infrastructure group primarily focuses on transactions originating in
9 North America and Western Europe, but considers other Organisation for
10 Economic Co-operation and Development (“OECD”) countries if they offer stable
11 regulatory, economic and political environments.

12 **Q. Is the CPP Investment Board an active investor in infrastructure assets?**

13 A. CPPIB is an active investor in infrastructure assets, with C\$2.8 billion of assets
14 under management as of March 31, 2008; C\$2.1 billion of which are direct
15 investments that were added to the portfolio since the creation of a dedicated
16 infrastructure team in 2006. CPPIB does not have constraints or targets as to how
17 much it should invest in infrastructure assets. Currently, a team of sixteen
18 investment professionals is dedicated to assessing global infrastructure investing
19 opportunities. In addition to our head office in Toronto, we also have a presence
20 in London and Hong Kong.

1 **Q. What is the magnitude of the CPP Investment Board's investments in**
2 **infrastructure assets?**

3 A. In addition to publicly traded infrastructure assets held as part of CPPIB's broader
4 public portfolio, CPPIB has approximately C\$2.8 billion of assets under
5 management.

6 The CPP Investment Board has the following direct private investments in
7 infrastructure:

- 8 • **AWG plc (Anglian Water Services)** – a UK regulated
9 water and sewage business covering over 22,000 square km
10 in the South East of England with 5.4 million customers.
- 11 • **Télédiffusion de France** – a leading European wireless
12 communications tower company and developer of data
13 communications networks and network infrastructure.
- 14 • **Transelec S.A.** – a leading electrical transmission company
15 in Chile, serving more than 98% of the population.
- 16 • **Wales & the West Gas Distribution Network** – a
17 regulated gas distribution business with around 34,000 km
18 of gas distribution pipelines located in Wales and the South
19 West of England, covering 1/6th of the UK and serving 7.4
20 million people.

21 The CPP Investment Board also has investments in two infrastructure funds:

- 22 • **Macquarie Essential Asset Partnership** – a 2003 vintage
23 fund focusing on investments in regulated infrastructure
24 assets, located primarily in Canada with a secondary focus
25 in the U.S.
- 26 • **Macquarie European Infrastructure Fund** – a 2004
27 vintage fund focusing on infrastructure in certain European
28 OECD countries.

1 **Q. Why does the CPP Investment Board consider infrastructure assets to be**
2 **good investments?**

3 A. There are a number of reasons that CPPIB considers infrastructure assets to be
4 good investments.

5 Infrastructure investments primarily fall within the real return asset portion of the
6 CPP Fund portfolio, which provides a strong match with the fund's inflation-
7 linked liabilities. The inherent sustainability, predictability and generally long
8 operating lives of the business matches CPPIB's long-term investment horizon.

9 Furthermore, the large scale of many infrastructure investments offer a cost-
10 effective means to deploy a significant amount of capital for the long-term,
11 without "re-investment risk" and allows the CPP Investment Board an
12 opportunity to create long-term value beyond more traditional equity investments
13 and other investments that may have a focus on yield, short-term dividends, or
14 market value.

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

4 **Q. Is Public Counsel’s assertion that Puget Holdings LLC is a partnership in**
5 **which “Macquarie is the general or lead partner and the other members of**
6 **the Investor Consortium are the limited partners” correct? (Exhibit**
7 **No. ___(SGH-1HCT) at page 13, lines 1-3.)**

8 A. No, Public Counsel’s assertion is incorrect. Puget Holdings LLC is a Delaware
9 limited liability company and not a partnership structured in a manner as
10 described by Public Counsel. The anticipated governance structure of Puget
11 Energy involves a board of managers that will include representatives of the
12 members of the Investor Consortium and two local members who are independent
13 from the Investor Consortium (Bill Ayer and Steve Reynolds). Furthermore, the
14 board of directors of PSE will include representatives of the members of the
15 Investor Consortium and three local members who are independent from the
16 Investor Consortium (Bill Ayer, Herb Simon, and Steve Reynolds).

17 **Q. What is the intention of the CPP Investment Board with regard to the**
18 **management of its investment?**

19 A. CPPIB expects to be an active investor in Puget Holdings LLC, serving as a
20 responsible steward in partnership with other investors with similar stated
21 investment objectives and in partnership with PSE’s management. CPPIB, as
22 with many other infrastructure investors, is sensitive to the responsibilities and

1 accountability inherent with providing a public service. The governance structure
2 of Puget Holdings LLC establishes voting thresholds that prevent any investor, at
3 their current economic thresholds, from unilaterally making significant changes to
4 the core business plan of Puget Holdings LLC without approval of the board of
5 managers. This includes changes to the budget for capital expenditure and
6 changes to the capital structure, such as any increase in leverage.

7 As stated above the CPP Investment Board will actively participate in the
8 strategic growth of PSE; however, the day-to-day responsibility of managing
9 utility operations will continue to reside with PSE's strong management team.

10 Given this strong management team, CPPIB supports Commitment No. 13, which
11 commits the Investor Consortium to retain PSE's current senior management and
12 honour existing labour contracts.

13 **Q. What will be the role of the CPP Investment Board in the corporate**
14 **governance of PSE?**

15 A. CPPIB, as the second largest single investor (28.1% versus Macquarie
16 Infrastructure Partners' 31.8%), is a core member of Puget Holdings LLC, and
17 has substantial rights and obligations under the Puget Holdings LLC Agreement
18 (i.e., voting rights) that are commensurate with its investment. As a significant
19 investor, CPPIB and other investors have certain voting rights that introduce
20 "checks and balances" against any major change in business plan or capital
21 structure (e.g., leverage) of Puget Holdings LLC. Each individual member of the

1 Investor Consortium has a minority economic interest. Even if the ownership
2 interests of all the Macquarie entities in the Investor Consortium are aggregated,
3 the sum creates a 51.5% ownership interest, less than the 55% threshold required
4 for “simple majority” rights for purposes of most issues to be decided by the
5 board of managers of Puget Holdings LLC. It should also be noted that this
6 amount is also far less than the 80% “super majority” threshold required for
7 certain board matters, such as approval or amendments to the budget and business
8 plans or changes to the capital structure.

9 Furthermore, CPPIB will assume a significant role on the Asset Management
10 Committee, which will involve monthly meetings with Macquarie and the CEO of
11 PSE. As part of the Asset Management Committee, CPPIB will receive regular
12 updates and actively participate in significant aspects of operations because the
13 purpose of this committee is to ensure that the implementation of the business
14 plan remains consistent with the long-term plan as envisioned by PSE
15 management and the Puget Holdings LLC board.

16 **Q. Will CPP Investment Board play an active role in the day-to-day**
17 **management issues of PSE, such as customer satisfaction, reliable service,**
18 **and investment in infrastructure?**

19 A. CPPIB’s role is that of an active owner; hence, CPPIB intends to be informed
20 board members with active engagement with PSE’s management. CPPIB,
21 however, is not a manager or operator of utilities. The CPP Investment Board

1 believes that an effective long-term investment involves supporting strong
2 management teams, such as the PSE management team. The board will provide
3 an environment where local management and local employees have the strategic
4 support to do their jobs with a view to long-term success.

5 CPPIB believes that PSE is a great company that is well run and that has a strong
6 future. PSE's future will significantly benefit from the added value that long-term
7 infrastructure investors, such as the patient, engaged, sophisticated investors that
8 constitute the members of the Investor Consortium, can bring.

9 CPPIB is a supporter of initiatives that improve customer satisfaction and service
10 reliability. CPPIB believes that investments in these areas can lead to sustainable
11 long-term growth and exceptional investment performance. It is therefore
12 consistent with our investment philosophy. Specifically, in the case of CPPIB's
13 investment in Anglian Water Group (a UK regulated water utility), the water
14 utility has increased its quality of service ranking from #5 to #1 within two years
15 of CPPIB's investment and our strong support of reinvestment of operating cash
16 flows in better service reliability and system redundancy.

17 **Q. Does the CPP Investment Board view its interests in the Proposed**
18 **Transaction as a short-term or long-term investment?**

19 A. CPPIB's views its investment in the Proposed Transaction as a long-term
20 investment. Given the long-term profile of liabilities of the CPP, CPPIB requires
21 assets that provide stable cash flows, such as infrastructure, as a core component

1 of its portfolio for the very long-term.

2 The CPP Fund does not have a defined term. Indeed, CPPIB has not sold any of
3 its direct infrastructure investments and has, in fact, increased its equity
4 contributions in a number of investments for which additional capital was
5 required for expansion or add-on acquisitions.

6 **Q. Is Public Counsel correct that “Macquarie...will, at some point have to**
7 **return the capital invested to the current members of the Investor**
8 **Consortium”?** (Exhibit No. ___(SGH-1THC) at page 33, lines 22-23.)

9 A. No, Public Counsel’s assertion is incorrect. As stated above, Puget Holdings
10 LLC is a Delaware limited liability company and not a limited partnership as
11 described by Public Counsel. As a direct investor in Puget Holdings LLC, CPPIB
12 will receive distributions if and when they become available; CPPIB’s investment
13 is not dependant on a liquidation event. Given the perpetual nature of the
14 CPP Fund, CPPIB has no plans to liquidate its investment in PSE. Indeed, CPPIB
15 may be in a position to consider “buying up” additional equity if an investment
16 partner had a shorter investment horizon or wishes to exit for other reasons.

17 **Q. What priority will the CPP Investment Board give to PSE’s capital**
18 **requirements?**

19 A. CPPIB plans to monitor PSE’s cash flows on a regular basis. Having reviewed
20 PSE’s business plan, CPPIB is of the view that there are significant and prudent

1 long-term capital expenditure needs that will improve the quality and scope of the
2 service provided by PSE, while at the same time increasing the value of CPPIB's
3 investment. CPPIB takes a long-term view of its investment in PSE and, under
4 appropriate circumstances (i.e., taking into account the needs of PSE and the
5 reasonableness of the returns allowed by the WUTC), will be supportive of the
6 reinvestment of surplus operating cash flow to help fund prudent expansions to
7 PSE's regulated asset base. Furthermore, should there be additional equity
8 requirements that are prudent, consistent with the growth of the business, and
9 receive reasonable treatment in the regulated environment, CPPIB could provide
10 additional direct equity investment.

11 **Q. Would the CPP Investment Board be willing to invest more equity into Puget**
12 **Holdings LLC if the opportunity arises?**

13 A. CPPIB would be willing to consider the opportunity to invest more equity into
14 Puget Holdings LLC if there were an opportunity to deploy capital in a value-
15 accretive and prudent manner. Each investment would, by necessity, have to be
16 considered on its own merits.

17 According to the most recent Actuarial Report of the Chief Actuary of Canada,
18 dated October 18, 2007, the CPP Investment Board expects to have net positive
19 cash flows until 2019 at which point the assets under management ("AUM") are
20 estimated to reach C\$311 billion. Post 2019, the AUM will continue to grow
21 because only a small portion of investment income will be needed to help pay

1 pensions and the Chief Actuary estimates the fund will reach approximately \$900
2 billion in assets by 2040. Hence, CPPIB will not be constrained in its
3 consideration of any potential additional equity investment.

4 **Q. What is the expectation of the CPP Investment Board with respect to returns**
5 **likely to be earned by PSE if the proposed transaction were approved by the**
6 **Commission?**

7 A. CPPIB anticipates that returns for PSE would be similar to the current levels, such
8 as the return on equity of 10.4% currently authorized by the Commission. In
9 other words, CPPIB's investment is not predicated on a dramatic change in the
10 regulatory regime.

11 **IV. THE CONCERNS OF PUBLIC COUNSEL WITH RESPECT**
12 **TO THE "MACQUARIE MODEL" ARE MISPLACED**

13 **Q. Has the CPP Investment Board previously partnered with a Macquarie**
14 **entity in any investment?**

15 A. Yes, CPPIB has previously partnered with Macquarie entities. Macquarie entities
16 are strong partners that take a diligent and active approach to the management of
17 their investments. Specifically, CPPIB has partnered with Macquarie entities in
18 an investment in Wales and West, a regulated UK gas distribution company.
19 Furthermore, CPPIB is an investor in two Macquarie infrastructure funds.

1 **Q. Does the CPP Investment Board have a concern with respect to what is**
2 **described as the “Macquarie Model”?**

3 A. CPPIB is familiar with the “Macquarie Model” referenced in the testimony of
4 Public Counsel. Historically, CPPIB has participated in the “Macquarie Model”
5 through investing in two Macquarie funds, which provided exposure to the
6 nascent infrastructure asset class in 2003 and 2004.

7 However, the returns earned by Macquarie entities within such fund structures are
8 significantly enhanced at the expense of their investors because of management,
9 performance and other fees that Macquarie entities charge. As a consequence, if
10 an institutional investor has a certain scale and a willingness to build its own
11 investment capabilities, it is more efficient to deploy capital by directly investing,
12 as CPPIB has elected to do in the Proposed Transaction. Since 2006, CPPIB has
13 focused on developing the sophistication of internal investment review and
14 management that enables the CPP Investment Board to be a direct investor with
15 less reliance on external fund managers. This direct investing platform makes
16 sense for CPPIB because of its scale and long-term investment horizon. Since
17 developing a direct investment platform in fiscal 2006, CPPIB has not made any
18 infrastructure investments through Macquarie entities. For significant
19 infrastructure transactions, CPPIB may continue to be a member of a bidding
20 consortium with Macquarie entities or may compete with Macquarie entities,
21 depending on circumstances.

1 In short, CPPIB considers Macquarie entities be strong, capable long-term
2 partners with whom CPPIB has invested significant capital (C\$729 million
3 current and proposed, excluding the proposed Puget investment) of its
4 contributors' capital. CPPIB considers its relationship with Macquarie entities to
5 be professional, but in protecting its interests and in doing what is best for its
6 investee companies, CPPIB is willing to engage forcefully with them as a peer.

7 **Q. Does the CPP Investment Board have concerns with respect to the issues**
8 **identified in the *Fortune* article provided by Public Counsel as Exhibit**
9 **No. ___(SGH-4)?**

10 A. CPPIB is familiar with the *Fortune* article provided by Public Counsel as Exhibit
11 No. ___(SGH-4). As discussed earlier, CPPIB views Macquarie entities to be
12 strong and capable partners, and CPPIB has invested significant capital alongside
13 Macquarie entities.

14
15 **Q. Does the CPP Investment Board have concerns with respect to the issues**
16 **identified in the RiskMetrics report provided by Public Counsel as Exhibit**
17 **No. ___(SGH-5)?**

18 A. CPPIB is familiar with the RiskMetrics report provided by Public Counsel as
19 Exhibit No. ___(SGH-5). As discussed earlier, CPPIB views Macquarie entities
20 to be strong and capable partners, and CPPIB has invested significant capital

1 alongside Macquarie entities.

2 With regard to the implication that there are potential conflicts between asset
3 management and advisory services, CPPIB does not expect any such cross-
4 subsidization in this investment and would seek to ensure that all advisory
5 services are procured on market terms.

6 **Q. Does the CPP Investment Board have concerns with respect to the issues**
7 **identified in the articles provided by Commission Staff as Exhibit**
8 **No. ___(RHS-4)?**

9 A. No. CPPIB is not concerned that certain publicly traded funds have traded down
10 in price. This sort of volatility in public markets is one of the reasons that
11 infrastructure entities with significant capital requirements (e.g., PSE) can face
12 challenges raising capital in the public markets. As yield-focused investors
13 identify an inability to provide distributions over the short term, the share price
14 may drop precipitously. As discussed above, CPPIB is a long-term investor not
15 focused on short-term yields.

16 V. CONCLUSION

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

18 A. Yes.