**EXH. DMR-1T**
**DOCKETS UE-22___/UG-22___**
**2022 PSE GENERAL RATE CASE**
**WITNESS: DAWN M. REYES**

**BEFORE THE**
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**<br><br>**Complainant,**<br><br>**v.**<br><br>**PUGET SOUND ENERGY,**<br><br>**Respondent.** | **Docket UE-22____**<br>**Docket UG-22____** |

# PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

# DAWN M. REYES

# ON BEHALF OF PUGET SOUND ENERGY

**JANUARY 31, 2022**

**PUGET SOUND ENERGY**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF DAWN M. REYES**

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## I. INTRODUCTION

**Q. Please state your name, business address, and position with Puget Sound Energy.**

A. My name is Dawn Reyes. My business address is 355 110th Ave. NE, Bellevue, WA 98009-9734. I am the Director, Corporate Shared Services, of Puget Sound Energy ("PSE").

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

A. Yes, I have. It is Exh. DMR-2.

**Q. What are your duties as Director, Corporate Shared Services of PSE?**

A. As Director, Corporate Shared Services, I am responsible for Procurement, Materials Management, Third-party Risk, Business Continuity, Fleet Services and Facility Services.

**Q. Please summarize the purpose of this prefiled direct testimony.**

A. The first part of my testimony addresses major facility additions and changes that entered service from the end of the test year for the previous general rate

proceeding through the date of this filing. Specifically, the first part of my testimony addresses the following additions: (1) Puyallup Service Center and (2) the Kent Substation Operations.

The second part of my testimony presents PSE's planned facilities changes through year-end 2024:

- **Space Changes:** For office facilities, PSE is implementing greater work force flexibility, which changes lease space requirements on the greater eastside of King County.
- **Operating Facilities:** For operating facilities, PSE has the following major planned additions: (1) an operations training center, and (2) a land purchase to accommodate an anticipated new primary control center.

I am requesting rate recovery for these prudently incurred and planned initiatives.

The last part of my testimony describes PSE's procurement processes, outlining the steps PSE follows to align with industry best practices and to benefit customers.

## II. FACILITY ADDITIONS AND CHANGES

### A. PUYALLUP SERVICE CENTER

**Q. Please describe the decision to replace the Puyallup Service Center.**

A. The Puyallup Service Center building was constructed in 1962 and had become inadequate for PSE's necessary office and operational requirements. In addition to the building not meeting current seismic and safety codes, the site needed improvements to utilities, paving, landscaping, storm water drainage, and sewer

systems to provide a functional office and operations facilities. Because of these safety concerns and the expected costs to address needed updates and improvements, PSE determined that it needed to replace the existing building. This facility's location in Puyallup plays a vital role in PSE's ability to serve its customers in the region by providing a location for emergency first response, line crews, material storage and distribution, and localized storm response.

The Puyallup Service Center is a PSE-owned site and has excellent ingress/egress, storage, is zoned for utility functions and storage needs, and provides efficient service and logistical access for PSE to support the needs of its customers. Reconstruction on the existing site was the recommended option to avoid high costs associated with land acquisition, in addition to the costs of reconfiguring and constructing on an alternative site. Alternative sites reviewed for this facility were based on the same inventory available when looking for the Kent Substation Operations site, as shown in Exh. DMR-3.

**Q. Please describe the location and property for Puyallup Service Center.**

A. Puyallup Service Center is located at 5807 Milwaukee Avenue East, Puyallup, WA 98372. PSE has owned this 7.86 acre parcel since 1955. The site has housed operating personnel over its entire history.

**Q. Please describe the use of the Puyallup Service Center facility.**

A. The Puyallup Service Center is a replacement for the existing service center located at the same site. The Puyallup Service Center houses PSE and service provider field employees serving Pierce County. This facility plays a vital role in PSE's ability to serve customers by providing local emergency first response, line crews, and localized storm response. The new facility includes 19,419 square feet of office space, 12,214 square feet of operational space, 12 meeting rooms, and 3,029 square feet of warehouse space, as well as a secondary structure housing a generator and other storage. Please see Exh. DMR-4 for the building layout. The yard includes space for storing operations materials and equipment. The building houses approximately 31 PSE employees and space for approximately 13 contractors. The facility received its temporary certificate of occupancy from the City of Puyallup on September 30, 2021, and is projected to receive its final certificate of occupancy in May 2022. PSE began occupying this new facility on October 25, 2021. After ongoing operations from the old building are transitioned to the new Puyallup Service Center, the old facility will be demolished. The space occupied by the current facilities will be converted to parking and storage area. Please see Exh. DMR-5 for a site plan of the Puyallup Service Center.

## B. KENT SUBSTATION OPERATIONS

**Q. Describe the decision to move PSE's substation operations to the Kent location.**

A. PSE's substation operations were previously located at the Shuffleton facility and storage yard at 1095 Lake Washington Boulevard N. in Renton. The Shuffleton facility was at the end of its life and City of Renton zoning precluded PSE from rebuilding on the site. The area was experiencing significant commercial and residential redevelopment that imposed operational and logistical challenges for PSE functions performed at this location. PSE submitted an application to the Commission on July 16, 2019, for a determination that the Shuffleton property would no longer be necessary or useful under WAC 480-143-180. In Order 01, the Commission found that the Shuffleton property is "surplus, unneeded, and not necessary or useful.[1] The Commission correctly noted that PSE intended to move its Shuffleton operations to its Kent operations facility.[2]

Prior to the sale, PSE reviewed several alternative properties to accommodate the Shuffleton business functions, including lease and ownership options. See Exh. DMR-3 for a complete list of properties reviewed and a brief description of why they were not chosen. Key considerations included ease of ingress/egress, storage, zoning for allowed uses, geographic location, associated operational efficiency and logistical implications, and the cost of development. Of the available sites,

[1] *In re Puget Sound Energy*, Docket UE-190606, Order 01 ¶ 15 (Aug. 29, 2019).
[2] *Id*. ¶¶ 2, 3, 10.

geographic location and storage limitations became a recurring challenge or the team determined that the cost to configure to PSE specifications exceeded that of configuring an existing PSE facility.

Based on the team's review, the PSE-owned Kent Service Center was identified as the preferred option for the new substation operations headquarters. The cost of redeveloping the Kent Service Center was factored into the team's recommendation—the building also requiring demolition and reconstruction due to seismic limitations. This option was also the least operationally disruptive to substation operations as PSE was able to renovate the site in advance of relocation activities. In addition, Kent Service Center is central to PSE's service territory, is located within close proximity to PSE's South King Complex for improved inventory management and distribution efficiencies, has improved access to major freeways, and is sufficient in size to accommodate storage, waste handling, and other operational requirements.

**Q. Please describe the location and property for Kent Substations Operations.**

A. Kent Substations Operations is located at 8001 South 212th St., Kent, WA 98032. PSE has owned this 6.18 acre parcel since 1989. The site has housed various operations over time and was most recently used by PSE service provider Quanta Services to house a portion of their South King County crews. Prior to redevelopment, the site included a building that was past end-of-life, inadequate

for PSE's planned uses, and did not meet seismic and safety codes. The prior building was demolished and the site prepared for construction.

**Q. Please describe the use of Kent Substations Operations facility.**

A. Kent Substations Operations is the new central headquarters for PSE's electric substation operations. The newly constructed facility includes a 30,200 square foot building with 2,475 square feet of outdoor covered spaces. The building holds 41 workstations and four meeting/training rooms. The site includes a 7,360 square foot parts and supply warehouse, a 5,465 square foot large equipment area parking/storage area, which includes a 20-ton bridge crane. Please see Exh. DMR 6 for a layout of the building. This facility is smaller than Shuffleton, but the yard design, layout, and improvements allow PSE to maximize functionality. Instead of storing equipment in an ad hoc manner, managing oil containment across the Shuffleton yard, and storing warehouse materials in three different places, PSE was able to program location and storage of materials to maximize the square footage and minimize wasted space. The location of the site places the materials warehouse in the heart of PSE's service territory, improving efficiencies for power restoration and improving PSE's day-to-day materials management in the area. The yard includes space for large substation equipment, including spare high voltage transformers and circuit breakers.

The building houses approximately 40 substation management and administrative personnel. With an open office layout, "hotel" workstations and warehouse desks,

the facility is configured to meet PSE's flexible office needs. The facility achieved temporary occupancy approval from the City of Kent on June 22, 2021, and PSE completed its move to the site on August 2, 2021. Please see Exh. DMR 7 for a site plan of the Kent Substations Operations.

## C. PUYALLUP AND KENT EXECUTION AND FINANCING

**Q. Explain the decision to use the build-to-suit execution and financing approach for the Puyallup Service Center.**

A. PSE originally planned to follow a traditional design, bid, build approach for Puyallup Service Center, in which PSE would contract with an architect for the design of the building, and then solicit bids for that design to a commercial prime contractor. In 2019, PSE issued the complete bid package for the Puyallup Service Center to six pre-qualified contractors. Because of commercial market conditions at the time, three of the contractors did not attend the walkthrough and withdrew thereafter, two withdrew after the site walk-through, and the single submitted bid was $6 million higher than the architect's construction estimate. At that time, PSE decided to cancel the bid process and re-evaluate its execution model.

In the process of evaluating alternative execution approaches, PSE looked at the build-to-suit approach both to take advantage of low interest rates and to bring on a development company that would have more experience and connections with retaining commercial building contractors. "Build-to-suit" is a facility development and financing approach that combines a development and

performance-based construction agreement with long-term lease financing. Once a developer is selected for the project, the developer submits a request for proposals to institutional lenders to bid on the project. The lenders that bid for the project base their rates and the amount they will lend on the credit rating of the tenant. In this case PSE is the tenant so they based the lending rate on PSE's credit worthiness. The terms of the bids are then reviewed by PSE and the developer and PSE negotiates with the lender to work out the structure of the funding. By constructing the lease this way, PSE is able to capture a lower interest rate for the project and therefore reduce monthly lease payments. If the lending were to be based on the project and the land and improvements, the lender would only provide the amount of funding equal to the land and improvements. Additionally, lenders only lend at a market interest rate for those types of loan, and those rates are traditionally higher than what a lender would offer for a build-to-suit project. By combining the land and improvement values, PSE could access to low-cost financing.

By using build-to-suit for this development, PSE saved $25,151,290 when compared with design bid build development. Please see Exh. DMR-8 and Exh. DMR-9 for the financial comparison of design, bid, build approach and the build-to-suit approach for the Puyallup Service Center.

**Q. Explain the build-to-suit lease for the Puyallup Service Center.**

A. The build-to-suit lease for the Puyallup Service Center is for a 20-year term starting on June 10, 2022, and ending on May 31, 2042. Annual lease costs are $3,524,461 (which includes debt service) and annual operations costs are $288,191. Rent escalates at 2% and operating costs escalate at about 2.2% annually. At the end of the lease term, PSE has the option to purchase the facility for $1.

**Q. Explain the decision to use a "build-to-suit" approach for Kent Substations Operations.**

A. As noted above, "build-to-suit" is a facility development and financing approach that combines a development and performance-based construction agreement with long-term lease financing. By combining the land and improvement values, PSE was able to acquire access to low-cost financing.

For Kent Substations Operations, PSE conducted a detailed financial comparison of build-to-suit versus a more traditional approach of a design agreement followed by a construction contract with PSE capital financing. Please see Exh. DMR-10 and Exh. DMR-11 for a contemporaneous financial comparison of these two approaches showing the cost savings achieved by using build-to-suit. PSE saved $19,718,695 by using build-to-suit as opposed to the traditional design-bid-build method.

**Q. Explain the build-to-suit lease for Kent Substation Operations.**

A. The build-to-suit lease for Kent Substation Operations is for a 20-year term that commenced on October 1, 2021, and terminates September 30, 2041. Annual lease costs are $2,533,279 with 2% annual increases for debt service. Annual operations costs are $424,360 with annual increases of 3%. At the end of the lease term, PSE has an option to purchase the facility for $1.

**Q. The same developer, Trammel Crow, won the bid for both projects. What are the benefits of using the same developer for both projects?**

A. By combining the Puyallup and Kent projects together, PSE was able to increase the combined size of the project which helped attract highly qualified developers to bid on these projects by creating economies of scale through reduced management rates. Please see Exh. DMR-12 for a description of the scenarios PSE analyzed and how combining the projects led to aggregate cost savings. After receiving and analyzing three bids, PSE selected Trammell Crow. They were the least cost alternative for PSE's customers. The primary differentiating factor setting Trammel Crow above is their approach to use the credit tenant lending for acquiring project financing; credit tenant lending is when the lender bases the available loan rate and amount on the tenant's credit rating. No other developer submitted anything similar for review. PSE was able to acquire lending from Nuveen because they based the loan rate on PSE's credit rating instead of looking only at the individual projects, resulting in a lower loan rate than PSE could have

otherwise obtained. Furthermore, PSE was able to create project savings with a build-to-suit developer by making their management cost contingent on how well they performed. Trammel Crow delivered the Kent project with a costs savings of $2,645,000, which helped reduce the lease payments.

If upon substantial completion of the project, the actual managed costs were to be less than the managed costs plus project contingency set in the final budgets, then Trammel Crow would be entitled to a percentage of the savings. This percentage of the savings is contractually capped at a less than one percent of the completion fee. This provides an added incentive for Trammel Crow to perform and contributes to overall final cost savings for PSE.

Another benefit of selecting a single developer for both the Kent and Puyallup projects is that it facilitated the use of a Guaranteed Maximum Price ("GMP") contract. A GMP contract caps the amount of costs a developer can charge for a project, including labor, materials, and profit. The benefit to PSE is that it capped the maximum cost of the project, allowing PSE to share in the costs savings. In the case of Kent, the project costs fell below project budget and resulted in cost savings being returned to PSE, which were used to reduce the rent. With the two projects together, PSE was able to leverage the size of the development to attract more qualified developers that could offer top tier project management and project delivery, depth of developer staff resources, access to high quality construction contractors and associated resources, proven track record, and access to lowest cost financing. PSE attracted Trammell Crow to the project. Trammel

Crow usually focuses on large scale developments, including commercial high-rise towers. Combining the projects facilitates scaling the resources of the developers and allows PSE to benefit from those resources. In addition, Trammell Crow was able to facilitate credit tenant lending, reducing the interest rate for borrowing funds. Trammel Crow provided access to quality vendors that PSE did not have to pursue independently but came in as subcontractors through the contract with Trammell Crow. Their proven track record resulted in an attractive proposal PSE could review and analyze to make the right decisions for PSE and its customers.

**Q. What were the cost savings of using the build-to-suit method for the Puyallup and Kent projects?**

A. By using the build-to-suit method for the Puyallup and Kent projects, PSE was able to save approximately $80 million that became available for other projects, including customer-facing and reliability projects, that would have otherwise been committed to the Facilities portfolio. In addition to cost savings, because PSE owns the underlying land, PSE eliminates future relocation risk exposure that is inherent in leases.

## III. FUTURE FACILITY CHANGES

### A. LEASE PORTFOLIO CHANGES

**Q. Please provide an overview of PSE's lease holdings on the greater eastside of King County.**

A. In addition to the two new operating facilities discussed in Sections II.A and II.B above, PSE's lease holdings on the greater eastside include 471,419 square feet across six locations, including 223,820 square feet at PSE's headquarters in Bellevue.

**Q. Describe recent changes to the lease portfolio.**

A. Testimony in the previous general rate proceeding describes major lease changes, including vacating the PSE building in Bellevue, renewing the lease for the PSE East building, and negotiating a lease for Bothell Building O.[3] These changes have resulted in a lower number of employees using the Bellevue location and additional employees in offices across PSE's service territory. These changes were driven by economics of space in Bellevue and facility strategic objectives, as reflected in the PSE@work program.

[3] *See WUTC v. Puget Sound Energy*, Dockets UE-190529/UG-190530, Prefiled Direct Testimony of Douglas S. Loreen, Exh. DSL-1T at 2:7-15:2.

**Q. What is PSE@work?**

A. PSE@work was introduced in 2016 and was the first step toward a more flexible workplace. PSE introduced technology that enabled a consistent working experience across PSE facilities driving greater efficiency. Additionally, PSE consolidated space in downtown Bellevue by moving some teams to updated regional offices closer to PSE customers. The program objectives continue to be: achieving greater space efficiency throughout PSE's facilities portfolio; updating workspaces to represent PSE as an innovative company to attract and retain talent in the competitive Puget Sound region; and providing a consistent employee experience across all facilities. PSE@work improvements included condensed floorplans with modern furniture systems, increased collaborative workspace, and technology upgrades to workstations and conference rooms that support a distributed workforce.

**Q. Describe PSE's current facility drivers with respect to the lease portfolio.**

A. PSE is continuing its strategy to support a distributed and flexible workforce as described in the PSE@work program. PSE's COVID-19 pandemic experience, which resulted in the majority of its office employees working remotely starting in March 2020, has proven PSE's ability to accommodate a workforce that includes remote options. While the pandemic response is not resulting in a new facilities approach, it has accelerated its implementation.

**Q. Please further explain how the pandemic has affected PSE's implementation of its facilities approach.**

A. The PSE@work strategy includes a more distributed and flexible workforce, but PSE did not anticipate the rapid deployment caused by the pandemic, which resulted in nearly all PSE employees working remotely in a matter of weeks. When PSE followed state guidance and made the decision in March 2020 to direct most of its employees to work from home, PSE quickly implemented technology solutions and facility solutions that allowed PSE to deliver safe and reliable gas and electricity service to its customers, while keeping PSE employees socially distanced and safe.

**Q. Does PSE support a 100% virtual workforce going forward?**

A. Consistent with the PSE@work strategy, PSE supports a more distributed and flexible workforce. However, PSE does not anticipate its entire workforce will prefer, nor be able, to work remotely. Throughout the pandemic, PSE surveyed its employees to further understand their work experience and future workplace needs and preferences post pandemic. Over 2,300 employees participated in the survey and were asked the number of days per week they would prefer to work remotely, in a PSE office, or in the field. PSE used the following definitions in its survey: "remote" means working three or more days per week from home or in a non-PSE facility; "in-office" means working from a PSE office three or more days per week, and "in the field" means working three or more days per week at a

jobsite or from their vehicle. Sixty-six percent of employees, whose jobs allow it, reported that their preference is to work remotely. Employees cited the need to collaborate, strategize, and meet with teams as their primary purpose for working in a PSE office at least some of the time. Additionally, some employees cited that they simply do not have the home environment conducive for remote working and thus prefer working at a PSE facility. While PSE is managing quite well working remotely, given the circumstances and the demands of some jobs, PSE does not see 100% remote work as sustainable.

**Q. What are PSE's plans for a flexible workplace?**

A. PSE plans on a hybrid workplace that seamlessly transitions between remotely working from home, working from a PSE office facility, and working with customers and crews in the field. PSE plans to align its workplace options with the workplace preferences employees expressed in the survey (66% working primarily remotely). PSE also expects preferences and that number to fluctuate as PSE and the region navigate the next phases of the pandemic and employees begin working in a hybrid manner.

**Q. What are the benefits to the customer of the flexible workplace?**

A. As the PSE@work strategy articulates, a sustained hybrid workplace will not only help attract and retain PSE employees, but also deliver lower operating costs due to a consolidated facility footprint, ultimately reducing customer costs. Fewer in-

office workers will also reduce PSE's carbon footprint by decreasing employee commuting.

**Q. Describe the specific planned changes to the lease portfolio resulting from implementing flexible workforce principles.**

A. Future Workplace is the rebranded acceleration of the PSE@Work program, adding to it the learnings from the COVID experience and the many benefits that are possible with a hybrid working model such as carbon reduction, employee satisfaction, safety, and long-term costs savings. Based on the results of the Future Workplace preference survey, PSE will require smaller lease holdings in Bellevue and Bothell; to that end, PSE is consolidating offices.

**Q. Describe the changes planned in Bellevue.**

A. For the Bellevue Headquarters (formerly called the PSE East or EST building), PSE is planning to reduce its square footage to just over half of the current footprint. PSE is consolidating on the upper five floors of the building, and vacating five floors, freeing up approximately 110,000 square feet for another tenant. Over the course of 2021-23, PSE plans to reorganize the upper floors to accommodate the consolidation, including modifying conference room space, collaboration areas, storage, and flexible furniture systems.

Because PSE's current lease for the Bellevue Headquarters does not terminate until 2028, PSE plans to approach the Bellevue landlord to propose partnering to

find a new tenant, which would result in an early termination of the space or finding a sub-lessee.

**Q. Are there any exit costs associated with the move out of the five floors in Bellevue?**

A. PSE is obligated to restore the office space at lease end. Based on the future negotiations with the landlord and agreed approach, there may be restoration costs associated with early termination, or tenant improvement credits needed for a sub-lessee. While most of the floor vacation was office space related, it was also necessary to move the Backup Control Center to another site.

**Q. Where was the Backup Control Center moved?**

A. PSE chose the second floor of Bothell building H for the relocated Backup Control Center because of the infrastructure and office space that already existed at the site. By relocating to a site already primed for this type of facility (office space, along with adequate power, wiring, fiber, etc.), PSE was able to save both time and expense compared to finding and acquiring new property and needing to establish critical infrastructure before siting the facility.

**Q. Describe any other changes planned in Bothell.**

A. For the Bothell complex, PSE is in the planning stages to consolidate functions in Bothell buildings H and O and pursue a lease termination or sublease for Bothell building G. Bothell building O will be retained because it is PSE's largest holding

and has the most modern furniture and collaborative spaces. Bothell building H houses the Backup Control Center and has some more modern furniture.

Vacating Bothell building G will require creating a new, smaller Customer Access Center in Bothell H or O. One lesson of the pandemic is that customer representatives can be productive working remotely, allowing PSE to reduce the floor area dedicated to customer representatives. Some customer representatives worked from home prior to the pandemic, but the program will be expanded and accelerated.

**Q. Do you anticipate changes at any other locations?**

A. PSE continuously looks at its leased properties alongside its anticipated future needs. While much smaller and less material, other anticipated changes in PSE's portfolio include consolidating smaller holdings such as Lincoln Executive Center (6,000 sq. ft.) and Redmond West (45,000 sq. ft.) into other current PSE locations. These are both smaller holdings related to specific functions with strong field operations elements. However, based on a reduced need for office space, they could be consolidated into other locations. The moves will require an investment and restoration due to the landlord requirements. The estimated Redmond West relocation expenses of $5 million are identified on PSE's Capital Plan. Both of these leases are forecast to continue in present form until they terminate on May 31, 2023, (Lincoln) and November 30, 2024 (Redmond West).

## B. OPERATIONS TRAINING CENTER

**Q. Please describe the need for the new Operations Training Center.**

A. PSE's new initiative, Beyond Net Zero Carbon, requires a well-trained, effective and competent work force to maintain and operate safely and efficiently the energy systems that underpin and support Washington's clean economy.

The clean energy systems are more complex and heavily reliant on new and expanding technology that require PSE to not only train new employees, but to expand the skillsets of existing employees by training them in new technologies and processes. Continued partnering with the community and technical college system and this facility will help PSE meet those needs.

PSE's current training program is fractured with limited training facilities. Currently the spaces are carved out of small niches of space within business unit and operating bases. This site will allow PSE to centralize training and place more importance on developing employees to do their job. The new facility will allow PSE to systematically and efficiently provide a higher level of training, which must include hands-on and scenario-based training that will create the competencies required to handle real-time emergencies and make risk-based decisions in a safe and realistic environment, and to improve situational awareness and team collaboration in the field. In addition, this facility will allow PSE to continue its long partnership with first responder agencies with hands-on and scenario-based joint exercises to improve emergency response in the

communities that PSE serves. Please see the Prefiled Direct Testimony of Catherine A. Koch, Exh. CAK-1T, for additional information on the need of the Operations Training Center.

**Q. How did PSE select the North Bend site for the Operations Training Center?**

A. PSE conducted its initial search internally to see if PSE owned a site that could accommodate the development. After determining there was nothing in PSE's portfolio that would meet the needs for the operations training center, PSE conducted a thorough search of the service territory, with the assistance of CBRE, to find a suitable property. PSE researched 21 different sites before landing on the Puget Western, Incorporated ("PWI") property. Please see Exh. DMR-13 for a description of the alternatives considered. This transaction was also submitted to the commission through an Affiliated Interest Filing in June of 2021.[4] The negotiated contract for this property provides PSE with ample time (until July 2022) to locate a developer, study the land, and work through internal approvals before PSE would have to close on the purchase. By the time PSE would close on this property it will be partially entitled, meaning it will have some of the necessary permits and approvals. The seller agreed to complete the required review under the State Environmental Policy Act, Ch. 43.21C RCW ("SEPA") and obtain the required septic permit before PSE closes on this property. No other property reviewed offers this benefit. This will save PSE up to a year in acquiring

[4] *Puget Sound Energy*, Docket UG-210438 (June 10, 2021).

entitlements to get to this stage of the development. Other available properties in the market were either too costly, not suitable for development, or were not within an area conducive to existing infrastructure.

**Q. Please describe PSE's Operations Training Center in North Bend.**

A. The planned site for the new Operations Training Center in North Bend is approximately nine acres of vacant land located generally at the intersection of Northwest 8th Street and Alm Way, King County tax parcel number 052308-9059.

The planned facility will be comprised of two major components: an approximately 36,500 square foot building containing classrooms, training labs, and instructional staff space, and an outdoor training area of approximately 175,000 square feet containing a series of training areas and an outdoor village for simulation of abnormal conditions to train employees and first responders to deal with energy facility emergencies.

**Q. Describe the history of the site.**

A. The property PSE planned to be purchased from PWI is approximately 8.9 acres of vacant, developable land in the City of North Bend. PWI and PSE obtained a third-party appraisal to determine the purchase price for the property. PSE has entered into a purchase and sale agreement ("PSA") and is in the feasibility time period. PSE will not be required to close on the purchase until the end of July

2022, assuming the conditions of the PSA are satisfied or waived. The PSA is included as Exh. DMR-14. The contract amount for the land purchase is at the appraised value of $2,132,000. PSE has planned to spend approximately $250,000 in feasibility studies during the diligence period; such feasibilities studies include geotechnical, survey work, critical area analysis, and other as needed. These studies will help PSE evaluate whether the land is suitable for its needs. The $250,000 also includes anticipated closing costs. The purchase price includes the cost of the SEPA review and septic permit. Because SEPA review will be complete, sign off on critical areas from the City, and a septic permit will be in hand at closing, PSE's entitlement process will be shortened when compared to a typical acquisition, where PSE would only be purchasing land and would then need to start the entitlement process, including SEPA review. This will provide the opportunity to move forward quickly because PSE will have a partly entitled property consisting of an approved SEPA review and an approved septic permit. This will allow PSE to progress straight to the design phase once a developer is selected.

**Q. Describe the schedule and status for constructing the Operations Training Center.**

A. PSE plans to close the purchase of the land on or before July 29, 2022. In conjunction with the land purchase, and as of the date of this filing, PSE is currently in the request for proposals ("RFP") stage of the project. After receiving and reviewing the RFPs, PSE will select a developer to finish designing and

programing the facility as well as produce specification and standards for the development. The pre-development phase will run from February 2022 through the end of April 2022. PSE will then develop the project plan and detailed requirements with the Developer and work through agreements, with a tentative final scope in November of 2022. At that point, PSE will have all preliminary development documents executed and project construction to commence around December of 2022. Substantial completion for the project will be approximately December of 2023, with occupancy to occur first quarter of 2024.

**Q. What are the expected costs of the Operations Training Facility?**

A. PSE will use the build-to-suit approach that was successful with the construction of Kent Substation Operations and the Puyallup Service Center.

PSE is in the process of selecting the developer to lead development of the project. Early estimations of the total construction costs for the facility are under a design-bid-build approach are approximately $84 million as compared with an estimated construction cost of build to suit of $53 million.[5]

Estimated first year lease payments are approximately $3.5 million per year for debt service and estimated $400 thousand per year for operating costs. Operating costs are estimated to escalate at three percent per year. These are preliminary

[5] Koch, Exh. CAK-6.

numbers with actual budget allocations being made once the project has gone through the design phase.

## C. PRIMARY CONTROL CENTER

**Q. What is the role of the primary control center?**

A. The primary control center is a 45,200 square foot operation that houses electric systems operations, transmission operations, gas systems operations, IT support, PSE's security command center, emergency control center and radio teams. Staff at the building monitor the status of operations across the region.

**Q. Why is PSE pursuing a new primary control center?**

A. PSE intends to build a new primary control center that meets current industry standards, federal requirements, security needs, best practices, and that is built to withstand a major seismic event. The current center was originally constructed in 1958 with multiple additions over time and is approaching end of life. This facility will manage gas and electrical control and dispatch operations.

**Q. What is the current status of the new primary control center project?**

A. PSE is looking for approximately eight to ten acres of vacant flat land outside of a floodplain or seismic prone area, and within a different geographical area (access, weather, fault lines) than PSE's existing backup control center that is in Bothell. The location has not yet been identified. PSE will need to purchase new property for this facility and the cost could range greatly depending on the location. There

is currently $15 million in 2024 to go toward property acquisition costs included in PSE's rate recovery request.

**Q. What is the current schedule and estimated cost for a new control center?**

A. PSE intends to procure the property in the next three years. PSE is in the process of building out a full estimate of the development, and the construction costs will be included in a future rate case.

## IV. PROCUREMENT

**Q. What is procurement?**

A. Procurement is the process and standards by which an organization makes decisions about how it obtains goods and services from third parties. PSE aims to meet the needs of the business by considering assurance of supply, quality, cost, service, and innovation. PSE also seeks to deliver value by decreasing costs, mitigating risk, and increasing consistency and efficiency throughout the process.

**Q. What are considered to be procurement best practices for the industry?**

A. PSE has developed its practices by referencing industry organizations and consulting partners focused in this domain. The industry organizations include the Institute for Supply Management, the Association for Supply Chain Management, Sourcing Industry Group, and American Productivity & Quality Center. PSE has engaged ProcureAbility and Nitor Partners as consultants to guide PSE in understanding and implementing industry best practices.

Key best industry practices include: well defined processes that are transparent and automated where appropriate, use of data to optimize spend, documented plans for category management and sourcing activities, centralized documentation repositories, reporting on key metrics, and payment optimization.

**Q. Describe PSE's procurement policies and procedures.**

A. In January 2021 PSE updated the framework for the end-to-end Procurement process, policies and capabilities, and published the Business Process Guide. PSE's Procurement Policies and Procedures (also known as the Business Process Guide) is included as Exh. DMR-15. This document outlines procurement terminology, the role of procurement, responsibilities of the team, as well as general policies and processes. In tandem, PSE launched a major upgrade to the technology supporting the procurement functions.

**Q. How do PSE's procurement standards align with industry best practices for procurement?**

A. PSE has structured the procurement organization, as well as its policies and processes, according to the following leading industry standards:

**Well defined processes**: PSE has written documentation for its procurement processes and policies as well as step by step instructions for certain activities procurement requires of its business partners and suppliers.

**Process transparency**: PSE has an internal intranet site where all documentation around process, policy, and training guides can be accessed by all PSE employees. PSE has an external internet page for supplier intake and inquiries. PSE conducts sourcing events via Ariba sourcing utilizing standardized templates to provide for consistency, fairness, and transparency into the decision-making process when awarding bids.

**Automation of processes where appropriate**: PSE utilizes SAP Ariba Procure to Pay buying and invoicing for its purchase order output and invoice intake and payment scheduling. This process and technology has streamlined how purchases are executed and suppliers get paid with minimization of transactional work and human touches, while maintaining compliance and authorization requirements.

**Utilize data to optimize strategies and decisions**: PSE uses a spend analytics tool from PowerAdvocate to review and analyze spend data to inform strategies and decisions regarding competitive bids, supplier negotiations and contract awards. PowerAdvocate is a leading data analysis company focused on the power, energy and utility market.

**Create and maintain playbooks for sourcing spend categories**: PSE develops and maintains category management playbooks that proactively assess business requirements through stakeholder engagement, review of category spend and history, market research and strategic SWOT (strengths, weaknesses, opportunities, threats) analysis for strategic categories.

**Centralized documentation repositories**: PSE uses the Ariba sourcing module as a central repository for sourcing events and the Ariba contracts module for all contractual document records. In the contracts module PSE has created a library of most commonly used contract templates and implemented pre-approved alternate text for contract negotiations, bringing additional consistency to PSE contracting processes.

**Reporting metrics**: With the move to the new processes and technology, PSE designed procurement metrics and a dashboard that will be used to track customer benefits such as savings and risk reduction, and drive continuous improvement within operations.

**Payment optimization**: PSE has standard payment terms built into the contracting system that can be modified if needed. PSE's standard payment terms were increased from net 30 to net 60 in 2020.

**Q. What are PSE's procurement policies?**

A. As described in Exh. DMR-15, PSE's procurement policies are as follows:

**Supplier Relations**: PSE seeks to provide a fair process where no favoritism is shown and all suppliers are treated equally and transparently. The same information is provided to all potential suppliers and all have the same opportunity to win business. In addition, equitable evaluation and selection of suppliers is built into the competitive bidding process.

**Ethics Guidelines**: As part of PSE's commitment to conduct business honestly, ethically, and to be consistent with its core values, eight guidelines are published in the Business Process Guide to direct PSE conduct.

**Conflict of Interest**: PSE has developed a Conflict of Interest Policy for guidance on avoiding conflicts of interest in the engagement, evaluation, and management of suppliers.

**Confidentiality**: Prior to engaging with the market, PSE stresses to all team members the importance of confidentiality and the need to not share supplier information nor confidential or sensitive data with suppliers.

**Accepting Gifts and Gratuities**: Team members understand the guidelines and restrictions for accepting gifts and gratuities from suppliers, as set forth in PSE's policies.

**Q. What are PSE's procurement processes?**

A. PSE's organizational structure, supporting processes, and technology were all developed to align with industry best practices. These are also outlined in the Business Process Guide.

**Category Management**: Category management is the development of a multi-year strategic plan, or Category Strategy, that incorporates internal stakeholder engagement, data analysis, and market dynamics to identify and deliver value within a category.

**Strategic Sourcing**: The Strategic Sourcing process provides guidance for understanding sourcing category spend, business requirements, category market dynamics, developing a sourcing strategy, executing the sourcing event, and evaluating supplier responses.

**Contract Management**: This process takes awarded bids from Category Management/Sourcing and then reviews, negotiates, executes, and operationalizes contracts for the needed goods and services.

**Supplier Management**: This process works to identify, classify, and assess suppliers that are critical to PSE operations and develop appropriate plans to deliver value through the management of risk, performance, and relationships.

**Source-to-Pay Technology**: PSE has deployed Ariba as the technology tool for sourcing, contracting, supplier information management, guided buying, purchase requisitions, invoicing, and payments. The system facilitates a consistent experience and process across these functions.

**Q. What steps is PSE taking to increase the diversity of its supplier base?**

A. PSE has recently benchmarked its diverse supplier spend based on currently available internal data. PSE has made the decision to align its metrics with Washington state's Office of Minority and Women's Business Enterprises classifications and have updated the supplier questionnaire to identify small and diverse businesses. PSE is in the process of adding diversity and sustainability

questions in the RFP/RFI template language and will establish procurement goals to increase diverse suppliers in these events. PSE is also engaging with several community groups to move the program forward from a variety of perspectives.

**Q. How does PSE's procurement process benefit customers?**

A. The procurement process will generate value for PSE in several areas, all which were updated and refreshed in late 2020 through the eProcurement Phase 3 project:

**Cost Savings through Category Management and Strategic Sourcing**: PSE started a consistent benefits tracking process in 2021 and have identified approximately $20 million in savings that will ultimately benefit customers. The strategic sourcing process includes both competitive bidding and price negotiations, and savings are captured through a number of methods: annual savings, cost avoidance, efficiency, one-time benefit, volume rebates, working capital improvements.

**Risk Mitigation through Disciplined Contract Management**: This process identifies and mitigates risk, provides for compliance with legal requirements and PSE policies, and defines expectations and deliverables from awarded suppliers. Risk mitigation and compliance reviews include: budget owner approval of spend; information security, cybersecurity, and privacy requirements; data governance; industry standards and other regulatory requirements; insurance coverage

requirements; safety and quality plans; structuring of key performance indicators, service levels, and compliance framework for deliverables.

**Efficiency through Operations, Governance and Technology**: This process area provides that buying and invoicing issues are resolved in a timely manner in order to comply with payment terms and remain in good standing with PSE's partner suppliers. It also measures and manages value delivery through policies, procedures, and metrics reporting to increase benefits such as savings and risk mitigation from procurement activities. It also provides central support and guidance on the procurement systems, leading to efficient utilization and value from the technology.

**Q. Explain exceptions to PSE's procurement processes.**

A. The procurement organization covers the majority of categories and spend across PSE, except those where specific domain knowledge is held in the business area. Some examples include: power purchase agreements, pole attachments, real estate, and low income assistance agency agreements. The complete list is referenced in the Business Process Guide.

PSE's policies apply to new contract requests over $100,000. Those contracts must either be competitively bid or approved through the Business Justification process, which requires the requestor to:

- provide background for the request;

- explain why a sourcing event cannot be conducted;
- justify the selection of the chosen supplier; and
- obtain approval from management, escalating with the amount of spend.

There is also a policy for any purchase that is found to be made outside of the procurement process that documents why the process was not followed and a signature by the person and their manager of the understanding of policy and commitment to adhere to the policy in the future.

## V. CONCLUSION

**Q. Does this conclude your testimony?**

A. Yes, it does.