

**EXH. DSL-1T
DOCKETS UE-19 ___/UG-19 ___
2019 PSE GENERAL RATE CASE
WITNESS: DOUGLAS S. LOREEN**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-19 ___
Docket UG-19 ___**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

DOUGLAS S. LOREEN

ON BEHALF OF PUGET SOUND ENERGY

JUNE 20, 2019

PUGET SOUND ENERGY

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DOUGLAS S. LOREEN**

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PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
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LIST OF EXHIBITS

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| Exh. DSL-2 | Professional Qualifications |
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1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **DOUGLAS S. LOREEN**

4 **I. INTRODUCTION**

5 **Q. Please state your name and business address.**

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

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

11 A. Yes. Please see the First Exhibit to the Prefiled Direct Testimony of Douglas S.
12 Loreen, Exh. DSL-2, for an exhibit describing my education, relevant
13 employment experience, and other professional qualifications.

14 **Q. Please briefly describe your responsibilities as Director Safety & Corporate**
15 **Shared Services?**

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

18 **Q. Please summarize the purpose of your testimony.**

19 A. My testimony addresses PSE’s decisions to: (1) vacate the Puget Sound Energy
20 Building at the Company’s corporate headquarters in Bellevue; (2) rebuild the

1 Bellingham Service Center; (3) renovate the South King Complex; (4) purchase
2 the Snoqualmie Technology Center; and (5) terminate operating leases at four
3 business offices and customer pay stations. The facility actions and moves
4 associated with vacating the Puget Sound Energy Building in Bellevue, item one
5 in the list above, are collectively referred to as the “Bellevue Campus
6 Consolidation.”

7 II. BELLEVUE CAMPUS CONSOLIDATION

8 **Q. Please describe PSE’s Bellevue Campus facilities prior to the Bellevue** 9 **Campus Consolidation project.**

10 A. Through mid-2018 Puget Sound Energy leased office and other space in two
11 adjacent buildings at the Summit Complex located in Bellevue, Washington. PSE
12 was a primary tenant in the 13 story “PSE Building” located at 10885 NE 4th St.
13 since the building was constructed in 2002. PSE has been the sole tenant in the
14 11 story “PSE East Building” located at 355 110th Ave. E. since the building was
15 constructed in 2005.

16 The PSE Building lease included five floors totaling 115,671 square feet, storage
17 and support spaces in the attached underground parking garage on levels P-1 and
18 P-2, and 360 parking stalls. The PSE Building lease was set to expire on July 31,
19 2018. PSE had an option to extend the PSE Building lease at market rates through
20 July 31, 2023.

21 The PSE East Building lease includes 11 floors totaling 223,820 square feet,
22 storage space in the attached underground parking garage on levels P-4, P-5, and

1 P-6 and 519 parking stalls. The PSE East Building lease was set to expire on
2 October 31, 2020.

3 Prior to implementing the Bellevue Campus Consolidation project, there were
4 approximately PSE 1,709 employees and consultants working in these two
5 buildings.

6 **Q. Please describe PSE's overall planning process which led to the Bellevue
7 Campus Consolidation project.**

8 A. In late 2014, PSE Facilities with active participation by Human Resources and
9 Information Technology, began a process to create a new enterprise facilities
10 plan. In addition to seeking an efficient use of space, the objectives included
11 driving an employee workplace experience that would keep PSE competitive in
12 the changing workforce. Key elements were modernizing workspaces, expanding
13 desirable workplace locations, and improving technology to support employee
14 flexibility and collaboration for a distributed workforce.

15 **Q. Please describe Coldwell Banker Real Estate's role in supporting PSE's
16 enterprise facilities plan development.**

17 A. PSE uses Coldwell Banker Real Estate ("CBRE") as its commercial real estate
18 broker for Bellevue and the greater Eastside. In 2015, as part of the enterprise
19 facilities plan development, PSE engaged CBRE to conduct a review of PSE's
20 employee work experience related to facilities, technology, and workplace
21 flexibility policies. The stated priorities of this engagement were to examine how
22 workspace and workplace can drive: talent attraction, space efficiency, PSE's

1 strategic objectives, and flexibility (people collaboration). The CBRE Workplace
2 Strategy Findings Report was completed in February 2016 and identified three
3 overall occupancy strategies that all involved smaller space requirements for the
4 central Bellevue campus. Please see the Second Exhibit to the Prefiled Direct
5 Testimony of Douglas S. Loreen, Exh. DSL-3, for a copy of the February 2016
6 CBRE Workplace Strategy Findings Report.

7 **Q. Please describe the PSE@work project that resulted from the February 2016**
8 **CBRE Workplace Strategies Report.**

9 A. Based on recommendations in the February 2016 CBRE Workplace Strategy
10 Report, PSE began additional research and development of an implementation
11 program named “PSE@work.” The priorities of the PSE@work program were to:
12 achieve greater space efficiency throughout PSE’s facilities portfolio; update
13 workspaces to represent PSE as an innovative company attractive to talent in the
14 competitive Puget Sound region; and provide a consistent employee experience
15 among all facilities. PSE@work improvements include condensed floorplans with
16 modern furniture systems, increased collaborative workspace, and technology
17 upgrades to work stations and conference rooms that support a distributed
18 workforce.

19 After conducting employee surveys and running a competitive bid process,
20 PSE@work design standards were selected and implemented into the redesigned
21 facilities of Bellingham Service Center, South King Complex (2017
22 improvements), the Vernell building, the Snoqualmie Technology Center and

1 Bothell Building O. These new standards have not yet been applied to the PSE
2 East Building.

3 **Q. Describe how management was kept informed during the development and**
4 **execution of the enterprise facilities plan.**

5 A. PSE formed an executive steering committee to oversee the enterprise facilities
6 plan including the PSE@work program, the resulting major facilities projects, and
7 all of the required personnel moves. The steering committee included directors
8 and officers representing Information Technology (“IT”), Human Resources, and
9 Facilities. The steering committee met monthly.

10 In addition, the major facilities capital projects were included in the monthly
11 project dashboard assembled by PSE’s Enterprise Projects and Portfolio group.

12 **Q. What were the key decisions that resulted from the multi-year planning and**
13 **evaluation process?**

14 A. At the highest level, the Bellevue Campus Consolidation project included three
15 key facility decisions:

- 16 (1) To vacate the PSE building at the end of its lease in July 2018 and
17 to relocate employees in the PSE building primarily to existing
18 PSE locations and relocate major project contractors to Bothell
19 Building O;
- 20 (2) To renew the PSE East building lease before its expiration and to
21 locate corporate headquarter functions in this location; and
- 22 (3) To lease the Bothell Building O primarily to house employees and
23 contractors working on ongoing major projects.

24 I will describe the element of each of these key decisions in order.

1 **A. Puget Sound Energy Building Vacation**

2 **Q. Why did PSE decide to vacate the PSE Building at the end of the lease on**
3 **July 31, 2018?**

4 A. By December 2016, PSE had concluded that the lease extension offers from
5 Hines, the property manager of the PSE Building, were not competitive with
6 alternatives. This is approximately a year and a half before the PSE Building lease
7 was set to expire and seven months before the July 31, 2017, renewal notification
8 deadline. Once the decision was made to not renew the lease, PSE finalized
9 relocation plans and proceeded with renovations at destination facilities. These
10 plans and renovations needed to be implemented promptly in order to provide
11 adequate time to accomplish the moves from the PSE Building into destination
12 buildings.

13 The estimated annual cost savings for vacating the PSE Building was \$6 million
14 for the office space, related storage, and parking.

15 **Q. What alternatives did PSE consider before deciding to vacate the PSE**
16 **Building?**

17 A. Over time, PSE considered a number of facility alternatives that furthered the
18 overall workplace strategy and addressed the expiring PSE Building lease
19 including: (1) renewing the lease; (2) acquiring a new lease outside of the
20 Bellevue core; (3) acquiring an alternative facility for a full relocation of the PSE
21 headquarters and vacating both Bellevue buildings; and (4) utilizing additional
22 space in existing PSE facilities. Alternative (3), to fully relocate the entire

1 Bellevue Campus, is discussed in the “Puget Sound Energy East Building Lease
2 Renewal” section later in this testimony.

3 **Q. What facilities option did PSE choose to replace the PSE Building space?**

4 A. PSE chose to replace the PSE building by utilizing space in owned facilities in the
5 greater eastside and by acquiring a new lease in Bothell outside the Bellevue
6 downtown core. As described later in my testimony, PSE had newly available
7 space in the Snoqualmie Technology Center and in the renovated space at the
8 South King Complex. In addition, PSE decided to renovate space at its Vernell
9 building to house Energy Supply Operations. These alternative locations provided
10 functional space below the cost of the lease terms proposed by Hines, the property
11 manager of the PSE Building, for the PSE Building.

12 **Q. Describe the vacation and restoration of lease space in the PSE Building.**

13 A. Vacation and restoration of the PSE Building began in early 2018 and continued
14 through the end of the lease on July 31, 2018. Moves were executed on a floor by
15 floor basis to allow for restoration activities immediately thereafter. Restoration
16 activities in the PSE Building included the removal of all furniture, fixtures, and
17 equipment. All IT, electrical, and data cabling was pulled back to the point of
18 origin in the PSE Building garage equipment rooms. Patch and repair work was
19 required and completed on some floors to restore the building to “broom clean”
20 status as outlined by the lease. PSE successfully vacated the PSE Building
21 according to its lease. The overall cost of employee relocation and building
22 restoration totaled approximately \$450,000.

1 As part of the vacation of the PSE Building, a legacy communications system
2 originally from the ROLM Corporation was decommissioned. The “ROLM”
3 communication room also contained extensive active network connections for
4 PSE’s current communications and control systems. Vacating the ROLM room
5 included relocating, redirecting, and installing new equipment in other locations
6 for these network connections. Total cost for vacating the ROLM room was
7 approximately \$1.9 million.

8 **Q. Please describe the Vernell Building and its use prior to the Bellevue Campus**
9 **Consolidation project.**

10 A. In January 2013, PSE purchased the Vernell Building at 2380 116th Avenue NE in
11 Bellevue as the site of a future electrical substation. The property included a
12 31,245 square-foot, two-story office facility with a small storage area. At the time
13 of purchase, the first floor of the Vernell Building was leased to Echodyne
14 Corporation and the second floor remained vacant.

15 **Q. Describe the use of the Vernell Building for the Bellevue Campus**
16 **Consolidation.**

17 A. One of the critical functions to be relocated from the PSE Building was Energy
18 Supply Operations (the electric and natural gas merchant trading function).
19 Energy Supply Operations is a 24-hour operation which has specialized
20 requirements for compliance, security, and technology. PSE’s space planners
21 identified the second floor of Vernell Building as a suitable location alternative
22 for Energy Supply Operations.

1 The necessary facility improvement work to the second floor of the Vernell
2 Building began in January 2018 which involved demolition, reconfiguration of
3 walls, carpet, mechanical systems, A/V equipment and required IT systems to
4 support the business functions. Energy Supply Operations, Energy Accounting,
5 and Energy Risk Control were relocated to the Vernell Building in July 2018.

6 PSE terminated the first-floor lease for the Echodyne Corporation before
7 occupying the second floor. The lease was terminated because of security
8 requirements for Energy Supply Operations. The site also has limited parking
9 which does not support full occupancy of both floors.

10 Overall costs for the Vernell space improvements and the relocation of Energy
11 Supply Operations were approximately \$6.8 million.

12 **B. Puget Sound Energy East Building Lease Renewal**

13 **Q. Describe the drivers behind the decision to extend the lease for the Puget**
14 **Sound Energy East Building.**

15 A. The main drivers behind the decision to extend the PSE East Building lease were:
16 favorable lease terms offered by Hines when compared to the Bellevue market;
17 PSE's other priorities for capital funds which precluded some alternatives; PSE's
18 desire to limit business disruptions especially with all other concurrent facility
19 changes then underway; and the benefits of retaining a Bellevue core location
20 related to attracting and retaining talent.

1 **Q. What alternatives did PSE consider before deciding to extend the lease for**
2 **the PSE East building?**

3 A. During the planning process for the enterprise facilities plan, PSE considered the
4 following alternatives for the PSE East Building: (1) extending the lease; (2)
5 acquiring an alternative facility in Bellevue for a full relocation of the PSE
6 headquarters and vacating both Bellevue buildings; and (3) leasing space outside
7 of the Bellevue downtown core.

8 **Q. Describe the negotiations with Hines which ultimately resulted in the lease**
9 **extension for the PSE East Building.**

10 A. Potential extensions for the PSE East Building lease began during the discussions
11 regarding the PSE Building lease in late 2016. PSE made the decision to allow the
12 PSE Building lease to expire in Spring 2017. Thereafter, the parties focused the
13 discussion on the potential extension of the PSE East Building lease. To stay in
14 the PSE East Building, PSE wanted a lease term of appropriate length to support
15 the moves and tenant improvements required to consolidate headquarter
16 functions. Final negotiations occurred in early 2018 and the lease extension was
17 executed on May 11, 2018.

18 **Q. Describe the commercial terms of the PSE East Building lease extension.**

19 A. The new lease for the PSE East Building extended the expiration date from
20 October 31, 2020, an additional seven years to October 31, 2027. Lease rates
21 remained the same as those under the old lease until November 2020. In

1 April 2018, CBRE performed an analysis comparing the lease extension to the
2 Bellevue core market. Please see the Third Exhibit to the Prefiled Direct
3 Testimony of Douglas S. Loreen, Exh. DSL-4C, for a copy of the CBRE Market
4 Analysis April 2018. Among the positive benefits of the lease extension were:

- 5 • Lease rates of \$30 per square foot compared to market
6 estimate of \$37-\$40 per square foot
- 7 • Three months of free rent at the start of the extension
8 (November 2020 – January 2021)
- 9 • Tenant improvement allowance of \$7,721,790

10 PSE believes these favorable terms reflect the property owner's desire to maintain
11 an anchor tenant in the complex while marketing and leasing available space in
12 the PSE Building. Hines's anticipated construction of Summit III, the third and
13 final building in the Summit complex, may have also impacted their desire to
14 retain PSE as an anchor tenant.

15 **Q. What alternative facilities did PSE consider for relocating the entire Bellevue**
16 **headquarters?**

17 A. The available property that was evaluated as the most promising alternative
18 during the time that the PSE Building lease termination decision was made in
19 early 2017 was a commercial building complex located in the Eastgate area east
20 of Bellevue on I-90. This property was 180,000 square feet and available off-
21 market. CBRE estimated that the property would cost \$31.6 million to purchase
22 and require \$36.1 million for modernization and other improvements. PSE
23 estimated that the property would be ready to occupy in the summer 2020. This

1 availability date would support vacating the PSE East Building before the lease
2 expired on October 31, 2020.

3 **Q. Describe the decision not to pursue the Eastgate property.**

4 A. The Eastgate property opportunity was ultimately not pursued. One of the primary
5 drivers of this decision was the \$67.7 million capital requirement to purchase and
6 occupy the site. This facility purchase would have impacted the funding for other
7 PSE capital priorities such as projects and programs to improve service reliability.

8 **Q. Were there other reasons PSE decided to extend the PSE East Building lease
9 after deciding to allow the PSE Building lease to expire?**

10 A. Yes. In addition to the financial considerations previously described, PSE also
11 desired to keep its corporate headquarters in Bellevue. Bellevue is centrally
12 located, and it is in the largest city in PSE's electric service territory. PSE's
13 presence in Bellevue, including its headquarters, is an important part of attracting
14 and retaining talent in an increasingly competitive marketplace. The proximity of
15 PSE's Bellevue headquarters to a major bus transit center and to the forthcoming
16 light rail station is desirable. Employee surveys continue to show Bellevue as one
17 of PSE's most popular work locations.

18 In addition, extending the PSE East Building lease also limited the business
19 disruption considering all of the other facility moves then underway.

1 **Q. Describe the personnel moves involving the Puget Sound Energy East**
2 **Building to accommodate vacation of the Puget Sound Energy Building.**

3 A. With the vacation of the PSE Building, the PSE East Building became the new
4 PSE corporate headquarters. As such, some teams were moved from the PSE East
5 Building to create space for headquarters functions moving from the PSE
6 Building.

7 Among the teams moving from the PSE East Building were the Get to Zero
8 project team and supporting IT functions, the Meter Upgrade project teams, Gas
9 Engineering, and Gas Standards.

10 Notable headquarters functions moving to the PSE East Building included PSE's
11 finance and account functions, real estate, facilities, human resources, and
12 executives. Moves to the PSE East Building took place between March and July
13 2018.

14 Following all moves, occupancy of the PSE East building was nearly unchanged
15 at approximately 1,150 FTEs.

16 **Q. Describe the creation of executive space on the 11th floor of the Puget Sound**
17 **Energy East Building.**

18 A. Prior to the Bellevue Campus consolidation project PSE's officer and support
19 staff were located on the 12th floor of the PSE Building. The necessary facility
20 improvement work on the 11th floor of the PSE East Building began in January
21 2018. The new space reduced the overall executive space from the PSE Building.

1 The work involved completely vacating the floor of employees, followed by
2 demolition, reconfiguration of walls, new carpet, mechanical systems,
3 audio/visual equipment, security upgrades, and IT systems. The PSE executive
4 team move into the south portion of the 11th floor was one of the final moves of
5 the Bellevue Campus Consolidation in June and July 2018. PSE's government
6 affairs and legal teams occupy the remainder of the floor.

7 The total cost of the PSE East Building 11th floor improvements was
8 approximately \$3.5 million. This amount was fully covered by tenant
9 improvement credits included in the new lease extension.

10 **C. Bothell Building O Lease Acquisition**

11 **Q. What drove the decision to acquire additional space in Bothell?**

12 A. The decision to acquire additional lease space in Bothell was part of the overall
13 Bellevue Campus consolidation and was primarily driven by two major projects:
14 Get to Zero customer service improvement initiative and the Meter Upgrade
15 project. PSE already occupies two buildings in same complex for Customer
16 Access center and Energy Efficiency. The leases for the two existing buildings
17 give PSE first right of refusal on open commercial space in the development such
18 as Building O.

19 **Q. Describe the new Bothell Building O lease.**

20 A. The Bothell Building O lease totals 96,000 square feet on three floors. The tenant
21 improvement work began in March 2018 which involved demolition, some

1 reconfiguration of walls, carpet, mechanical system, and required technology
2 systems to support the business functions. All relocations were completed by May
3 2018.

4 PSE executed the lease for Bothell Building O on January 3, 2018. The lease will
5 run until July 31, 2024, representing a term of six and one-half years. The lease
6 was executed at a first-year rate of \$18.45 per square foot. The then comparable
7 rate to renew the Puget Sound Energy lease in Bellevue was \$32 per square foot.
8 In addition, PSE negotiated \$4,817,500 in tenant improvements and lease credits.
9 PSE has the flexibility to reduce the lease area by up to two floors after 36 months
10 depending on the evolving needs of the major projects occupying Bothell
11 Building O.

12 **Q. Please compare the facilities portfolio before and after the actions taken for**
13 **the Bellevue Campus Consolidation.**

14 A. Table 1 below shows the square footage and occupancy of facilities before the
15 Bellevue Campus Consolidation project.

Table 1. Before Bellevue Campus Consolidation

| Facility | Square Feet | Occupancy (FTEs) |
|----------------------|--------------------|-------------------------|
| PSE Building | 115,595 | 490 |
| PSE East Building | 223,275 | 1,219 |
| Vernell | 29,113 | 0 |
| Bothell Building 'O' | 0 | 0 |
| South King Complex | 26,000 | 0 |
| Snoqualmie Tech Ctr | 125,109 | 0 |
| TOTAL | 519,092 | 1,709 |

1 Table 2 shows the square footage, occupancy, and status of facilities after the
2 Bellevue Campus Consolidation.

Table 2. After Bellevue Campus Consolidation

| Facility | Sq. Ft. | FTEs | Status |
|---------------------|----------------|--------------|---------------------------|
| PSE Building | 0 | 0 | Vacated 7/31/2018 |
| PSE East Building | 223,275 | 1,150 | Leased through 10/31/2027 |
| Vernell | 29,113 | 65 | Owned |
| Bothell Building O | 96,000 | 279 | Leased through 1/31/2024 |
| South King Complex | 26,000 | 124 | Owned |
| Snoqualmie Tech Ctr | 125,109 | 86 | Owned |
| TOTAL | 499,497 | 1,704 | |

3 **III. BELLINGHAM SERVICE CENTER**

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

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

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

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

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

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

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

20 A. The Bellingham Service Center project was submitted for capital funding
21 consideration via Capital Spending Authorization in July 2015. Please see the

1 Fourth Exhibit to the Prefiled Direct Testimony of Douglas S. Loreen, Exh. DSL-
2 5, for a copy of the Capital Spending Authorization. The funding request
3 considered the following alternatives, including the selected alternative:

- 4 1. Full rebuild: This is the selected alternative and involved the construction
5 of a functional, efficient, low-maintenance building with a service life of
6 more than fifty years at an estimated cost of approximately \$15.7 million.¹
7 The rebuild addressed and resolved significant life, health and safety
8 concerns. The new building was structurally strengthened to withstand
9 seismic events (earthquakes), protected with fire suppression systems, and
10 equipped with the latest emergency (power and communications) backup
11 systems. The new building design also meets ADA standards, it contains
12 enhanced safety features, it provides a designated environmental storage
13 facility, and has larger truck bays, a more efficient storage yard layout,
14 and better fences and gates, all of which improve productivity. In addition,
15 as part of the environmental mitigation efforts undertaken during the
16 rebuild, the fuel dispensing system and underground fuel tanks were
17 removed.
- 18 2. Partial rebuild: The partial rebuild alternative would not have addressed all
19 seismic and fire sprinkler deficiencies. Under the partial rebuild scenario,
20 only the office/line building would have been rebuilt and as a result, the
21 garage and substation wire shop would have remained in their then-current

¹ Up to \$17.95 million with risk contingency.

1 and deficient conditions. The cost of the partial rebuild was estimated at
2 \$12.4 million, or approximately \$3.2 million less than the estimated cost
3 of a full rebuild.

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

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

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

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

1 **Q. Describe the scope of the project.**

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

9 **Q. Describe the execution of the project.**

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

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

18 A. There were several changes to the project scope and schedule during project
19 execution that resulted in cost changes. These changes were due to unforeseen
20 conditions, City of Bellingham permit conditions, increases in material costs,
21 some additions to meet PSE workspace technology standards, and clarification of

1 design requirements and bid documents. The final cost of the project was
2 approximately \$20.4 million. The most significant changes included:

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

16 In addition to scope changes, the project experienced extreme winter weather
17 conditions, which began unseasonably earlier than normal, impacting the project
18 schedule and adding costs for general conditions, dewatering, temporary heat, and
19 postponement of site paving.

20 IV. SOUTH KING COMPLEX RENOVATIONS

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

23 A. The South King Complex ("SKC") is a 26-acre property that was originally
24 owned and developed by AT&T (then Western Electric) in 1976 to support its
25 central operation and warehouse functions. AT&T's improvements on the

1 property accommodated both indoor and outdoor storage, materials receipt and
2 distribution, and office space. The property was sold by AT&T in 1993 to Ranch
3 Associates, a Washington general partnership.

4 In 1993, PSE's predecessor, Puget Sound Power & Light, entered into an
5 agreement with Ranch Associates to lease a 168,085 square-foot portion of SKC.

6 In 2007 and 2013, PSE leased the remaining 78,400 square-foot and 29,650
7 square-foot portions of SKC. In August 2016, PSE purchased the entire facility
8 from Ranch Associates. The prudence of the purchase decision was recognized in
9 PSE's 2017 general rate case (Dockets UE-170033 and UG-170034).

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

12 A. SKC continues to be uniquely configured to support PSE's utility operations. Its
13 overall size, design, central location, and accessibility make it ideal for PSE's
14 operations. Importantly, SKC is also zoned to accommodate outdoor storage.
15 Today, SKC supports numerous business functions performed by PSE on behalf
16 of its customers including materials warehouse and central stores, gas and electric
17 meters inventory management, waste handling, substation relay operations,
18 electric system protection design, energy efficiency services, electric first
19 response, customer and distribution project design and management, fleet, and
20 numerous other PSE functions.

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

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

- 9 • Updating the northwest office space features that were
10 outdated, lacked basic technological necessities, and
11 needed to be reconfigured to best accommodate PSE's
12 operations;
- 13 • The HVAC, electrical, network/telecommunications, and
14 fire protection systems were outdated and needed to be
15 replaced; and
- 16 • In some areas, the facility did not meet building code
17 requirements, such as modern seismic building code
18 requirements.

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

20 A. Yes, as part of the due diligence process prior to purchase, as discussed in the
21 Prefiled Direct Testimony of Joel L. Molander, Exh. JLM-1T, Dockets UE-
22 170033 and UG-170034, PSE retained MENG to perform a facilities conditions
23 assessment ("FCA"). The FCA addressed structural, mechanical, electrical and
24 building envelope aspects of SKC and identified several deficiencies and
25 opportunities for future improvements consistent with buildings similar in age and
26 operating use. Notably, the MENG analysis did not include the northwest office

1 area because PSE had already planned to conduct a major tenant improvement in
2 that area and most of the deficiencies in that area were to be addressed by the
3 tenant improvements. In total, the estimated costs for these future improvements
4 ranged from \$30-45 million and were recommended irrespective of lease or
5 ownership of the facility to ensure the safe and effective performance of the asset.
6 As explained by Mr. Molander's testimony, the need for and estimated costs of
7 future improvements at SKC was expressly factored into PSE's decision-making
8 process when it ultimately determined that purchasing SKC achieved the lowest
9 cost outcome and best business value to PSE customers.

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

12 A. The largest improvement since purchase was to update 26,000 square feet of
13 office space. This renovation included new entries, office space for 145
14 workstations, meeting and collaboration spaces, a kitchen/break room, restrooms
15 and support spaces. Circulation routes into and through this new office space with
16 connections to other areas of the SKC building were also created for more
17 efficient movement throughout the facility. In this area, all existing mechanical,
18 electrical, network/telecommunications and fire protection systems were replaced;
19 the structure was seismically upgraded; and new security systems were provided.
20 Demolition for the improvements also included abatement of any hazardous
21 materials such as asbestos. Please see the Fifth Exhibit to the Prefiled Direct

1 Testimony of Douglas S. Loreen, Exh. DSL-6, for a detailed information
2 regarding the SKC renovation.

3 Office space improvements incorporated findings from the CBRE Workplace
4 Strategy report from February 2016 and resulting PSE@work design standards.
5 The office upgrades were completed in October 2017.

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

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

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

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

² Up to 15.4 million with risk contingency.

1 higher permitting costs than anticipated. The final cost of the project was
2 approximately \$16.3 million.

3 **V. SNOQUALMIE TECHNOLOGY CENTER PURCHASE**

4 **Q. Please describe PSE's Snoqualmie Technology Center.**

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

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

12 A. The Snoqualmie Technology Center was purchased primarily to house one of two
13 new corporate data centers. The decision to retire PSE's two existing data centers
14 and build two redundant data centers was driven by risk and is explained in the
15 Prefiled Direct Testimony of Margaret F. Hopkins, Exh. MFH-1T.
16 For geographic diversity, PSE decided to locate one of the data centers east of the
17 Cascades at PSE's Cascade Substation in Cle Elum, Washington. The second data
18 center was to be located in Western Washington. In conducting its search, the
19 project team identified the following available properties as candidates for the
20 west-side data center:

21 1. Talbot Switching Station (Renton)

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- 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 Snoqualmie 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 \$13,131,427. The property purchase closed on May 12, 2017.

1 The final cost was an increase above the \$12,400,000 in estimated costs. The
2 increase can be attributed to additional security enhancements and equipment
3 added to monitor and protect the perimeter of the facility. The cost of the modular
4 data center, supporting systems, and backup generator, are not included in this
5 amount but are discussed in Ms. Hopkins's testimony. Please see the Sixth
6 Exhibit to the Prefiled Direct Testimony of Douglas S. Loreen, Exh. DSL-7, for
7 background, analysis, and authorization to purchase the Snoqualmie facility.

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

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

14 **VI. BUSINESS OFFICES LEASE TERMINATIONS**

15 **Q. Why did PSE decide to close its regional business offices?**

16 A. The seven regional business offices provided payment processing services to
17 walk-in customers. PSE has seen a decline in use of these facilities as customers
18 have moved to using self-service tools. PSE expects this trend to continue as
19 people increasingly conduct their day-to-day business on digital channels. Walk-
20 up customers will still be able to use pay stations at more than 100 participating
21 retailers throughout PSE's service area.

1 **Q. What are the expected lease savings from closing PSE’s regional business**
2 **offices?**

3 A. Four of the seven regional business offices are leased. The table below shows the
4 annual lease costs and facility expenses for each location up to its lease
5 termination date. These savings have been included in the rent adjustments
6 described in the prefiled direct testimony of Susan E. Free, Exh. SEF-1T. The
7 other three business office locations are in owned operating bases in Tacoma,
8 Olympia, and on Vashon Island. These bases will maintain their current primary
9 use. At the owned locations, the business office closures will free-up a modest
10 amount of additional space but will not result in significant facility cost savings.

| Location | Annual Lease Cost and Facility Expenses | Termination Date |
|-----------------|--|-------------------------|
| Bellingham | \$178,641 | 12/31/2019 |
| Ellensburg | \$40,952 | 90 days’ notice |
| Freeland | \$104,370 | 12/31/2019 |
| Oak Harbor | \$88,656 | 12/31/2019 |
| TOTAL | \$412,619 | |

11 **VII. CONCLUSION**

12 **Q. Does this complete your testimony?**

13 A. Yes, it does.