EXH. DSL-1T
DOCKETS UE-18___/UG-18___
2018 PSE EXPEDITED RATE FILING
WITNESS: DOUGLAS S. LOREEN

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of: **PUGET SOUND ENERGY** **Expedited Rate Filing**	**Docket UE-18____** **Docket UG-18____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

DOUGLAS S. LOREEN

ON BEHALF OF PUGET SOUND ENERGY

NOVEMBER 7, 2018

PUGET SOUND ENERGY

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PUGET SOUND ENERGY

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Douglas S. Loreen and my business address is 355 110th Ave. NE, Bellevue, Washington 98004. I am employed by Puget Sound Energy ("PSE") as Director Safety & Corporate Shared Services.

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

A. Yes. It is the First Exhibit to my Prefiled Direct Testimony, Exh. DSL-2.

Q. Please briefly describe your responsibilities as Director Safety & Corporate Shared Services.

A. As Director Safety & Corporate Shared Services, I am responsible for corporate safety, corporate security, business continuity, facility services, and fleet services.

Q. Please summarize the purpose of your testimony.

A. My testimony addresses PSE's decisions to 1) rebuild the Bellingham Service Center; 2) renovate the South King Complex; and 3) purchase the Snoqualmie Technology Center.

II. BELLINGHAM SERVICE CENTER

Q. Please provide a high-level overview of the work PSE has performed with respect to the Bellingham Service Center.

A. PSE completed the reconstruction of the Bellingham Service Center in 2017. PSE replaced the existing structure, which was more than 50-years old and had several safety-related deficiencies, with a new facility that meets current building code standards and life safety standards. The Bellingham Service Center functions as PSE's northern most electric operations facility and is also PSE's information technology telecommunications hub for Whatcom County and the northern service areas.

Q. Please describe the Bellingham Service Center prior to the rebuild.

A. The Bellingham Service Center was a 12,500 square foot service center building with covered truck bays, a separate 6,600 square foot garage/substation shop, and more than four acres of paved parking and storage yard. The ten-acre site abuts the I-5 corridor and also includes PSE's Bellingham substation. The facility supported 53 employees, including PSE electric first response service line workers, meter and substation crews, as well as Potelco engineers and crews. Approximately seven to ten commercial customers conducted business with PSE at the site each day to discuss their electric service and construction needs.

Q. Why was it necessary to rebuild the Bellingham Service Center?

A. The existing Bellingham Service Center was constructed in 1960. It was one of PSE's oldest service facilities. The buildings did not meet current building and fire codes and standards for earthquakes, Americans for Disability Act ("ADA") accessibility, fire protection, and environmental, storm water control, and water quality regulations. The facility's outdated design and age presented operational inefficiencies, a substandard working environment, and increasing building, mechanical, and electrical systems maintenance and repair expenses.

Q. What alternatives did PSE consider before deciding to rebuild the Bellingham Service Center?

A. The Bellingham Service Center project was submitted for capital funding consideration via capital spending authorization in July 2015. The funding request considered the following alternatives, including the selected alternative:

1. Full rebuild: This is the selected alternative and involved the construction of a functional, efficient, low-maintenance building with a service life of more than fifty years at an estimated cost of approximately $15.7 million.[1] The rebuild addressed and resolved significant life, health and safety concerns. The new building was structurally strengthened to withstand seismic events (earthquakes), protected with fire suppression systems, and equipped with the latest emergency (power and communications) backup systems. The new building design also

[1] Up to $17.95 million with risk contingency.

meets ADA standards, it contains enhanced safety features, it provides a designated environmental storage facility, and has larger truck bays, a more efficient storage yard layout, and better fences and gates, all of which improves productivity. In addition, as part of the environmental mitigation efforts undertaken during the rebuild, the fuel dispensing system and underground fuel tanks were removed.

2. Partial rebuild: The partial rebuild alternative would not have addressed all seismic and fire sprinkler deficiencies. Under the partial rebuild scenario, only the office/line building would have been rebuilt and as a result, the garage and substation wire shop would have remained in their then-current and deficient conditions. The cost of the partial rebuild was estimated at $12.4 million, or approximately $3.2 million less than the estimated cost of a full rebuild.

3. Limited improvements: This alternative was a low-cost option to provide minimal improvements. It included the installation of new fence and gates, a new HVAC system, and interior upgrades to workstations and functional areas. The cost of this alternative was estimated at $1.4 million. This alternative did not address the seismic and operational deficiencies of the existing service center structure and garage/wire shop.

4. Lease existing facility: PSE was unable to identify a leased facility in Bellingham that would meet the service center's functional requirements. The lack of a market alternative combined with the ongoing cost of a lease (estimated at $430,000 per year) eliminated this alternative.

5. Purchase existing facility: PSE was unable to identify any property listings that met the service center's functional requirements. PSE also estimated this alternative to cost approximately $15 million.

6. Purchase land and build new service center: The cost of purchasing new property and construction costs for the new service center were estimated to be $17 million, which was higher than the estimated cost to renovate the existing site. Also, there was uncertainty about accessibility, communications linkages, and site utilities (sewer, water, power).

Q. Describe the scope of the project.

A. The scope of the project included the construction of a new 14,275 square foot one-story office building and a 6,525 square foot wire shop, vehicle maintenance, and PCB storage facility. In addition, PSE reconstructed 7,620 square feet of an existing line building. Conference rooms were updated with audio visual equipment and conference room technology. Construction required modifications to on-site and off-site utilities. This was a phased construction project to maintain continued electric utility operations at the existing PSE facility.

Q. Describe the execution of the project.

A. The project construction was bid to three qualified contractors in March 2016 and final bids were received in April 2016. Tiger Construction was the lowest bidder and was awarded the construction contract. Permitting was completed and the project was released for construction in June 2016. Construction of the main office was completed and approved for occupancy in July 2017. The warehouse

space was completed and ready for occupancy in December 2017.

Q. Please describe any changes to the project and the cost impact of these changes.

A. There were several changes to the project scope and schedule during project execution that resulted in cost changes. These changes were due to unforeseen conditions, City of Bellingham permit conditions, increases in material costs, some additions to meet PSE workspace technology standards, and clarification of design requirements and bid documents. The final cost of the project was $19,404,685. The most significant changes included:

- Paving the service yard after further site review revealed the condition of the yard was worse than expected;
- An additional communication conduit bank was required to relocate a fiber loop to the substation for the elimination of power poles;
- Hazardous materials removal that was not identified in the survey;
- More extensive contaminated soil removal than initially estimated;
- Removal of unsuitable soils and placement of structure fill for the new building;
- Increased prices for structural steel and joists; and
- Revised site electrical routing.

In addition to scope changes, the project experienced extreme winter weather conditions, which began unseasonably earlier than normal, impacting the project

schedule and adding costs for general conditions, dewatering, temporary heat, and postponement of site paving.

III. SOUTH KING COMPLEX RENOVATIONS

Q. Please provide the history of the South King Complex and PSE's ownership of the facility.

A. The South King Complex ("SKC") is a 26-acre property that was originally owned and developed by AT&T (then Western Electric) in 1976 to support its central operation and warehouse functions. AT&T's improvements on the property accommodated both indoor and outdoor storage, materials receipt and distribution, and office space. The property was sold by AT&T in 1993 to Ranch Associates, a Washington general partnership.

In 1993, PSE's predecessor, Puget Sound Power & Light, entered into an agreement with Ranch Associates to lease a 168,085 square foot portion of SKC. In 2007 and 2013, PSE leased the remaining 78,400 square foot and 29,650 square foot portions of SKC. In August 2016, PSE purchased the entire facility from Ranch Associates. The prudency of the purchase decision was recognized in PSE's 2017 general rate case (Dockets UE-170033 and UG-170034).

Q. Please describe the operating functions currently located at SKC and how they support PSE's operating model.

A. SKC continues to be uniquely configured to support PSE's utility operations. Its overall size, design, central location, and accessibility make it ideal for PSE's

operations. Importantly, SKC is also zoned to accommodate outdoor storage. Today, SKC supports numerous business functions performed by PSE on behalf of its customers including materials warehouse and central stores, gas and electric meters inventory management, waste handling, substation relay operations, electric system protection design, energy efficiency services, electric first response, customer and distribution project design and management, fleet, and numerous other PSE functions.

Q. After purchasing SKC, why did PSE determine that renovations were needed?

A. The original SKC building was constructed in the mid-1970s. Since that time, the building has undergone several rounds of tenant improvements by PSE to keep the property in good operating condition. And while for a building of that age it was in good condition at the time of purchase, it still needed based basic maintenance and several upgrades to accommodate PSE's business needs for the facility. Some of the areas at the property that needed maintenance and updating included:

- Updating the northwest office space features that were outdated, lacked basic technological necessities, and needed to be reconfigured to best accommodate PSE's operations;
- The HVAC, electrical, network/telecommunications, and fire protection systems were outdated and needed to be replaced;

- In some areas, the facility did not meet building code requirements, such as modern seismic building code requirements.

Q. At the time of purchase did PSE evaluate the condition of the facility?

A. Yes, as part of the due diligence process prior to purchase, as discussed in the Prefiled Direct Testimony of Joel L. Molander, Exh. JLM-1T, Dockets UE-170033 and UG-170034, PSE retained MENG to perform a facilities conditions assessment ("FCA"). The FCA addressed structural, mechanical, electrical and building envelope aspects of SKC and identified several deficiencies and opportunities for future improvements consistent with buildings similar in age and operating use. Notably, the MENG analysis did not include the northwest office area because PSE had already planned to conduct a major tenant improvement in that area and most of the deficiencies in that area were to be addressed by the tenant improvements. In total, the estimated costs for these future improvements ranged from $30-45 million and were recommended irrespective of lease or ownership of the facility to ensure the safe and effective performance of the asset. As explained by Mr. Molander's testimony, the need for and estimated costs of future improvements at SKC was expressly factored into PSE's decisionmaking process when it ultimately determined that purchasing SKC achieved the lowest cost outcome and best business value to PSE customers.

Q. Please summarize the renovations and improvements undertaken at PSE's South King Facility since the purchase of SKC.

A. The largest improvement since purchase was to update the 26,000 square foot of office space. This renovation included new entries, office space for 145 workstations, meeting and collaboration spaces, a kitchen/break room, restrooms and support spaces. Circulation routes into and through this new office space with connections to other areas of the SKC building were also created for more efficient movement throughout the facility. In this area, all existing mechanical, electrical, network/telecommunications and fire protection systems were replaced; the structure was seismically upgraded; and new security systems were provided. Demolition for the improvements also included abatement of any hazardous materials such as asbestos. This portion of the project was completed in October 2017.

Q. Were any updates performed on the exterior of the facility?

A. Yes. In 2017, a 150-stall parking lot expansion with new storm drainage and landscaping was constructed on the northwest and west sides of the SKC building and a second standby emergency generator was installed on the west side of the building. This was completed in December 2017.

Q. Please describe any changes to the project and the cost impact of these changes.

A. The estimated total project cost was $13.4 million[2]. However, there were several changes to the project scope and schedule during project execution that resulted in cost changes. These changes were due to unforeseen conditions; expanding the extent of asbestos abatement/demolition and necessary system replacement/upgrades; changes in the construction bid climate resulting in higher construction costs; more extensive earthwork; adding additional parking spaces; adding a biofiltered storm drainage system; adding electric vehicle chargers; and higher permitting costs than anticipated. The final cost of the project was $16,288,982.

IV. SNOQUALMIE TECHNOLOGY CENTER PURCHASE

Q. Please describe PSE's Snoqualmie Technology Center.

A. PSE's Snoqualmie Technology Center is a two-story office building, located in Snoqualmie, Washington, which houses one of PSE's data centers. The total square footage is 45,500 square foot, equally distributed between the ground and second floors. The facility was originally constructed in 2002. The current space contains 107 workstations which now support PSE's Major Projects and Engineering functions.

[2] Up to 15.4 million with risk contingency.

Q. Why did PSE decide to purchase the Snoqualmie Technology Center facility?

A. The Snoqualmie Technology Center was purchased primarily to house one of two new corporate data centers. The decision to retire PSE's single data center and build two redundant data centers was driven by risk and is explained in the Prefiled Direct Testimony of Margaret F. Hopkins, Exh. MFH-1T.

For geographic diversity, PSE decided to locate one of the data centers east of the Cascades at PSE's Cascade Substation in Cle Elum, Washington. The second data center was to be located in Western Washington. In conducting its search, the project team identified the following available properties as candidates for the west-side data center:

1. Talbot Switching Station (Renton)
2. Eastside Operations Center (Redmond)
3. Snoqualmie Ridge Business Park – Mt. Si Raw Land Option (Snoqualmie)
4. PWI Snoqualmie Parkway/SR-18 Raw Land (Snoqualmie)
5. Snoqualmie Ridge Business Park – 1-90 Technology Center (Snoqualmie)
6. Boeing Company Eastgate Campus (Bellevue)

Using a risk matrix, the team narrowed its west-side selection to those sites posing the least amount of risk and the highest chance of success to meet the project's operating objectives and timeline. Through the evaluation process, zoning and other development risks eliminated Options 1-4.

The remaining alternatives, the 1-90 Technology Center and the Boeing Eastgate Campus building, both met the zoning and other development requirements for the

facility, but also offered the added benefit of space for additional uses as employee work space and potential back up location for PSE's electric and gas control center. Because both facilities met the data center requirements, PSE selected the lower cost alternative—the Snoqualmie Technology Center—at a purchase price of $8,900,000 ($800,000 less than asking price). With the costs of conducting a due diligence study, facility security, electrical modifications, and furniture and technology, the total costs for the Snoqualmie Technology Center, excluding the modular data center, was $12,975,000. The final cost was a slight increase above the $12,400,000 in estimated costs. The increase can be attributed to additional security enhancements and equipment added to monitor and protect the perimeter of the facility. The cost of the modular data center, supporting systems, and backup generator, are not included in this amount but are discussed in Ms. Hopkins' testimony.

Q. At the time of purchase did PSE evaluate the condition of the facility?

A. Yes. PSE completed a Facilities Condition and Seismic Evaluation. The evaluation indicated that the building was in excellent condition, built to standards, and had no known significant defects or damage. Other than initial installation of furniture and technology, PSE has not performed any major renovations of the facility since purchase.

V. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.