

20 October 2018

Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250 Olympia, WA 98504-7250

Submitted by email to records@utc.wa.gov

**Re: Puget Sound Energy's Proposed Sale of Non-Controlling Interest in Puget Holdings LLC
Docket U-180680**

To the Commission:

The sale of Puget Sound Energy to Macquarie Infrastructure Partners ten years ago was a huge mistake. Allowing Macquarie to exit and grant majority control to the Canadians and the Netherlands compounds that mistake.

The acquisition of PSE by private equity shareholders of Macquarie in 2008-2009 narrowly passed the WUTC by a split vote. When Puget Sound Energy was being acquired by Macquarie Infrastructure Partners, the WA Attorney General's office opposed the sale of PSE to Macquarie citing, "...it will place great pressure on the Commission to approve the necessary large and frequent rate increases on a consistent basis...**reduce the Commission's ability to effectively regulate PSE...**"

WUTC Commissioner Philip Jones also opposed the sale. He said, "*The settlement agreement in its current form **creates too much risk and potential harm for ratepayers and stakeholders**. The proposed agreement sets forth a capital structure with excessive debt for Puget Energy and PSE, and creates a privately held investor consortium that lacks sufficient transparency compared to the status quo.*"

Jones said that he believes "*the increased debt load creates undue risk for ratepayers by requiring PSE to create sufficient cash flow to service the substantial amounts of new debt*" and "*it will **place great pressure on the commission to approve the necessary large and frequent rate increases on a consistent basis.***"

<http://wutc.wa.gov/webimage.nsf/0/282DEDF46BFA989B8825753000005D8F>

Sadly, those prescient words have become a reality. This is a nightmare for PSE ratepayers. Is it any wonder why Jefferson County disconnected from PSE? Or why Microsoft pulled the plug from PSE after paying \$23M? Or why Bainbridge Island sought to form its own PUD last year? The message is clear: PSE is a monopoly that flaunts a blatant disregard for regulatory authority.

Let's learn valuable lessons from this recent history and not repeat the same mistakes.

The sale of PSE to foreign entities should require a rigorous review by the Committee of Foreign Investment (CFIUS). This sale warrants a full investigation of national economic security risks, cyber-security risks, and physical security risks posed by foreign, privatized ownership of a utility critical to the Puget Sound economy. In 2014, the Federal Energy Regulatory Commission (FERC) tasked the U.S. Senate Energy & Natural Resources Committee (Sen. Maria Cantwell, Ranking Member) to stop leaks of sensitive information after a series of *Wall Street Journal* articles provided hints at grid vulnerabilities.

- How much does foreign ownership of critical U.S. infrastructure compromise grid vulnerability and provide undue economic leverage?
- How are foreign entities equipped to guarantee the protection of sensitive Critical Energy Infrastructure Information (CEII) grid data?

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- How are foreign entities motivated to encourage 21st century renewable energy generation and technology solutions that decrease local greenhouse gas emissions to protect the environment? Canada has demonstrated it has no interest in preserving the environment based on recent federal actions taken with regard to the Alberta tar sands, the Canadian Kinder Morgan Trans Mountain Pipeline, and Site C.
- Why wasn't Macquarie subject to CFIUS review during the sale of PSE in 2008?
- How did Macquarie reduce its majority ownership in PSE from 51.4% in 2008, to 44% in 2018, giving Canadian pension plans further leverage, without public comment and rigorous review by the WUTC?
- How will foreign ownership of PSE serve the best interests of ratepayers and local communities when those foreign entities are beholden to prioritizing financial returns for distant shareholders and investors?

Total PSE ownership by Canadian Pension Plans and the Netherlands Pension Plan compounds Puget Sound's energy issues. The *Fortune* article, ***These Canadians Own Your Town***, provides perspective on the financial motivations of PSE's Canadian owners. "The Canadian Model" has been perfected, and we are watching it unfold before our eyes. <http://fortune.com/2015/12/02/ontario-teachers-pension-fund/>

"Canadian - model investing means minimizing passive stocks-and-bonds portfolios and buying sizable direct stakes -- in companies, in infrastructure, in property. It also means running a pension fund as an independent business: no handing management reins to political cronies, no farming out research to expensive outside advisers. It means bringing in top pros and paying them handsomely, the better to keep them on board."

"In its hunt for cash flow, the fund is increasingly deploying those boots in infrastructure deals... Infrastructure hits a sweet spot for managers who need to pay for teacher pensions 50, 60 or 70 years out.... It's a 'critical asset' that will provide inflation-protected returns to match our liabilities..."

*"... it means higher-than-average returns paired with lower-than-average risk." "If you execute the Canadian model correctly -- and there is 20 years of data on this -- it is worth an extra 2% every year ... Compound that every year, and then look at your returns...The Koreans are doing it, the Singaporeans are doing it, **the Dutch** are doing it... All the largest sovereign funds are trying to do it. **The Canadians have figured it out—and they have the returns to prove it...**"*

"If the fund buys a stake in your private firm, they explain, it would like to help call the shots. No 5% or 10%, slice thanks; more likely it will shell out for 30%, 40 or 50% or more and Board seatsIt's not unusual for us to have absolute control."

"If [the pension fund] doesn't like what it seesheads may roll."

The Canadians are NOT our friends in this proposed sale. Total PSE ownership by the Canadian Pension Plan Investment Board (CCPIB, BC investment board and Alberta Investment Board, and the Dutch Pension Plan) only compounds the Puget Sound's energy issues. Foreign ownership escalates costs to ratepayers while providing lower levels of service and decreased electricity reliability. Service and reliability metrics under PSE's current foreign ownership during the past 10 years clearly illustrate these facts. **"It creates too much risk and potential harm for ratepayers and stakeholders."** - WUTC Commission Philip Jones

PSE is pushing at least two major, unnecessary, infrastructure projects to prop up declining revenues – the Tacoma LNG plant and the Energize Eastside transmission line. Has the ORENS group been informed of the overwhelming independent evidence showing that Energize Eastside not needed? Is ORENS aware of the permitting problems posed by these projects? Would ORENS seek to request that Energize

Eastside permitting be done at EFSEC rather than seeking to overwhelm (and influence) 5 city jurisdictions with technical details those cities are ill-equipped to analyze? Is the ORENS group committed to addressing the list of deficiencies highlighted by the WUTC regarding the Energize Eastside project in the last IRP? Projects like Energize Eastside are extremely profitable to PSE because they are not required to be competitively bid and they reap an additional guaranteed rate of return for nearly 40 years (a perfect pension plan investment) – whether the infrastructure is necessary or not. It is very unlikely that the Energize Eastside project would pass a Prudency Review by the WUTC, nor would it pass muster with EFSEC.

Sen. Cantwell opposed the privatization of Bonneville Power Administration (BPA), proposed by President Trump earlier this year. Allowing Canada and the Netherlands to gain further control of PSE is akin to that privatization. I urge you to intervene and investigate this proposed sale, before it is approved.

I wrote Sen. Cantwell's office and the U.S. Senate Energy and Natural Resources Committee in 2014 warning of the current and future dangers to foreign ownership of PSE. Sadly those concerns have only grown since then, with the impending sale of PSE that increases Canadian ownership to 90% and 10% ownership by the Dutch.

This Docket is subject to WAC 480-100-238 and clearly indicates that the WUTC can – and should, as a bare minimum – condition its approval of the sale of PSE, requiring PSE to update and provide accurate information in PSE's deficient IRP. The WUTC has a timely opportunity to exercise meaningful regulatory authority. If there is to be any successor owner as a major investor in PSE, the WUTC should first hold PSE accountable to clean up its mess of an IRP before new ownership is granted. It is the right and logical thing to do for ratepayers, and for any new owners and stakeholders.

It's time to get answers from CFIUS, the U.S Senate Energy and Natural Resources Committee, Senator Cantwell, the WA AG's office, and the WUTC. I ask the WUTC (state) and CFIUS (federal) to intervene and block this acquisition - and future acquisitions - until these questions and concerns can be addressed. Selling PSE to controlling foreign interests poses too much risk and potential harm for ratepayers, stakeholders, and the environment.

Sincerely,

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<https://realassets.ipe.com/news/omers-and-pggm-invest-in-puget-sound-energy-as-macquarie-exits/realassets.ipe.com/news/omers-and-pggm-invest-in-puget-sound-energy-as-macquarie-exits/10026167.fullarticle>

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