

EXHIBIT NO. \_\_\_\_\_ (WAG-3)  
DOCKET NO. \_\_\_\_\_  
2003 POWER COST ONLY RATE CASE  
WITNESS: WILLIAM A. GAINES

BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

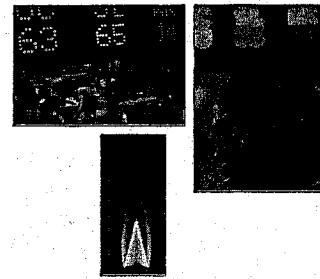
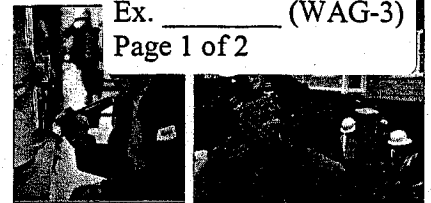
PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. \_\_\_\_\_

DIRECT TESTIMONY OF  
WILLIAM A. GAINES  
ON BEHALF OF PUGET SOUND ENERGY, INC.

# Puget Energy's Five-Year Strategic Plan



## Strategic Objectives

1. Focus on regulated utility business
2. Add generation and delivery infrastructure to meet customer need
3. Rebuild financial strength to fund energy infrastructure, manage energy portfolio
4. Attract equity by providing attractive return to Puget Energy investors
5. Manage PSE to achieve earnings growth
6. Manage InfrastruX to support Puget Energy strategic direction

## 1. Focus on Regulated Utility Business

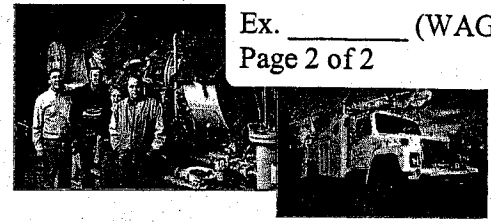
- Broaden the utility focus from just the distribution business to being a traditional, vertically integrated, **regulated utility**
- The traditional model is supported by Washington State regulators, politicians and customers
- Deregulation appears unlikely to take hold in Washington State anytime soon

## 2. Add Generation and Delivery Infrastructure to Meet Customer Need

- **Projected** Northwest power supply deficit of 3,000 MW by 2010 with "average" hydro; 6,600 MW with "critical" hydro
- Utilities now seen as generation providers with collapse of merchant energy sector
- PSE's winter deficit in 2004 exceeds 400 MW, and grows to over 600 MW by 2007, with average hydro conditions; at critically low hydro, energy deficit is approximately 200 MW larger
- PSE moving forward with coordinating **resource acquisition strategy** in parallel with the **Least Cost Planning Process**
- Adding energy resources could include acquiring resources, developing resources, and/or contracting for power
- The Company will continue to invest in delivery infrastructure to support customer growth and provide low-cost, safe, reliable service
- PSE's generation efforts are in line with the new Washington State energy strategy



# Five-Year Strategic Plan



### 3. Rebuild Financial Strength To Finance Energy Infrastructure and Manage Energy Portfolio

- Credit quality, liquidity and safe, predictable earnings are key to attracting investment in the Company
- **Credit quality** affects:
  - Both access to funds and the cost of funds to support business
  - Ability to hedge gas and power prices in the forward markets, to provide more price stability for customers
- **Focus** on improving PSE's credit rating
- **Targeting:**
  - "BBB" rating by end of 2004
  - "BBB+" rating by end of 2005

### 4. Provide Return to Puget Energy Investors Through Earnings Growth and Dividends to Attract Equity Capital

- **Return** should enable the company to compete for capital investment
- **Generate return** from:
  - PSE earnings growth
  - Dividend growth
  - InfrastruX

### 5. Achieve PSE Earnings Growth, Through

- Rebuilding equity capital
- Growing rate base, adding generating and delivery resources where needed, with timely cost recovery
- Enhanced relationships with regulators, customers and key constituencies

### 6. Manage InfrastruX to support Puget Energy strategic direction

- Focus on internal earnings growth opportunities

### 2003 Goals Tie to These Business Objectives

### Our Focus:

The Company will continue to enhance its relationships both with Customers and with Key Constituencies, building upon the following strengths:

- We will be a low-cost provider
- We will deliver high-quality service
- We will provide safe and reliable energy-delivery systems
- We will be responsive to customer needs
- We will strive to reduce retail price volatility
- We will provide our employees with a positive and dynamic workplace so as to best serve our customers

### Building a Great Place to Work

- Employee Survey results show a need to rebuild trust and improve communication across the organization
- 2003 Corporate Goal focused on employees
- Emphasis on two-way employee communications

### Puget Energy's Five-Year Financial Plan

*Key Initiatives Driving PSE Financial Results:*

- Adding New Energy Resources as required
- Increasing the percentage of equity in our capital structure
- Achieve timely recovery of our costs

### Puget Energy's Five-Year Strategic Plan

*Building Financial Strength Allows the Company to:*

- Better Serve Our Customers
- Add Needed Generation Resources
- Build Delivery Infrastructure
- Attract Capital
- Build a Great Place to Work for employees

