

**EXHIBIT NO. ___(BAV-9)
DOCKET NO. UE-060266/UG-060267
2006 PSE GENERAL RATE CASE
WITNESS: BERTRAND A. VALDMAN**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-060266
Docket No. UG-060267**

**SECOND EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
BERTRAND A. VALDMAN
ON BEHALF OF PUGET SOUND ENERGY, INC.**

AUGUST 23, 2006

Puget Energy

WUTC Staff Recommendations Much Worse Than Expected - ALERT

- The staff of the Washington Utilities and Transportation Commission (WUTC) filed testimony last night recommending Puget Sound Energy (PSE), the utility subsidiary of Neutral-rated Puget Energy (PSD), be subject to a \$41MM electric rate *decrease*, significantly below the \$43MM increase (adjusted for a previously awarded \$96MM power cost adjustment) requested as part of its general rate case, filed in February 2006. The staff testimony recommends an annual gas rate increase of less than \$20MM compared to the \$51MM increase requested and our \$30MM estimate.
- Additionally, the WUTC staff is recommending an authorized ROE of 9.38% (versus the 11.25% requested) on a 43% equity layer (versus the 45% requested). We had modeled a 10.5% ROE based on a 44% equity component. The staff has also recommended the Commission reject a depreciation tracker proposal and essentially keep the existing Power Cost Adjustment (PCA) mechanism in place. A 3-year conservation-related gas decoupling mechanism, which does not protect PSE from weather-driven variances in customer usage, has been proposed by the staff as well.
- The bulk of the variance between PSE's request and the WUTC staff recommendation comes from differing calculations of adjusted net operating income from the test year (10/04 – 9/05) and variation in total power costs estimates going forward. The staff recommended extending the book life of the Hopkins Ridge and Wild Horse wind facilities as well, resulting in a nearly \$13MM reduction to the revenue requirement.
- We believe investors will be extremely disappointed by the staff testimony, though we note PSE will have the opportunity to file rebuttal testimony in August and settlement talks between all parties continue. We would expect PSD shares to trade lower on the worse than expected recommendations from the WUTC staff.

Neutral

\$22.33

25 July 2006

Electric Utilities

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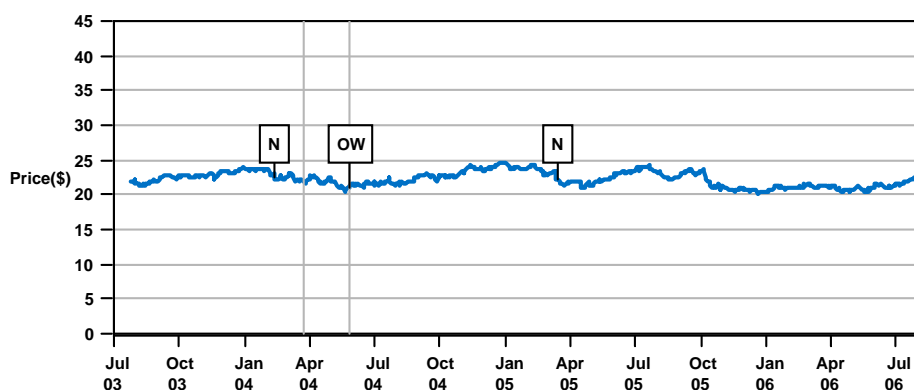
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Puget Energy (PSD) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
12-Feb-04	N	22.51	-
25-May-04	OW	20.90	-
14-Mar-05	N	22.15	-

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
 Break in coverage Mar 23, 2004 - May 25, 2004. This chart shows JPMorgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. As of Aug. 30, 2002, the firm discontinued price targets in all markets where they were used. They were reinstated at JPMSI as of May 19th, 2003, for Focus List (FL) and selected Latin stocks. For non-JPMSI covered stocks, price targets are required for regional FL stocks and may be set for other stocks at analysts’ discretion.
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North America Equity Research
26 July 2006



Puget Energy, Inc.:

PSD: Staff Recommendation Viewed Negatively

KeyBanc Capital Markets,
 A Division of McDonald Investments Inc.

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Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

Rating	HOLD (3)
Price	\$22.33
12-Mo. Price Target	NA
Dividend	\$1.00
Yield	4.5%
52-Wk. Range	\$20-\$24
Trading Volume	415,000
Market Cap. (mm)	\$2,579.1
Shares Out. (mm)	115.50
Book Value	\$16.61

Fiscal Year End	December
2007E	\$1.65
2006E	\$1.45
2005A	\$1.42
2007 P/E	13.5x
2006 P/E	15.4x
First Call 2007E	\$1.63
First Call 2006E	\$1.45

Next Quarter	June
Estimate	\$0.14
Vs.	\$0.15
First Call Estimate	\$0.15

KEY INVESTMENT POINTS

In its pending rate case PSD requested \$148.1 million and \$51.3 million electric and gas rate increases. These were premised upon a 45% equity layer, 11.25% ROE and respective rate bases of \$2.97 billion and \$1.18 billion.

The Staff recommendation calls for a \$55 million rate increase and a \$19.6 million gas rate increase. These are premised upon a 9.38% ROE and equity component of rate base of 43%.

Staff also rejected PSD's proposed weather-based gas decoupling mechanism intended to make fixed cost recovery less volumetric. Conservation-based decoupling was maintained, albeit on a trial basis with caps on the benefit.

Staff also made various adjustments to revenue, expenses, power supply costs and extended the service lives of PSD's new wind assets from 20 to 25 years.

Proposed trackers to alleviate regulatory lag of lack of recovery on/of investment and depreciation on this investment between rate cases was rejected.

While this position does not necessarily telegraph the commission's position or its final order, (or the outcome of a potential settlement), we expect investor disappointment. We view the positions and apparent unwillingness to implement more constructive rate-making negatively.

We believe staff previously signing off on a fair settlement in Avista Corporation's (AVA-NYSE) rate case may have built expectations that Washington was becoming more reasonable in its rate-making.

Our rough estimate of earnings power under the staff recommendation in 2007 is approximately \$1.45 per share (vs. our estimate of \$1.65 per share), and could weaken between rate cases do to regulatory lag.

VALUATION

Based upon our 2007 estimate, PSD's shares trade at a 5% discount to the group. We view this as reasonable given strong customer growth offset by regulatory uncertainty. We therefore maintain our **HOLD (3)** rating.

RISKS

We view the primary risk to PSD to be the pending rate case. Additionally, with the sector now trading at a market multiple, reversion to a more traditional discount is viewed as sector risk.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 3 - 4 OF THIS NOTE.

EPS (Net) Summary

	2005A	%CHG	2006E	%CHG	2007E	%CHG
1Q	\$0.68	61.90%	\$0.63A	-7.35%	--	--
2Q	\$0.15	0.00%	\$0.14	-6.67%	--	--
3Q	\$0.06	-33.33%	--	--	--	--
4Q	\$0.52	-11.86%	--	--	--	--
YEAR	\$1.42	18.33%	\$1.45	2.11%	\$1.65	13.79%

Source: McDonald Investments Inc. estimates

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Puget Energy, Inc. - PSD

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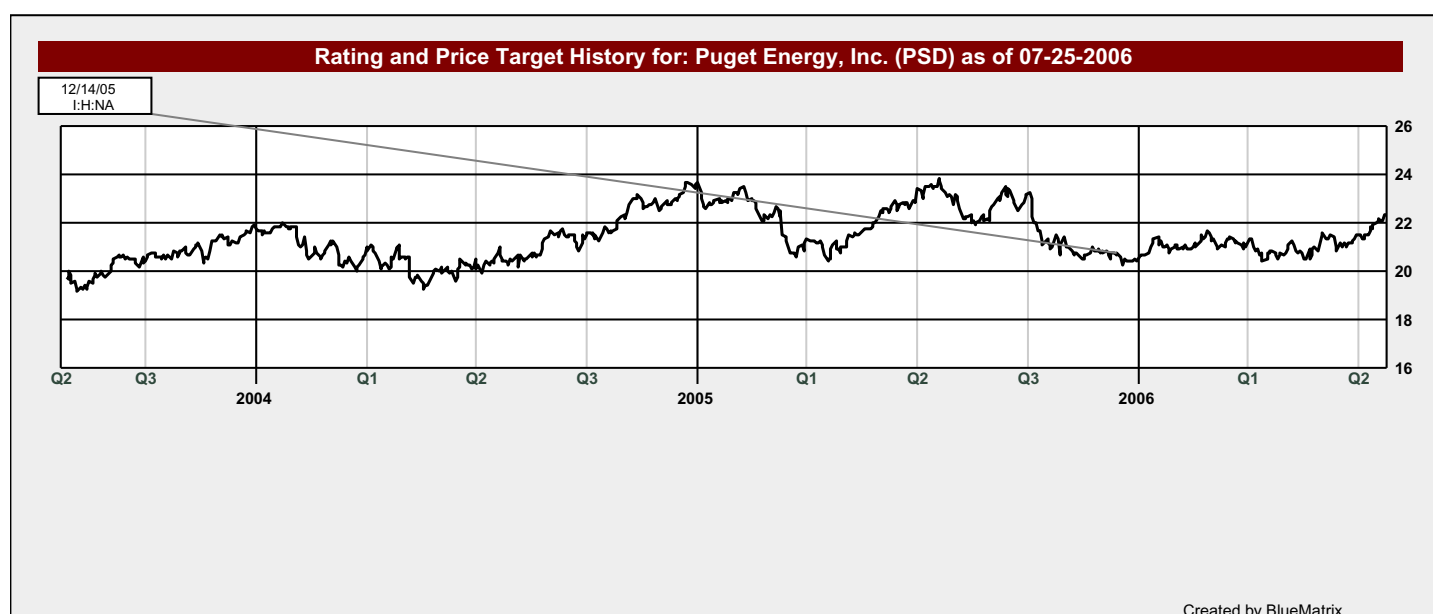
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Three-Year Rating and Price Target History



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Rating	Count	Percent	IB Serv./Past 12 Mos.		Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [AB/BUY]	162	49.69	46	28.40	BUY [AB/BUY]	37	48.68	23	62.16
HOLD [HOLD]	154	47.24	28	18.18	HOLD [HOLD]	39	51.32	13	33.33
SELL [UND/SELL]	10	3.07	0	0.00	SELL [UND/SELL]	0	0.00	0	0.00

Rating System

AGGRESSIVE BUY (1) - The security is expected to outperform the market over the short term; investors should consider adding the security to their portfolios, subject to their overall diversification requirements.

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PUGET ENERGY, INC.

PSD – NYSE

July 26, 2006

Rating:**BUY****Price:** (7/26/06) \$22.40**Price Targets:**

12-18 month: \$25 ↑

5-year: \$30

Industry:

Utilities

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Regulatory Staff Recommends an Electric Rate Decrease.**Raising Target Price on Regional Utility Takeover Speculation.**

As part of the proceedings in a general rate increase requested by Puget Sound Energy (PSE), the Staff of the Washington Utilities and Transportation Commission (WUTC) recommended the utility's electricity rates be cut while allowing the company to collect slightly higher natural gas rates from customers. While the Staff's recommendations are not binding on the WUTC, they provide a baseline, which if ultimately accepted, would place our 2007 EPS estimate of \$1.60 for Puget Energy at risk.

In February, PSE asked the commission to collect additional annual revenues of \$200.1 million, including \$148.8 million (+9.2%) from electricity customers and \$51.3 million (+5.3%) from natural gas customers. As the commission approved \$96.8 million (+5.9%) in additional annualized power expenses in June (see our *Research Bulletin* of July 5, 2006), Puget has revised the total electric rate increase request to \$42.9 million, which is an average 2.5% increase over rates in effect on July 1, 2006. In addition, the company has modified its requests for electric and gas transmission and distribution trackers to \$7.9 million and \$10.9 million, respectively. Consequently, the company's current remaining annual rate increase request is \$100.9 million, including \$50.8 million in electric rates and \$50.1 million in gas rates.

The Staff proposed, in written testimony filed with the WUTC, that the utility should reduce annual electric revenues by \$41.0 million (-2.4%) and increase annual gas revenues by \$19.6 million. Hence, the Staff is proposing an overall \$21.4 million decrease in rates for PSE a year.

We believe the major portion of the \$122.3 million difference between the company's current request and the Staff's proposal is explained by the differences in proposed returns on equity, the equity ratio, and trackers.

The Staff is recommending an allowed return on equity of 9.375% based on a proposed capital structure composed of 43% equity and 57% debt. This compares to the company's request of 11.25% based on a proposed capital structure composed of 45% equity and 55% debt. Furthermore, the Staff rejects PSE's request for \$18.8 million in electric and gas transmission and distribution trackers.

The Staff is also recommending other items, including the acceptance of: 1) PSE's current Power Cost Adjustment (PCA) mechanism, excluding the utility's proposed revisions associated with its hedging line of credit; 2) a Partial Settlement Agreement between intervenors and PSE on electric rate spread, rate design, and low income bill assistance; 3) a joint recommendation of intervenors on gas rate spread, rate design, and low income bill assistance; and 4) a partial gas decoupling pilot mechanism.

We believe that the final decision in the rate case will be a compromise somewhere between what the company is requesting and the Staff's proposal. We are maintaining our 2006 and 2007 EPS of \$1.45 and \$1.60, respectively. Given increased speculation about takeovers that have elevated the multiples of neighboring utilities, we are raising our target price by a point to \$25, or 15.6x our 2007 EPS projection. At the current price, we are maintaining our **BUY** rating.

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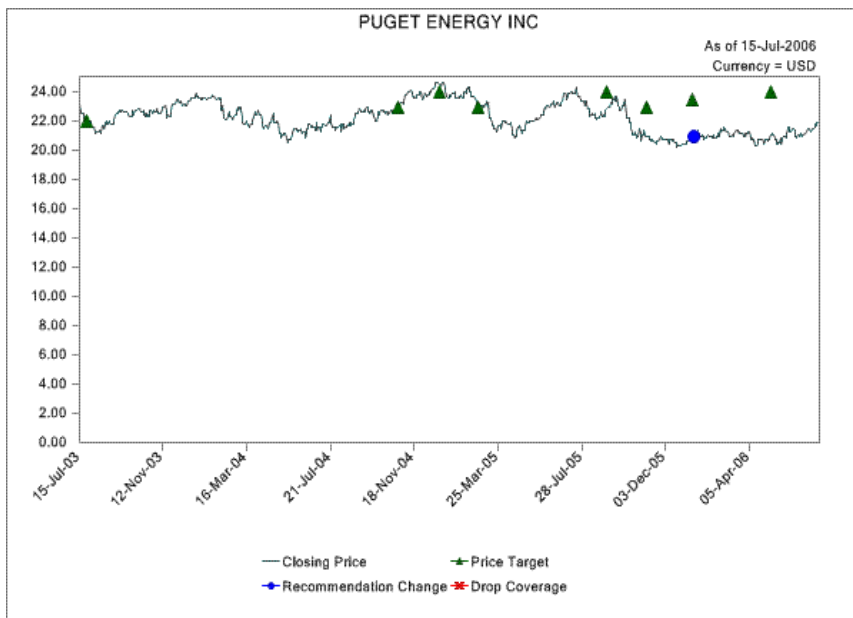
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Ratings Information

D.A. Davidson & Co. Ratings	Buy	Neutral	Underperform
Risk adjusted return potential	Over 15% total return expected on a risk adjusted basis over next 12-18 months	>0-15% return potential on a risk adjusted basis over next 12-18 months	Likely to remain flat or lose value on a risk adjusted basis over next 12-18 months

Distribution of Ratings (as of 6/30/06)	Buy	Hold	Sell
Corresponding Institutional Research Ratings and Distribution	Buy 50%	Neutral 45%	Underperform 5%
Corresponding Private Client Research Ratings and Distribution	Outperform 76%	Market Perform 24%	Underperform 0%
Distribution of Combined Ratings	54%	42%	4%

Distribution of companies from whom D.A. Davidson & Co. has received compensation for investment banking services in last 12 mos.	Buy	Hold	Sell
Institutional Coverage	6%	4%	0%
Private Client Coverage	0%	0%	0%
Distribution of Combined Investment Banking	5%	3%	0%



D.A. Davidson & Co. Institutional Research Rating Scale (maintained since 7/9/02)
Buy, Neutral, Underperform

PUGET ENERGY INC					
Currency = USD					
Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
10-Jan-2006	21.02	BUY	05-May-2006	21.05	24.00
			10-Jan-2006	21.02	23.50
			02-Nov-2005	21.03	23.00
			01-Sep-2005	22.90	24.00
			22-Feb-2005	22.88	23.00
			27-Dec-2004	24.62	24.00
			25-Oct-2004	22.71	23.00
			24-Jul-2003	22.05	22.00

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July 27, 2006

United States of America

Energy & Power

Power & Utilities

Puget Energy (PSD - \$ 22.33) 2-Equal weight

Company Update

Daniel Ford, CFA

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Staff & Intervenor Testimony Filed

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Investment Conclusion

WUTC staff and intervenors filed testimony in PSD's GRC. This normally defines the worst-case scenario and, as expected, the recommendations were not optimal. We maintain our 2-EW PSD shares and 2006/07E of \$1.46 and \$1.63 respectively, and we are increasing our price target to \$23 to reflect a higher group multiple of 15.0X '07E, that also imputes a 5% regulatory risk discount.

Summary

- Staff recommended an ROE of 9.38% on 43% equity component of capital and rate base of \$4.2B. Intervenors recommended a 9.9% ROE on 44.1% equity.
- PSD requested an 11.25% ROE on 45% equity on a combined rate base of \$4.15B (\$2.97B Electric and \$1.18B Gas).
- Our '07E assumes a 10.8% ROE on 45% equity and a rate base of \$4.17B.
- Rebuttal testimony is scheduled for Aug.23; hearings September 18-29. As customary in this jurisdiction, there remains potential for settlement throughout this process.

Stock Rating

Stock Rating	Target Price
New: 2-Equal weight	New: \$ 23.00
Old: 2-Equal weight	Old: \$ 22.00

Sector View: 3-Negative

EPS (\$) (FY Dec)

	2005		2006		2007		% Change		
	Actual	Old	New	St. Est.	Old	New	2006	2007	
1Q	0.67A	0.63A	0.63A	0.63A	N/A	N/A	0.00E	-6%	N/A
2Q	0.12A	N/A	N/A	0.15E	N/A	N/A	0.00E	N/A	N/A
3Q	0.06A	N/A	N/A	0.09E	N/A	N/A	0.00E	N/A	N/A
4Q	0.52A	N/A	N/A	0.57E	N/A	N/A	0.00E	N/A	N/A
Year	1.42A	1.46E	1.46E	1.45E	1.63E	1.63E	1.63E	3%	12%
P/E			15.3			13.7			

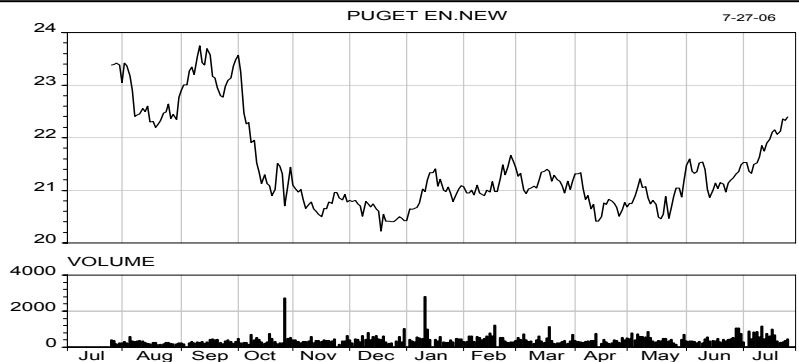
Market Data

Market Cap (Mil.)	2602
Shares Outstanding (Mil.)	116.20
Float (%)	116
Dividend Yield	4.48
Convertible	No
52 Week Range	23.82 - 20.13

Financial Summary

Revenue FY06 (Mil.)	N/A
Five-Year EPS CAGR	4.0
Return on Equity	9.00
Current BVPS	18.00
Debt To Capital (%)	56.00

Stock Overview



Background

PSD's general rate case was filed in mid-February for rates to go in effect January '07. The case factors in rate base additions relating to T&D and Wild Horse wind project (currently in construction and on schedule to be brought into service by 12/06) as well as a 20-year hydro electric extension with the Chelan Public Utility District. As part of this filing PSD proposed an energy delivery infrastructure tracker to provide a mechanism to recover depreciation to allow for an earned ROE closer to the allowed ROE. Additionally, PSD sought a sales/weather decoupling as well as certain revisions to the Power Cost Adjustment (PCA) mechanism (to make forward looking and to adjust the sharing band) to enable the company to reduce excess price exposure. Current rate base is approximately \$4.15B (including the 12/05 addition of Hopkins Ridge) representing approximately \$2.97 in electric rate base and \$1.2B in gas; an 8.1% ROE (10.3% allowed); and a 44% equity ratio.

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PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 2 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 3

Exhibit No. ____ (BAV-9)

Page 13 of 56

WUTC staff members, intervenors and counsel filed testimony in the PSD GRC on July 25. In addition to the financial parameters set forth in the table following, the parties rejected PSD's request for the depreciation tracker and changes to the existing Power Cost Adjustment (PCA) mechanism. Parties agreed to a gas decoupling mechanism as a 3-year pilot for conservation, but not for the weather normalization factors that would enable PSD to fully recover fixed cost in mild conditions.

Puget Energy

General Rate Case Proceeding Scenarios

	Company Requested	Lehman Estimate	Staff Rec.	Intervenor Rec.
Rate Base	\$4.15M	\$4.17M	\$4.2M	\$4.2M
Equity Ratio	45%	45%	43%	44.10%
ROE	11.25%	10.80%	9.38%	9.90%
Depreciation Tracker	included	excluded	excluded	excluded
Implied Impact on '07 Earnings	\$ 1.78	\$ 1.63	\$ 1.40	\$ 1.47

Procedural Schedule

PSD is scheduled to file its rebuttal testimony on August 23. Hearings are set for September 18-29. The state has a history of settling these cases and we believe it is possible for a settlement to occur during this timeframe.

Analyst Certification:

I, Daniel Ford, CFA, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

Other Team Members:

Straka, M. Beth

1.412.260.6071

mstraka@lehman.com

Company Description:

Puget Energy, Inc. is a public utility holding company. Puget Sound Energy is an electric and gas utility subsidiary.

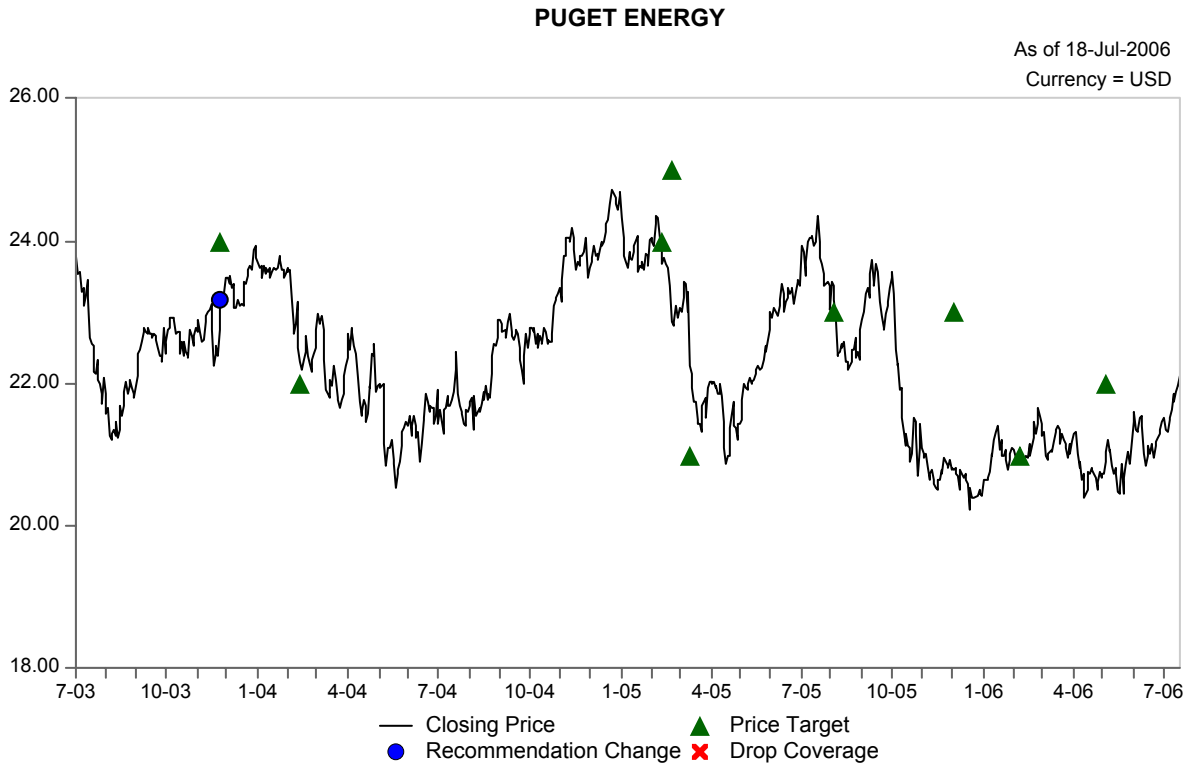
Important Disclosures:

Puget Energy (PSD)

\$ 22.33 (25-Jul-2006)

2-Equal weight / 3-Negative

Rating and Price Target Chart:



Currency=\$

Date	Closing Price	Rating	Price Target
05-May-06	21.05		22.00
08-Feb-06	21.10		21.00
02-Dec-05	20.79		23.00
03-Aug-05	23.37		23.00
11-Mar-05	22.25		21.00

Date	Closing Price	Rating	Price Target
22-Feb-05	22.88		25.00
10-Feb-05	24.00		24.00
12-Feb-04	22.31		22.00
25-Nov-03	23.19		24.00
25-Nov-03	23.19	2-Equal weight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc. and/or an affiliate has managed or co-managed within the past 12 months a 144A and/or public offering of securities for Puget Energy.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of Puget Energy.

Lehman Brothers Inc. has received non-investment banking related compensation from Puget Energy within the last 12 months.

Puget Energy is or during the last 12 months has been a non-investment banking client (securities related services) of Lehman Brothers Inc.

Valuation Methodology: Our \$23 price target is premised upon a 5% regulatory risk imputed discount applied to a 15.0X utility average PE on 2007E of \$1.63. Our former \$22 price target implied a 5% regulatory risk imputed discount applied to a 13.8X utility average PE on 2007E of \$1.63.

Risks Which May Impede the Achievement of the Price Target: Puget's operations are primarily subject to federal and state regulatory risk, interest rate risk, exposure to the wholesale commodity markets, hydro conditions, and general economic conditions.

Important Disclosures Continued:

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price (25-Jul-2006)	Stock / Sector Rating
Puget Energy	PSD	\$ 22.33	2-Equal weight / 3-Negative

Sector Coverage Universe

Below is the list of companies that constitute the sector coverage universe against which the primary stock, Puget Energy, is rated:

AES Corp (AES)	Alliant Energy (LNT)
Ameren Corp (AEE)	American Electric Power (AEP)
Aquila, Inc (ILA)	CMS Energy (CMS)
Consolidated Edison (ED)	Constellation Energy (CEG)
Dominion Resources (D)	DPL Inc (DPL)
DTE Energy (DTE)	Duke Energy (DUK)
Duquesne Light Holdings (DQE)	Edison International (EIX)
Empire District Electric (EDE)	Entergy Corp (ETR)
Exelon Corp (EXC)	FirstEnergy Corp (FE)
FPL Group (FPL)	Great Plains Energy (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)
Mirant Corp. (MIR)	NiSource, Inc (NI)
Northeast Utilities (NU)	NRG Energy (NRG)
OGE Energy (OGE)	Ormat Technologies (ORA)
Pepco Holdings (POM)	PG&E Corp (PCG)
Pinnacle West Capital (PNW)	PPL Corporation (PPL)
Progress Energy (PGN)	Public Service Enterprise Gp (PEG)
Puget Energy (PSD)	Sempra Energy (SRE)
Sierra Pacific Resources (SRP)	Southern Co (SO)
TECO Energy (TE)	TXU Corp (TXU)
Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)	

Guide to Lehman Brothers Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). To see a list of the companies that comprise a particular sector coverage universe, please go to www.lehman.com/disclosures

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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39% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as Hold rating, 5% of companies with this rating are investment banking clients of the Firm.

17% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as Sell rating, 60% of companies with this rating are investment banking clients of the Firm.

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Equity Research
Company Update
Target Price Change

Puget Energy
PSD, \$22.20, Hold
Staff Testimony Filed in General Rate Case

July 31, 2006

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Sales and Trading
1-800-569-2407
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Ticker	PSD
Market Cap (M)	\$2,575.2
Price	\$22.20
52-Wk. Range	\$24-\$20
Rating	Hold
Price Target	\$23.75
Shares Out (M)	116.0
Dividend	\$1.00
Yield	4.5%
Trading Volume(M)	0.492
Market	NYSE

Sector Opinion:

The electric utility industry continues its fundamental improvement and expansion, largely by focusing on core regulated businesses of distribution, transmission, and in some cases generation. We see this improvement leading to higher earnings and higher share prices. However, interest rates have a legacy impact on utility shares, and higher rates can dampen their trading. We saw rates spikes in the summer of '03, spring of '04 hurt utility prices, and again this past spring, temporarily dampened prices for utility shares. However, recent general market turmoil has directed positive attention at utilities as "safe haven" stocks; moreover the 10-year Treasury, which broke through the 4.6% yield barrier earlier this year and rose to around 5.2%, has recently moderated to 5.00% and the group has been responded positively. We continue to focus on those utilities with the strongest projected earnings growth paths and recommend purchase of **Pepco Holdings** (POM-\$24.44-Buy), **Cleco Corp.** (CNL-\$24.62-Buy), **PNM Resources** (PNM-\$26.59-Buy), and **El Paso Electric** (EE-\$21.77-Buy).

Action

Hold PSD. Last week's staff testimony in currently pending general rate case at core-utility Puget Sound Energy was dismal as expected, with staff recommending a reduction in authorized ROE from 10.3% to 9.375% and rejection of three company-proposed mechanisms to reduce earnings attrition and volatility. Coming next are company rebuttal, open hearings, more rebuttals, and decision by year-end. We do not see odds favoring settlement, but hope relatively new Washington State regulators render a fair decision. Also, we introduce our 2008 EPS estimate at \$1.70/shr and raise our price target from \$22.25/shr to \$23.75, based upon capitalizing the new estimate at 14.0x, a small discount to our average multiple. We maintain our Hold rating, but note that the current stock price reflects a poor regulatory climate in Washington. We would view any improvement as positive and plan to monitor this case closely for any sign of that.

	Fiscal Year Dec	Fiscal Year			Calendar Year			Curr. Qtr.	Next Qtr.	Yr. Ago Qtr.
	\$	F05A	F06E	F07E	C05A	C06E	C07E	2Q06E	3Q06E	2Q05A
Revenue	Current	—	—	—	—	—	—	—	—	—
	Previous	—	—	—	—	—	—	—	—	—
EPS	Current	—	1.40	1.61	—	1.40	1.61	0.14	0.08	—
	Previous	1.42	1.40	1.61	1.42	1.40	1.61	0.14	0.08	0.14
Dividend	Current	—	—	—	—	—	—	—	—	—
P/E	Current	NM	15.9	13.8	NM	15.9	13.8	—	—	—

Revenues in millions, except when noted.

- **Staff filing – dismal as expected.** In currently pending general rate case (GRC), commission staff recommends 43% equity and 9.375% ROE, versus requested 45% equity on 11.25% ROE. Staff also rejects---totally or in part---three company-proposed mechanisms to reduce earnings attrition and volatility.
- **What now –for general rate case?** Coming next in pending GRC are company rebuttal filings on 8/23, followed by hearings starting 9/18. Then comes two rebuttal rounds followed by a decision about year-end. We do not see odds favoring settlement on major issues, as parties appear far apart.
- **Wild Horse Wind Project – dedicated.** On 7/12, Gov. Gregoire dedicated PSE's Wild Horse, a 230-MW wind project near Ellensburg WA. The project, expected in-service by year-end '06 at a cost of \$380 million, should enter rate base immediately upon completion.
- **2008 EPS(E) – introduced at \$1.70/shr.** We introduce our '08E at \$1.70/shr, reflecting continued rate base growth, but also the sale of 8 million shares early in year.
- **Price target raised - \$23.75/shr.** We raise our price target from \$22.25/shr to \$23.75, based upon capitalizing our new '08E of \$1.70/shr at 14.0x, which represents a 0.5x discount to our average utility multiple of 14.5x that we currently use.
- **Summary & recommendation – Hold.** We believe Washington's poor regulatory climate is fully discounted in current PSD price. Thus, we view any improvement as a positive surprise, and will monitor this GRC closely for any sign of that.

Important disclosure information is contained on pages 5 - 11 of this report. The recipient of this report is directed to read these disclosures.

Staff filing – dismal as expected. Last week, the staff of the Washington Utilities & Telecommunications Commission (WUTC) filed its testimony in the general rate case (GRC) of Puget Energy's core-utility Puget Sound Energy's (PSE). Specifically, PSE filed in February for electric and gas rate increases of \$148.8 million and \$51.3 million, respectively, in dockets combined as UE-060266. Intervenors, such as the Industrial Customers of Northwest Utilities and the Northwest Industrial Gas Users, also filed their testimony. Typically, staff and intervenor testimony appears quite averse to utility shareholder interests, and these filings were no exception.

Cost of capital – 9.375% ROE. Staff suggests a ROE range of 9.25-9.75% for the utility industry. Specifically, staff recommends 9.375% ROE for PSE (9.25% if the gas de-coupler is authorized) on a 43% equity component of capital structure. PSE is requesting a ROE of 11.25% on 45% equity. Its actual equity on March 31, 2006 was 44.5%, so the staff "rec" would represent a reduction.

Other issues – several. PSE proposes three mechanisms that would enhance earnings power by trying to reduce its chronic attrition off the authorized ROE and smooth out volatility.

- ▶ **Electric & gas depreciation trackers.** Staff rejects PSE's proposed depreciation trackers as bad precedent, inappropriate single-issue ratemaking, and not necessary given the company's rate-case frequency. It then proceeds to drag up a history of negative positions the WUTC has taken against the mitigation of attrition.
- ▶ **Gas de-coupling mechanism.** Staff rejects the gas de-coupling mechanism that PSE is proposing (and the American Gas Association supports). In its place, staff recommends a gutted de-coupling by eliminating the effects of weather, placing a cap on the annual level of any remaining surcharge, and limiting what's left of the mechanism to a three-year life.
- ▶ **New PCA mechanism.** Staff rejects PSE's proposal to revise the PCA tracker, supporting instead the continuation of the existing mechanism. This mechanism is a combination of deadband and sharing, with a virtual \$40 million cap on shareholder exposure over four years (7/1/02 to 6/30/06). As we recall, shareholders absorbed the entire exposure over the first 18 months of the period. In this GRC, PSE is proposing sharing bands that would limit *annual* shareholder exposure to \$22 million, plus 5% of exposure over \$125 million. Of course, the mechanism would work, in shareholders' favor if rates were to decline below the proposed \$56.68/MWH baseline.

Bottom line on staff testimony – dismal. Washington State's "bottom of the barrel" regulatory climate is well served by this dismal staff filing. Commission staffs are notoriously biased in favor of consumers and against shareholders across the country; as we see it, this is particularly true in Washington, where public power still has broad support.

According to the procedural schedule, PSE files rebuttal testimony on 8/23, followed by open hearings starting 9/18. This is followed by two rounds of rebuttal testimony on 10/31 and 11/14, and a final commission order about year-end. We do not see odds favoring settlement on major issues, as parties appear far apart.

One can only hope that relatively new WUTC Chairman Mark Sidran (D) and Commissioner Philip Jones (R) understand the regulatory dilemma of utilities operating in Washington and issue a fair decision. While the weight of history argues against that occurring, we believe the current price of the stock fully discounts a bad decision. Thus, any improvement would represent an upside surprise, in our opinion, and we plan to monitor this GRC closely for any signs of regulatory improvement.



Other development:

- ▶ **Wild Horse Wind Project – dedicated.** On July 12th, Washington State Gov. Christine Gregoire (D) dedicated PSE's Wild Horse, a 230-MW wind project located 16.5 miles east of Ellensburg WA off of Vantage Highway. The project is expected to be completed by year-end 2006 at a cost of \$380 million. The investment should enter PSE's rate base immediately, as the timing of project completion dovetails with the expected decision in the pending rate case.

Summary and recommendation – Hold. Though we raise our price target from \$22.25 per share to \$23.75, we maintain our Hold rating on the stock. However, we see the poor Washington regulatory climate as fully discounted in the current price of PSD. Thus, any improvement would be viewed as positive, and we plan to monitor the currently pending GRC closely for any sign of that.

Risks include the following:

- ▶ **Valuation risk.** The shares of Puget Energy trade on projections of future earnings. If these projections fail to materialize as expected, there is price risk in the stock.
- ▶ **Interest rate risk.** Utility stocks are often viewed as yield vehicles. As such, they are susceptible to changes in interest rates, and a rising interest-rate environment will put downward pressure on utility shares, including Puget Energy.
- ▶ **Regulatory risk.** We view the Washington Utilities and Transportation Commission as tilted toward consumer interests and away from shareholder interests. Thus, we rate the regulatory environment for utilities operating in Washington State (Puget Sound Energy's sole state jurisdiction) as "Below Average" on a national basis. We believe PSE is more likely to receive adverse regulatory rulings than the average utility.

Puget Energy - Earnings Model and Valuations

(in \$ millions, except per share figures and percentages)

2005A					
Subsidiary	Equity	ROE	tax	Income	Valuation
PSE - electric	\$ 1,176	8.9%		\$ 104.3	Utility earnings (\$ mils) \$ 145.2
PSE - Tenaska disallowance	\$ (4.7)		40.0%	\$ (2.8)	Utility EPS \$ 1.41
PSE - gas	\$ 493	8.9%		\$ 43.8	Assigned multiple 14.5x
Total Utility Income	\$ 1,669			\$ 145.2	Utility value per share \$ 20.42
+ InfrastruX (discontinued)				\$ -	Unregulated earnings (\$ mils) \$ -
Total Unregulated Income				\$ -	Net unregulated earnings (\$ mils) \$ -
Total Operating Income				\$ 145.2	Unregulated value per share \$ -
- Holdco/other				\$ 1.0	Assigned multiple 14.5x
Earnings				\$ 146.2	Unregulated value per share \$ -
Earnings per Share				\$ 1.42	
Avg. Diluted Shs Out (mils)				103.1	Sum-of-the-Parts Valuation \$ 20.42

2006E						
Subsidiary	Rate	%	\$	ROE	Income	Valuation
PSE - electric	Base		Equity		Equity	Utility earnings (\$ mils) \$ 161.4
PSE - electric	\$ 3,046	43.0%	\$ 1,310	9.2%	\$ 120.5	Utility EPS \$ 1.38
PSE - gas	\$ 1,155	43.0%	\$ 497	9.2%	\$ 45.7	Assigned multiple 14.0x
PSE - Tenaska disallowance			\$ (8.0)	40.0%	\$ (4.8)	Utility value per share \$ 19.31
Total Utility Income	\$ 4,200.7				\$ 161.4	Unregulated earnings (\$ mils) \$ -
+ InfrastruX - sold					\$ -	Net unregulated earnings (\$ mils) \$ -
Total Unregulated Income					\$ -	Unregulated EPS \$ -
Total Operating Income					\$ 161.4	Assigned multiple 14.0x
- Holdco/other					\$ 2.0	Unregulated value per share \$ -
Earnings					\$ 163.4	
Earnings per Share					\$ 1.40	Sum-of-the-Parts Valuation \$ 19.31
Avg. Diluted Shs Out (mils)					117.0	

2007E						
Subsidiary	Rate	%	\$	ROE	Income	Valuation
PSE - electric	Base		Equity		Equity	Utility earnings (\$ mils) \$ 190.0
PSE - electric	\$ 3,533	44.0%	\$ 1,555	9.4%	\$ 146.1	Utility EPS \$ 1.61
PSE - gas	\$ 1,189	44.0%	\$ 523	9.3%	\$ 48.7	Assigned multiple 14.0x
PSE - Tenaska disallowance			\$ (8.0)	40.0%	\$ (4.8)	Utility value per share \$ 22.54
Total Utility Income	\$ 4,722.7				\$ 190.0	Unregulated earnings (\$ mils) \$ -
+ None					\$ -	Net unregulated earnings (\$ mils) \$ -
Total Unregulated Income					\$ -	Unregulated EPS \$ -
Total Operating Income					\$ 190.0	Assigned multiple 14.0x
- Holdco/other					\$ -	Unregulated value per share \$ -
Earnings					\$ 190.0	
Earnings per Share					\$ 1.61	Sum-of-the-Parts Valuation \$ 22.54
Avg. Diluted Shs Out (mils)					118.0	

2008E						
Subsidiary	Rate	%	\$	ROE	Income	Valuation
PSE - electric	Base		Equity		Equity	Utility earnings (\$ mils) \$ 214.8
PSE - electric	\$ 4,099	44.0%	\$ 1,803	9.4%	\$ 169.5	Utility EPS \$ 1.69
PSE - gas	\$ 1,225	44.0%	\$ 539	9.3%	\$ 50.1	Assigned multiple 14.0x
PSE - Tenaska disallowance			\$ (8.0)	40.0%	\$ (4.8)	Utility value per share \$ 23.68
Total Utility Income	\$ 5,323.7				\$ 214.8	Unregulated earnings (\$ mils) \$ -
+ None					\$ -	Net unregulated earnings (\$ mils) \$ -
Total Unregulated Income					\$ -	Unregulated EPS \$ -
Total Operating Income					\$ 214.8	Assigned multiple 14.0x
- Holdco/other					\$ 1.0	Unregulated value per share \$ -
Earnings					\$ 215.8	
Earnings per Share					\$ 1.70	Sum-of-the-Parts Valuation \$ 23.68
Avg. Diluted Shs Out (mils)					127.0	

Sources: Management comments, company and regulatory documents, and analyst estimates

Maurice E. May - Power Insights - (508) 636-9934.

Revised - July 31, 2006.



Regulatory Required Disclosures

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By: Maurice E. May

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Hold: In the analyst's opinion, the stock will be inline with the general market over the next 12 months.

Sell: In the analyst's opinion, the stock will underperform the general market over the next 12 months.

Rating	Count	Percent	IB Serv./Past 12 Mos.		Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	168	48.84	0	0.00	BUY [BUY]	4	36.36	0	0.00
HOLD [HOLD]	147	42.73	0	0.00	HOLD [HOLD]	4	36.36	0	0.00
SELL [SELL]	29	8.43	0	0.00	SELL [SELL]	2	18.18	0	0.00



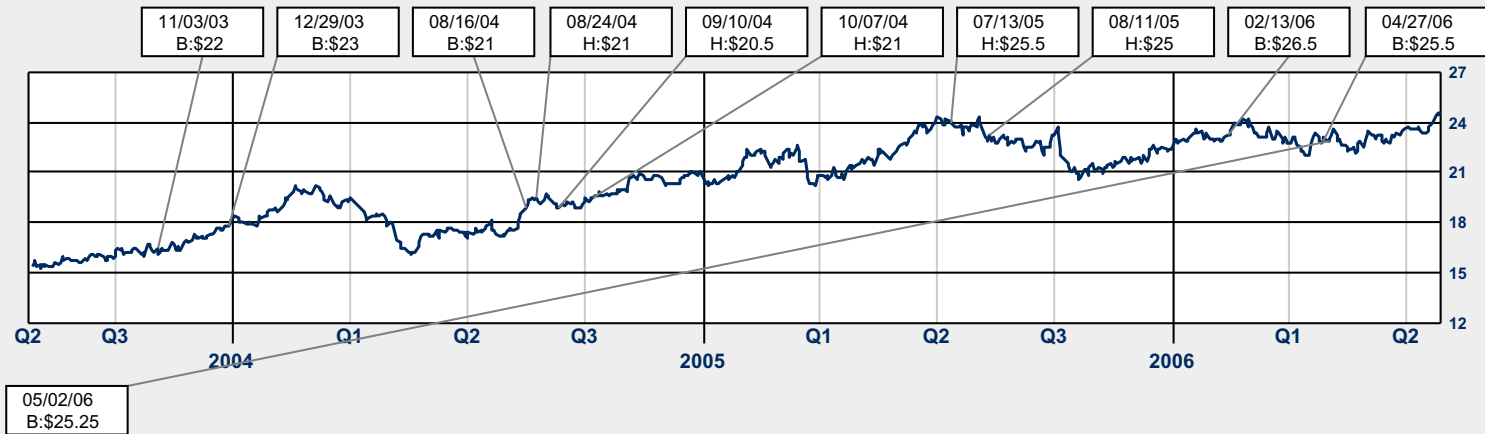
Soleil Securities Rating and Price Target History for: PSD



Ratings Key: B - BUY H - HOLD S - SELL

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Soleil Securities Rating and Price Target History for: POM



Ratings Key: B - BUY H - HOLD S - SELL

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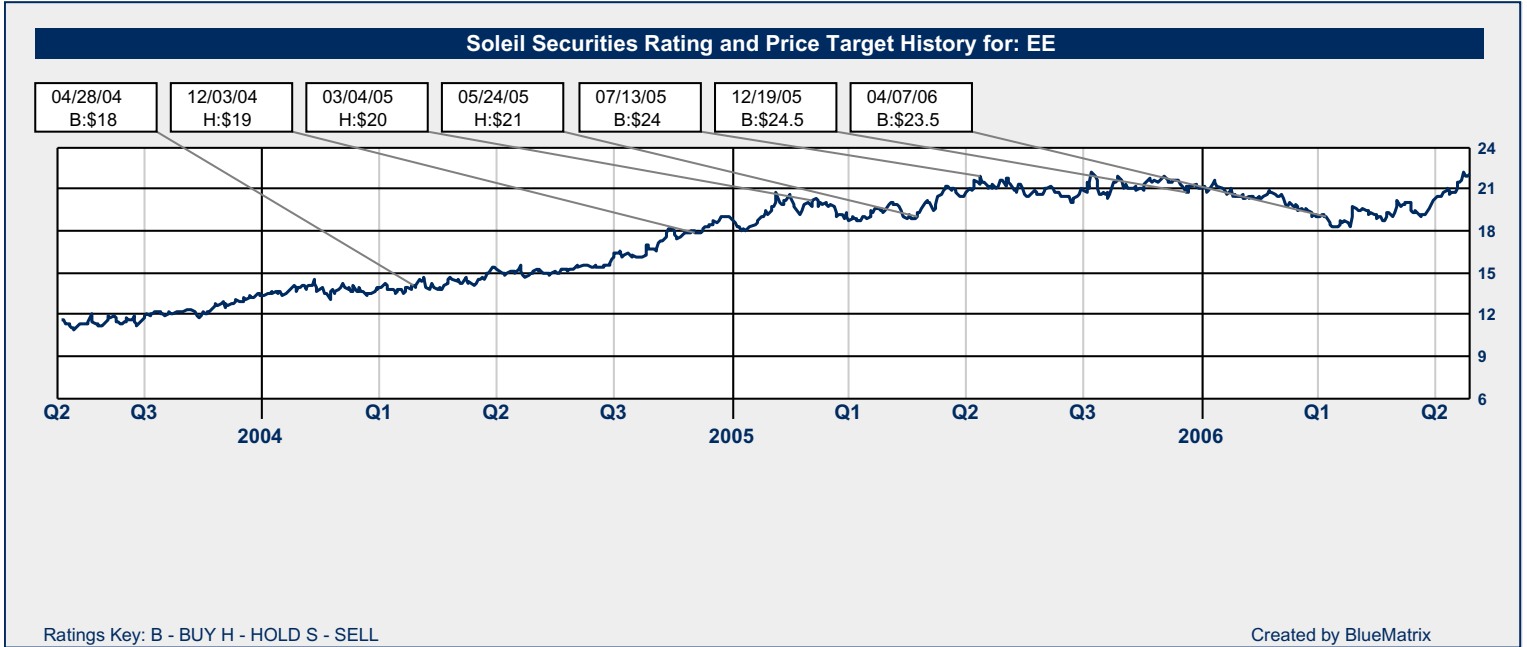


Soleil Securities Rating and Price Target History for: CNL



Soleil Securities Rating and Price Target History for: PNM





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Companies Mentioned

- Cleco Corp. (CNL, \$24.70, Buy, NYSE)
- El Paso Electric (EE, \$22.08, Buy, NYSE)
- Pepco Holdings (POM, \$24.51, Buy, NYSE)
- PNM Resources (PNM, \$26.85, Buy, NYSE)
- Puget Energy (PSD, \$22.20, Hold, NYSE)



Power Insights Rating and Price Target History for: PSD as of 07/28/2006



Ratings Key: B - BUY H - HOLD S - SELL

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Power Insights Rating and Price Target History for: CNL as of 07/28/2006



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Power Insights Rating and Price Target History for: EE as of 07/28/2006



Ratings Key: B - BUY H - HOLD S - SELL

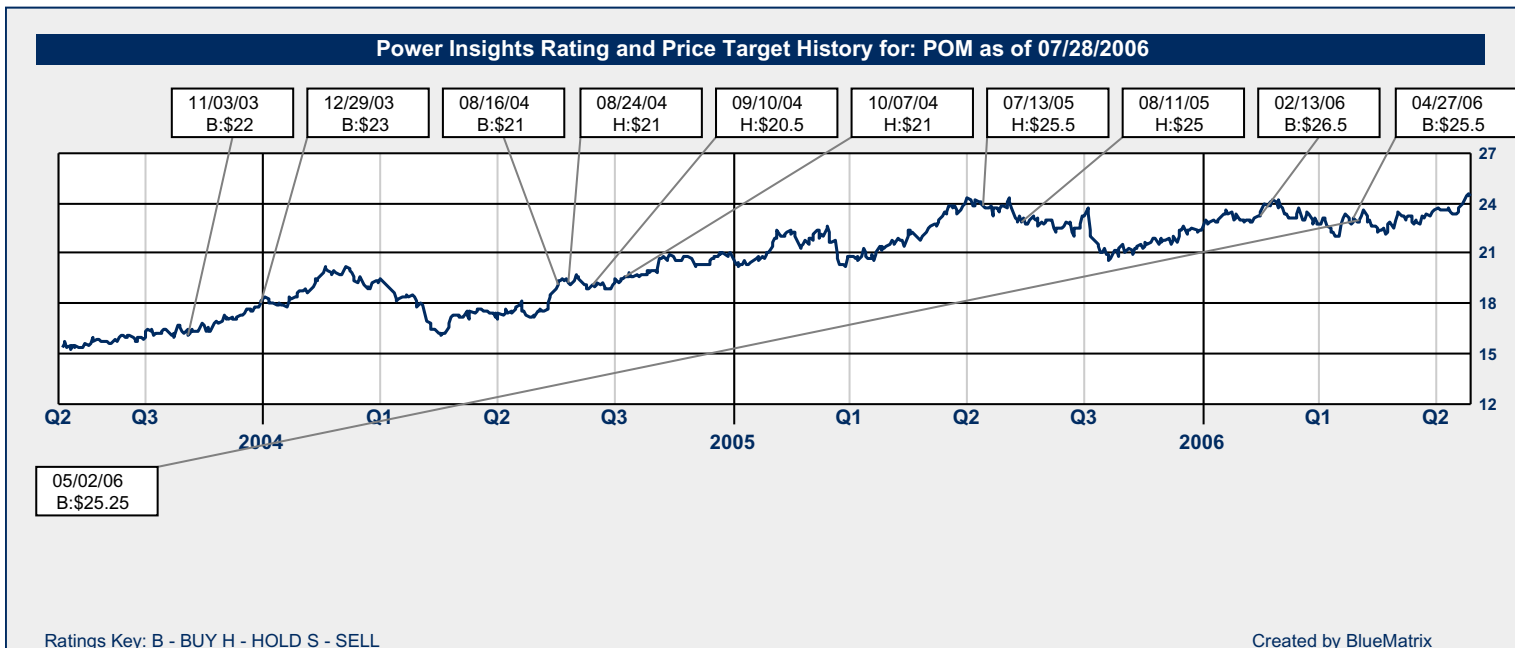
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Power Insights Rating and Price Target History for: PNM as of 07/28/2006



Ratings Key: B - BUY H - HOLD S - SELL

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Additional Disclosures

Power Insights Rating Key: Buy: total return potential of +12% or more over the next 12 months, Hold: total return potential between +12% and -12% over the next 12 months, Sell: total return potential of -12% or more over the next 12 months.

PUGET ENERGY, INC.

PSD – NYSE

August 3, 2006

Rating:
BUY**Price:** (8/3/06) \$22.23**Price Targets:**

12-18 month: \$25

5-year: \$30

Industry:
Utilities**James L. Bellessa, Jr., CFA**

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Second Quarter 2006 Earnings Preview: Solid Improvement Likely at Utility, With EPS Held Back by 16% Increase in Share Count.

- Puget Energy is scheduled to report earnings for its second quarter, on Thursday August 3rd, after the market closes. A conference call with management will be held on Friday, August 4th at 10:00PM EDT/7:00 AM PDT.
- We are looking for EPS from continuing operations of \$0.16 on a 16% increase in average diluted shares outstanding, due to last October's 15 million share offering.
- In 2Q'05, EPS from continuing operations was \$0.12 and normalized EPS was \$0.17. EPS in the year ago period included charges of \$0.02 for a regulatory disallowance of the Tenaska gas supply contract and \$0.03 per share for the true-up of previously recorded gas costs. The consensus estimate for 2Q'06 is \$0.14 per share.
- The company will also be reporting in discontinued operations its last quarter of ownership in InfrastruX and the resulting gain from divestiture. We are forecasting \$0.23 vs. \$0.02 for this utility construction service business that was sold to an affiliate of Tenaska Power Fund L.P. for \$275 million in May.
- Although the primary portion of the heating season ends by March, "shoulder month" usage of electricity was likely "flat to down" during 2Q'06 as heating degree days in the company's regulated utility service territory were flat with last year, but 13% below normal. Any weather effects should be more than offset by customer growth.
- We will also be listening for more color regarding the recent Washington Utilities and Transportation Commission Staff recommendation, proposing that the utility should reduce annual electric revenues by \$41.0 million (-2.4%) and increase annual gas revenues by \$19.6 million. Hence, the Staff is proposing an overall \$21.4 million decrease in annual utility rates. Puget's current remaining annual rate increase request is \$100.9 million, including \$50.8 million in electric rates and \$50.1 million in gas rates. For more details, please see our *Research Note* dated July 26, 2006.
- We currently rate the shares of PSD as **BUY**, with a target price of \$25, or 15.6x our 2007 EPS estimate of \$1.60

RESEARCH NOTE

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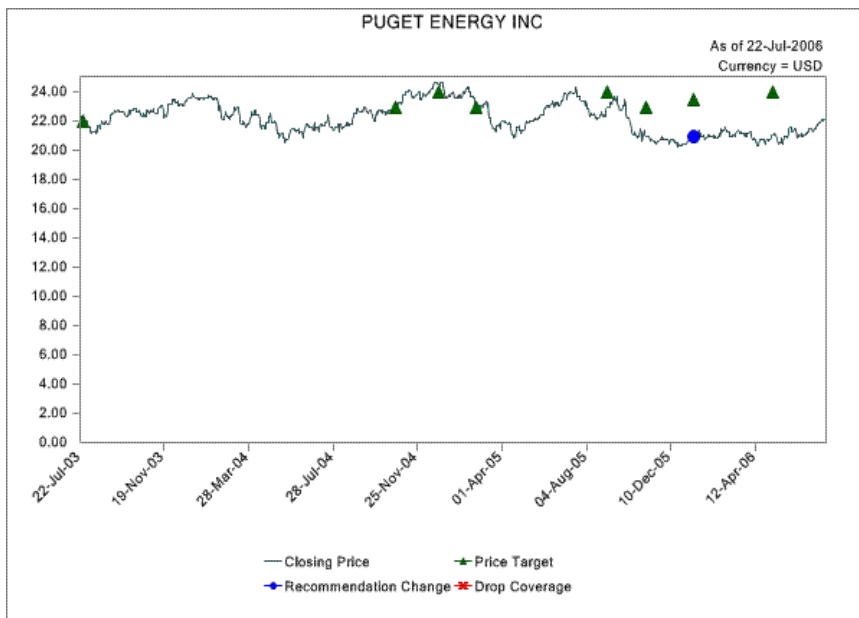
We, James L. Bellessa, Jr., CFA and Bryan H. Nicholls, attest that (i) all the views expressed in this research report accurately reflect our personal views about the common stock of the subject company, and (ii) no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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D.A. Davidson & Co. Ratings	Buy	Neutral	Underperform
Risk adjusted return potential	Over 15% total return expected on a risk adjusted basis over next 12-18 months	>0-15% return potential on a risk adjusted basis over next 12-18 months	Likely to remain flat or lose value on a risk adjusted basis over next 12-18 months

Distribution of Ratings (as of 6/30/06)	Buy	Hold	Sell
Corresponding Institutional Research Ratings and Distribution	Buy 50%	Neutral 45%	Underperform 5%
Corresponding Private Client Research Ratings and Distribution	Outperform 76%	Market Perform 24%	Underperform 0%
Distribution of Combined Ratings	54%	42%	4%

Distribution of companies from whom D.A. Davidson & Co. has received compensation for investment banking services in last 12 mos.	Buy	Hold	Sell
Institutional Coverage	6%	4%	0%
Private Client Coverage	0%	0%	0%
Distribution of Combined Investment Banking	5%	3%	0%



D.A. Davidson & Co. Institutional Research Rating Scale (maintained since 7/9/02)
Buy, Neutral, Underperform

PUGET ENERGY INC						
Currency = USD						
Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target	
10-Jan-2006	21.02	BUY	05-May-2006	21.05	24.00	
			10-Jan-2006	21.02	23.50	
			02-Nov-2005	21.03	23.00	
			01-Sep-2005	22.90	24.00	
			22-Feb-2005	22.88	23.00	
			27-Dec-2004	24.62	24.00	
			25-Oct-2004	22.71	23.00	
			24-Jul-2003	22.05	22.00	

D.A. Davidson & Co.

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Puget Energy

Solid 2Q06 Results Driven by Favorable Hydro Conditions, Lower O&M and Higher Other Income - ALERT

- After the market closed, Neutral-rated Puget Energy (PSD) posted solid 2Q06 ongoing earnings of \$0.18 per share, above our \$0.15 and the consensus \$0.14 estimates. Strong operational performance in the quarter can be largely attributed to lower purchased power costs due to favorable hydroelectric generation conditions in the region, on-plan retail sales growth and well-contained operations and maintenance expense. Management reiterated 2006 EPS guidance of \$1.40 - \$1.55.
- Other income increased nearly \$9MM YOY, excluding a \$15MM contribution to the newly-formed Puget Sound Energy Foundation, contributing roughly \$0.04 to 2Q06 earnings. The earnings release provides no detail on these line items; however, in 1Q06, PSD attributed the rise in other income to the equity portion of AFUDC and a decrease to longterm incentive plan costs. We believe these same benefits, plus additional unspecified tax-related items, likely accrued in the second quarter.
- While PSD posted an operationally sound quarter, investors may be somewhat wary about the quality and sustainability of the other income items, which boosted 2Q06 earnings. As a result, we would expect PSD shares to trade essentially in line with the broader utility group on Friday.
- PSD will host a conference call to review 2Q06 earnings tomorrow, Friday, August 4 at 10:00 am ET. The dial in number is 800-329-9097 and the passcode is Puget.

Neutral

\$22.40

02 August 2006

Electric Utilities

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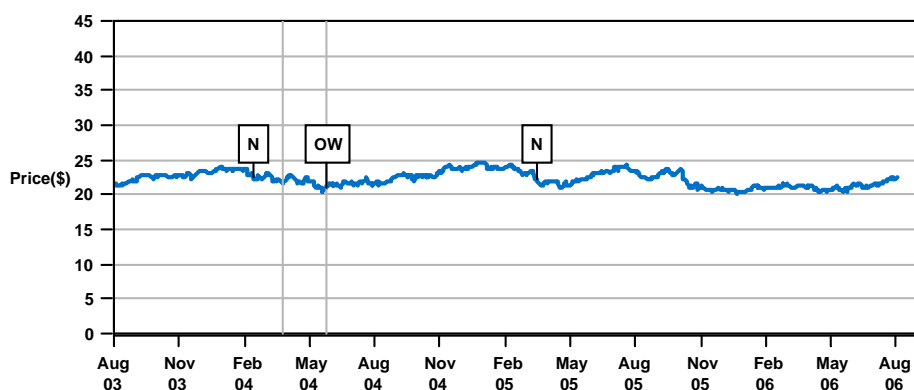
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Puget Energy (PSD) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
12-Feb-04	N	22.51	-
25-May-04	OW	20.90	-
14-Mar-05	N	22.25	-

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
 Break in coverage Mar 23, 2004 - May 25, 2004. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. As of Aug. 30, 2002, the firm discontinued price targets in all markets where they were used. They were reinstated at JPMSI as of May 19th, 2003, for Focus List (FL) and selected Latin stocks. For non-JPMSI covered stocks, price targets are required for regional FL stocks and may be set for other stocks at analysts' discretion.
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Coverage Universe: **Nikki Edgecombe:** Duquesne Light Holdings (DQE), Puget Energy (PSD), TECO Energy Inc (TE)

JPMorgan Equity Research Ratings Distribution, as of July 3, 2006

	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	42%	40%	18%
IB clients*	44%	47%	37%
JPMSI Equity Research Coverage	38%	47%	15%
IB clients*	62%	57%	47%

*Percentage of investment banking clients in each rating category.

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Revised July 3, 2006.

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North America Equity Research
03 August 2006



August 7, 2006

PUGET ENERGY, INC.

PSD – NYSE

Rating:**BUY****Price:** (8/4/06) \$22.56**Price Targets:**

12-18 month: \$25

5-year: \$30

Industry:

Utilities

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Company Description:

Bellevue, WA -- Puget Energy, Inc., through its wholly owned utility subsidiary, Puget Sound Energy, provides electric and gas services to more than 1.2 million customers, principally located in the Puget Sound region of Washington State. The firm has been focusing on low-risk energy distribution services, but has said it was seeking to return to a vertically integrated model. Puget has announced the sale of its non-regulated utility services business, InfrastruX.

FY (Dec)	2005A ¹	2006E ²	Y-O-Y Growth	2007E	Y-O-Y Growth
Revenue (\$M)	\$2,573.2	\$2,824.0	10%	\$2,949.4	4%
Previous		\$2,819.7		\$2,943.4	
Price/Revenue ratio	.9x	.9x		.9x	
EPS Revised	\$1.42	\$1.55	9%	\$1.65	7%
Previous		\$1.45		\$1.60	
Price/EPS ratio	15.9x	14.6x		13.7x	
EBITDA (\$M)	\$641.7	\$707.5	10%	\$773.3	9%
EV/EBITDA ratio	8.2x	7.5x		6.8x	

Quarterly Data:	EPS	EPS Previous	Revenue (\$M)	Revenue Previous	EBITDA (\$M)
3/31/06A ²	\$0.63	-	\$877.7	-	\$219.3
6/30/06A ²	\$0.26	\$0.16	\$574.2	\$568.1	\$142.0
9/30/06E	\$0.10	\$0.10	\$515.5	\$516.4	\$129.1
12/31/06E	\$0.55	\$0.55	\$856.5	\$857.5	\$217.1

EPS represents results from continuing operations. ^{1,2}See detail of footnotes on page 2.

Valuation Data

Long-term growth rate (E)	4%
Total Debt/Cap (6/30/06)	55.9%
Cash per share (6/30/06)	\$0.15
Book value per share (6/30/06)	\$18.24
Dividend (yield)	\$1.00 (4.4%)
Return on Equity (T-T-M)	11%

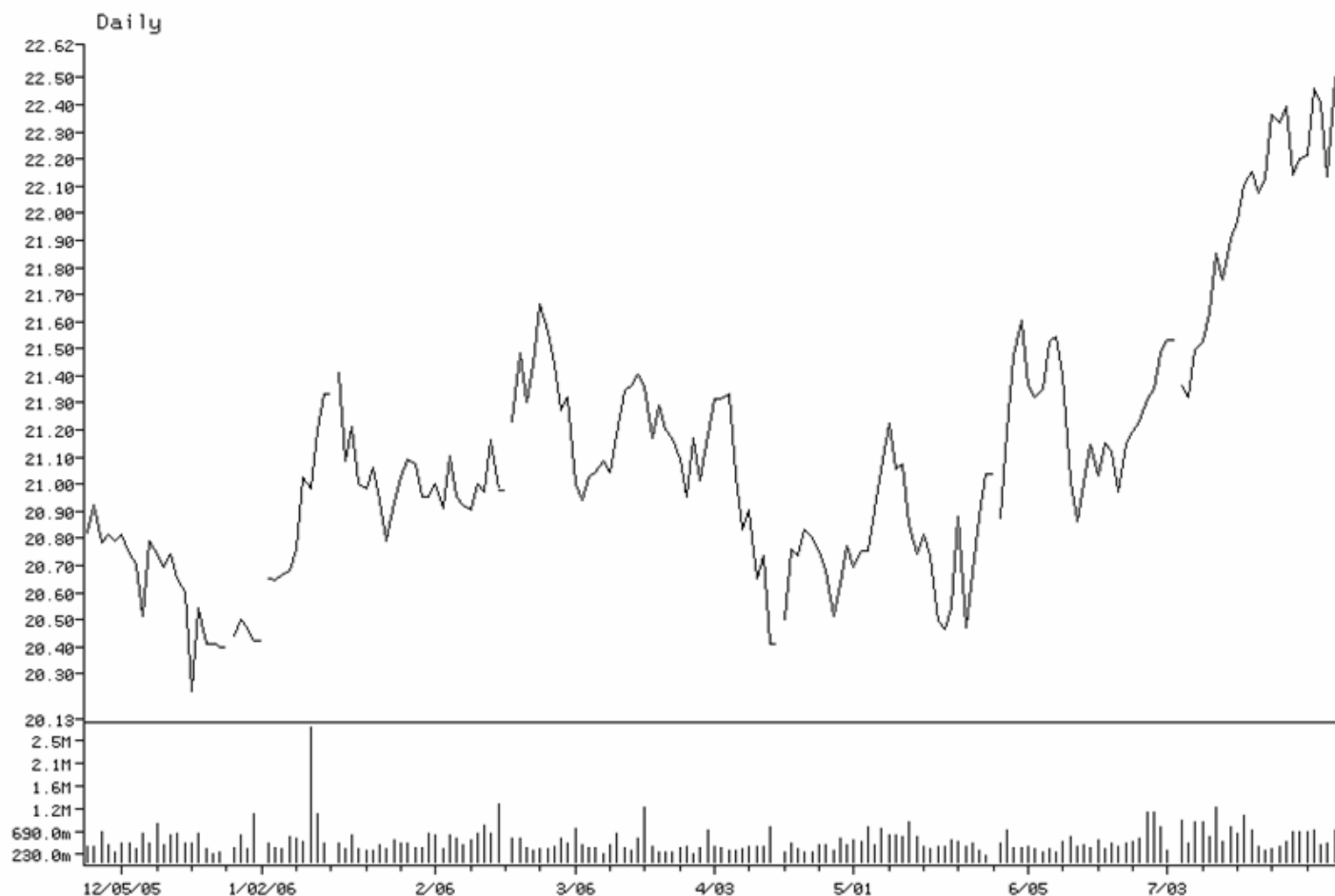
Trading Data

Shares outstanding (M)	116.2
Market Capitalization (\$M)	\$2,615
52-week range	\$20.13 - \$23.82
Average daily volume (3 mos.) (K)	499
Float	99%
Index Membership	S&P 400 MidCap

Raising 2006 and 2007 EPS Forecasts on Strong 2Q'06 Report. Maintaining Our Target Price and BUY Rating.

- Puget Energy reported 2Q'06 diluted EPS of \$0.46, compared to \$0.14 for 2Q'05. EPS from continuing operations were \$0.26 versus \$0.14 (normalized). Results significantly exceeded our forecast of \$0.16.
- The quarter's EPS increase of over 50% was even more impressive when taking into consideration a 16% increase in average diluted shares outstanding, due to completion of a 15 million share follow-on offering last November.
- The major reason for strong results was an improved electric margin during a period of improved hydro conditions.
- We are raising our 2006 EPS estimate of \$1.45 to \$1.55 for the positive earnings variance of 2Q'06. Our 2007 EPS forecast is being raised from \$1.60 to \$1.65 to reflect the higher earnings base of the utility, under normal hydro conditions, than we were previously assuming.
- The major risk to our 2007 forecast is the outcome of a pending rate case, which should be decided by year-end 2006.
- We are maintaining our 12-18 month target price of \$25, or 15.2x our revised 2007 EPS estimate. Over the past decade, the stock of PSD has traded at a median 15.0x multiple of year-forward earnings. With the share price below our target, we are maintaining our **BUY** rating for the stock's price appreciation potential and dividend yield of 4.4%.

Price Chart



Source: ILX

Footnote reference from page 1 of this report:

¹2005 data includes 1Q'05 benefit of \$0.04/sh. for partial recovery of a previously reported regulatory disallowance related to the Tenaska gas supply regulatory asset and on-going disallowance of approximately \$0.02/sh. Includes 2Q'05 charges of \$0.02/sh for regulatory Tenaska disallowance and \$0.03/sh. for the true-up of previously reported gas costs.

2005 data excludes EPS from discontinued operations, including (\$0.01) in 1Q'05, \$0.02 in 2Q'05, and \$0.08 in 4Q'05. 2006 data excludes EPS from discontinued operations, including \$0.16 in 1Q'06 and an estimated \$0.23 in 2Q'06.

2005 data exclude results of InfrastruX, a discontinued operation which was sold May 7, 2006.

²2006 data exclude results of InfrastruX which was sold May 7, 2006. Results also exclude 2Q'06 costs of \$0.08/sh. for funding a charitable foundation.

Operating Results Significantly Exceed Expectations

Puget Energy reported 2Q'06 diluted EPS of \$0.46, compared to \$0.14 for 2Q'05. The recent quarter includes operating earnings and a gain of \$0.28 for InfrastruX, which was sold on May 7, and a loss of \$0.08 for establishing and funding a charitable organization. The year ago quarter amount includes \$0.02 for InfrastruX and a charge totaling \$0.03 for the true-up of previously recorded gas costs.

EPS from continuing operations were \$0.26 versus \$0.14, excluding the aforementioned items. Results significantly exceeded our forecast of \$0.16. The EPS increase of over 50% was even more impressive when taking into consideration a 16% increase in average diluted shares outstanding, due to completion of a 15 million share follow-on offering last November.

Improved Electric Margin Major Cause for Improved EPS

Utility 2Q'06 EPS of \$0.26 compared to \$0.14 in 2Q'05. This year ago result excludes the charge of \$0.03 for the true-up of gas costs but includes a \$0.02 drag from a regulatory disallowance of the Tenaska gas supply contract.

Margin Improvement Key to Quarter's Success

Quarterly electric revenues of \$381 million climbed \$36 million, or 10%, primarily due to a \$29 million increase in electric retail revenues and a \$7 million increase in "Other" electric revenues. The Power Cost Only Rate Case (PCORC) that was effective November 1, 2005 provided \$17 million of the quarter's revenue increase. A 3.4% increase in kilowatthour (kWh) sales to retail customers, aided by 1.3% growth in customer count, contributed \$11 million to revenues.

After deducting the costs of generating and purchasing electric energy from electric revenues, Puget Sound Energy had electric margins of \$177 million during 2Q'06. These electric margins were up \$26 million, or 17%, primarily because of favorable hydro conditions resulting in lower power costs than the amount reflected in the utility's rates and an increase in retail customer usage. In its most recent forecast, the Northwest River Forecast Center expects runoff above Grand Coulee Reservoir for the period January through July 2006 to be 106% of normal, compared to 86% of normal in 2005.

Lower power costs added \$11 million to electric margin; higher retail kWh sales contributed \$6 million to margin; and changes in customer class usage provided \$9 million of the margin increase.

Quarterly gas revenues of \$192 million rose \$30 million, or 18%, primarily due to \$21 million in higher tariffs under the current Purchased Gas Adjustment mechanism, to recover higher purchased gas costs. Gas revenues also rose \$8 million due to a 3.0% increase in customer growth, and an improved economy in the company's service territory in Washington. After deducting the costs of gas sales, to retail and transportation customers, from gas revenues, gas margins rose \$7 million in 2Q'06. Approximately \$5 million of this increase was due to the absence of last year's one-time true-up of gas costs. In addition, the 5.1% increase in retail customer therm sales added nearly \$3 million to margin, whereas a change in customer class usage subtracted less than \$1 million in margin.

EPS Forecasts Raised

Management reiterated 2006 EPS guidance of \$1.40-\$1.55. No EPS guidance has been provided for 2007.

We are raising our 2006 EPS estimate of \$1.45 to \$1.55 for the positive earnings variance of 2Q'06. Our 2007 EPS forecast is being raised from \$1.60 to \$1.65 to reflect the higher earnings base of the utility, under normal hydro conditions, than we were previously assuming.

In February, PSE asked the commission to collect additional annual revenues of \$200.1 million, including \$148.8 million (+9.2%) from electricity customers and \$51.3 million (+5.3%) from natural gas customers. As the commission approved \$96.8 million (+5.9%) in additional annualized power expenses in June (see our *Research Bulletin* of July 5, 2006), Puget has revised the total electric rate increase request to

\$42.9 million, which is an average 2.5% increase over rates in effect on July 1, 2006. In addition, the company has modified its requests for electric and gas transmission and distribution trackers to \$7.9 million and \$10.9 million, respectively. Consequently, the company's current remaining annual rate increase request is \$100.9 million, including \$50.8 million in electric rates and \$50.1 million in gas rates.

In late July, the Staff of the Washington Utilities and Transportation Commission (WUTC) recommended the utility's annual electricity rates be cut by \$41 million (-2.4%), while allowing the company to collect slightly higher natural gas rates from customers of \$19.6 million. Hence, the Staff is proposing an overall \$21.4 million decrease in rates for PSE a year. While the Staff's recommendations are not binding on the WUTC, they provide a baseline, which if ultimately accepted, would place our 2007 EPS estimate of \$1.65 for Puget Energy at risk.

We believe the major portion of the \$122.3 million difference between the company's current request and the Staff's proposal is explained by the differences in proposed returns on equity, the equity ratio, and trackers. The Staff is recommending an allowed return on equity of 9.375% based on a proposed capital structure composed of 43% equity and 57% debt. This compares to the company's request of 11.25% based on a proposed capital structure composed of 45% equity and 55% debt. Furthermore, the Staff rejects PSE's request for \$18.8 million in electric and gas transmission and distribution trackers.

We believe that the final decision in the rate case will be a compromise somewhere between the company's request and the Staff's proposal.

Maintaining Target Price and BUY Rating

We are maintaining our 12-18 month target price of \$25, or 15.2x our revised 2007 EPS estimate. Over the past decade, the stock of PSD has traded at a median 15.0x multiple of year-forward earnings. With the share price below our target, we are maintaining our **BUY** rating for the stock's price appreciation potential and dividend yield of 4.4%.

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PUGET SOUND ENERGY, INC.

BALANCE SHEET

(\$000's; years end 12/31)

	2001	2002	2003	2004	2005	6/30/2006
Assets						
Utility Plant:						
Electric plant	\$4,167,920	\$4,229,352	\$4,265,908	\$4,389,882	\$4,802,363	\$4,992,980
Gas plant	1,551,439	1,645,865	1,749,102	1,881,768	1,991,456	2,050,426
Common plant	362,670	378,844	390,622	409,677	439,599	451,220
Less: Accumulated depreciation and amortization	(2,194,048)	(2,337,832)	(2,325,405)	(2,452,969)	(2,602,500)	(2,678,710)
Net utility plant	3,887,981	3,916,229	4,080,227	4,228,358	4,630,918	4,815,916
Other Property and Investments:						
Total other property and investments	317,249	378,130	402,093	157,670	157,321	157,545
Current Assets:						
Cash	92,356	176,669	27,481	12,955	16,710	16,402
Restricted cash		18,871	2,537	1,633	1,047	1,049
Secured pledged accounts receivable					41,000	0
Accounts receivable, net						
Less: Allowance for doubtful accounts						
Total accounts receivable	279,321	279,623	227,115	137,659	294,509	217,789
Unbilled revenues	147,008	112,115	131,798	140,391	160,207	79,501
Inventories and supplies, at average cost	90,333	70,402	85,128	97,578	127,549	127,275
Purchased gas receivable	37,228			19,088	67,335	72,973
Unrealized gain on derivative instruments	3,315	3,741	7,593	14,791	75,037	19,880
Taxes receivable, deferred income taxes						309
Prepayments and other	11,277	11,323	12,200	8,273	7,596	9,381
Current assets of discontinued operations				110,922	107,434	0
Total current assets	660,838	672,744	493,852	543,290	898,424	544,559
Long-Term Assets:						
Restricted cash						3,700
Regulatory asset for deferred income taxes	193,016	167,058	142,792	127,252	129,693	121,643
PURPA buyout costs	244,635	243,584	227,753	211,241	191,170	179,555
FAS-133 unrealized gain (net of tax)	3,317	9,870	8,624	21,315	28,464	16,685
Power cost adjustment mechanism			3,605		18,380	6,246
Other	239,941	269,876	315,739	401,795	388,468	524,131
Long-term assets of discontinued operations				160,298	167,113	0
Total Long-term assets	680,909	690,388	698,513	921,901	923,288	851,960
Total Assets	\$5,546,977	\$5,657,491	\$5,674,685	\$5,851,219	\$6,609,951	\$6,369,980

Capitalization and Liabilities

Capitalization:						
Common stock	\$870	\$936	\$991	\$999	\$1,157	\$1,162
Additional paid-in capital	1,358,946	1,484,615	1,603,901	1,621,756	1,948,975	1,960,972
Earnings reinvested in the business	32,229	36,396	58,217	13,853	69,407	157,612
Accumulated other comprehensive income	(29,321)	1,840	(8,063)	(14,332)	7,508	21
Total common equity	\$1,362,724	\$1,523,787	\$1,655,046	\$1,622,276	\$2,027,047	\$2,119,767
Preferred stock not subject to mandatory redemption	60,000	60,000	0	0	0	0
Preferred stock subject to mandatory redemption	50,662	43,162	1,889	1,889	1,889	1,889
Corporation obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the corporation	300,000	300,000	280,250	280,250	237,750	37,750
Long-term debt	2,127,054	2,149,733	1,969,489	2,069,360	2,183,360	2,333,360
Total capitalization	3,900,440	4,076,682	3,906,674	3,973,775	4,450,046	4,492,766
Minority interest in equity of a consolidated subsidiary		10,629	11,689	4,648	6,816	0
Current Liabilities:						
Accounts payable	167,426	205,619	214,357	226,478	346,490	180,279
Short-term debt	348,577	47,295	13,893		41,000	182,597
Current maturities of long-term debt	119,523	73,206	246,829	31,000	81,000	135,000
Purchased gas liability	0	83,811	11,984			
Accrued expenses:						
Taxes	70,708	62,562	77,451	81,315	112,860	58,722
Salaries and wages	14,746	11,441	12,712	13,829	15,034	19,787
Interest	42,505	37,942	32,954	29,005	31,004	30,964
Current portion of FAS-133 unrealized losses	35,145	2,410	3,636	26,581	9,772	45,404
Deferred Income Tax					10,968	0
Tenaska disallowance reserve				3,156	0	0
Other	46,178	47,761	46,378	34,918	35,694	34,955
Current liabilities of discontinued operations				51,892	55,791	0
Total current liabilities	844,808	572,047	660,194	498,174	739,613	687,708
Deferred Income Taxes	605,315	730,675	755,235	795,291	738,809	723,049
Other Deferred Credits	196,339	267,458	340,893	395,236	513,023	465,970
Commitments and Contingencies	0	0	0	0	0	487
Unrealized Loss on derivative instruments	75	0	0	385	0	0
Long-term liabilities of discontinued operations				183,710	161,644	0
Total Capitalization and Liabilities	\$5,546,977	\$5,657,491	\$5,674,685	\$5,851,219	\$6,609,951	\$6,369,980

% of Capitalization

Total debt and mandatory redemption preferred	67.4%	62.3%	60.3%	59.5%	55.7%	55.9%
Preferred stock	1.4%	1.4%	0.0%	0.0%	0.0%	0.0%
Common stock	31.2%	36.3%	39.7%	40.5%	44.3%	44.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Shares outstanding (000's)	87,023	93,643	99,074	99,868	115,695	116,233
Book value per share	\$15.66	\$16.27	\$16.71	\$16.24	\$17.52	\$18.24
Book value per share for the utility		\$15.23	\$15.70	\$15.95	\$17.17	\$18.00

PUGET ENERGY, INC. - CONSOLIDATED STATEMENTS OF INCOME*

(000's, except per share; years end 12/31)

	2004**	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06E	4Q06E	2006E	2007E
OPERATING REVENUES:												
Electric	\$ 1,423,034	\$420,090	\$345,420	\$375,035	\$472,323	\$1,612,867	\$467,424	\$380,980	\$396,975	\$486,660	\$1,732,039	\$1,798,935
Gas	769,306	321,129	162,567	111,042	357,778	952,516	406,588	192,457	118,006	369,366	1,086,417	1,147,979
Other	6,537	434	2,127	4,306	960	7,827	3,723	787	500	500	5,510	2,500
Total operating revenues	2,198,877	741,653	510,114	490,383	831,061	2,573,210	877,735	574,224	515,481	856,526	2,823,966	2,949,414
OPERATING EXPENSES:												
Energy costs:												
Purchased electricity	723,567	208,178	178,943	200,862	272,439	860,422	252,125	187,945	202,457	274,720	917,247	953,436
Purchased gas	451,302	201,744	98,142	59,151	233,083	592,120	266,679	118,362	64,862	237,754	687,657	712,343
Electric generation fuel	80,772	20,448	12,894	21,057	18,919	73,318	21,584	14,292	21,834	19,466	77,176	80,952
Residential Exchange	(174,473)	(55,046)	(37,105)	(34,526)	(53,814)	(180,491)	(56,633)	(38,670)	(35,728)	(53,533)	(184,563)	(187,089)
Unrealized (gain)/loss on derivative instruments	(526)	509	(591)	477	77	472	975	(150)	0	0	825	0
Utility operations and maintenance	291,232	75,522	83,132	81,645	92,957	333,256	87,364	83,598	85,000	90,000	345,962	353,000
Other operations and maintenance	2,324	741	558	745	613	2,657	855	689	500	500	2,544	2,500
Depreciation and amortization	228,566	58,077	59,657	60,549	63,351	241,634	63,884	64,545	67,000	68,500	263,929	280,000
Conservation amortization/other	22,688	5,162	5,951	5,633	7,562	24,308	8,048	7,462	5,500	5,500	26,510	25,000
Goodwill Impairment												
Taxes other than federal income taxes	208,990	69,700	50,521	44,784	68,737	233,742	79,732	54,178	46,000	69,000	248,910	252,000
Federal income taxes	76,757	46,084	6,093	2,475	33,957	88,609	40,345	15,433	6,180	40,233	102,191	120,823
Total operating expenses	1,911,199	631,119	458,195	442,852	737,881	2,270,047	764,958	507,684	463,605	752,141	2,488,388	2,592,965
OPERATING INCOME	287,678	110,534	51,919	47,531	93,180	303,163	112,777	66,540	51,876	104,386	335,578	356,449
Charitable foundation funding								(15,000)			(15,000)	
OTHER INCOME	4,362	1,164	1,598	1,422	4,125	8,309	2,339	10,448	4,000	4,000	20,787	16,000
INCOME BEFORE INTEREST CHARGES	292,040	111,698	53,517	48,953	97,305	311,472	115,116	61,988	55,876	108,386	341,365	372,449
INTEREST CHARGES, net of AFUDC	166,539	39,582	41,527	43,015	40,974	165,098	41,520	41,390	44,000	44,000	170,910	178,000
Mandatorily redeemable securities interest	91	23	23	23	23	92	23	23	23	23	92	92
Preferred stock dividends of subsidiary	0	0	0	0	0	0	0	0	0	0	0	0
INCOME FROM CONTINUING OPERATIONS	125,410	72,093	11,967	5,915	56,308	146,283	73,573	20,575	11,853	64,363	170,363	194,357
Discontinued Operations:	(70,388)	(1,018)	1,928	(3)	8,607	9,514	18,947	32,954	0	0	51,901	0
NET INCOME before effect of acct. change	55,022	71,075	13,895	5,912	64,915	155,797	92,520	53,529	11,853	64,363	222,264	194,357
Accum. effect of acct. change/ asset retirement obl	0				71	71	(89)				(89)	
INCOME FOR COMMON STOCK	\$55,022	\$71,075	\$13,895	\$5,912	\$64,844	\$155,726	\$92,609	\$53,529	\$11,853	\$64,363	\$222,353	\$194,357
DILUTED COMMON SHARES OUT. --WEIGHTED	99,911	100,446	100,690	100,964	108,598	103,101	116,190	116,405	116,705	117,005	116,576	118,076
INCOME FOR COMMON STOCK												
Utility	\$125,410	\$72,093	\$11,967	\$5,915	\$56,308	\$146,212	\$73,573	\$30,275	\$11,853	\$64,363	\$180,152	\$194,357
Charitable Foundation (after tax)								(\$9,700)			(\$9,700)	
Discontinued Operations	(70,388)	(1,018)	1,928	(\$3)	\$8,607	9,514	\$18,947	\$32,954	\$0	\$0	51,901	0
Cumulative effect of accounting change	0	0	0	0	0	0	0	0	0	0	0	0
Total	\$55,022	\$71,075	\$13,895	\$5,912	\$64,844	\$155,726	\$92,609	\$53,529	\$11,853	\$64,363	\$222,353	\$194,357
EARNINGS PER COMMON SHARE												
Utility	\$1.26	\$0.72	\$0.12	\$0.06	\$0.52	\$1.42	\$0.63	\$0.26	\$0.10	\$0.55	\$1.55	\$1.65
Charitable Foundation (after tax)								(\$0.08)			(\$0.08)	
Discontinued Operations	(\$0.70)	(\$0.01)	\$0.02	(\$0.00)	\$0.08	\$0.09	\$0.16	\$0.28	\$0.00	\$0.00	\$0.45	\$0.00
Cumulative effect of accounting change	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DILUTED EARNINGS PER SHARE	\$0.55	\$0.71	\$0.14	\$0.06	\$0.60	\$1.51	\$0.79	\$0.46	\$0.10	\$0.55	\$1.91	\$1.65

D.A. Davidson & Co. expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.

D.A. Davidson & Co. is a full service investment firm that provides both brokerage and investment banking services. James L. Bellessa, Jr., CFA and Bryan H. Nicholls, the research analysts principally responsible for the preparation of this report, will receive compensation that is based upon (among other factors) D.A. Davidson & Co.'s investment banking revenue. However, D.A. Davidson & Co.'s analysts are not directly compensated for involvement in specific investment banking transactions.

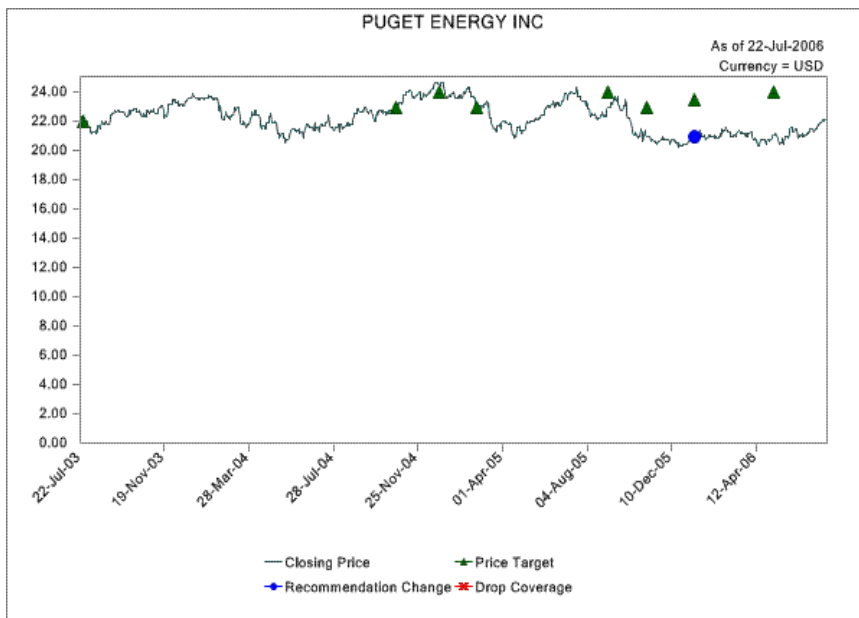
We, James L. Bellessa, Jr., CFA and Bryan H. Nicholls, attest that (i) all the views expressed in this research report accurately reflect our personal views about the common stock of the subject company, and (ii) no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Ratings Information

D.A. Davidson & Co. Ratings	Buy	Neutral	Underperform
Risk adjusted return potential	Over 15% total return expected on a risk adjusted basis over next 12-18 months	>0-15% return potential on a risk adjusted basis over next 12-18 months	Likely to remain flat or lose value on a risk adjusted basis over next 12-18 months

Distribution of Ratings (as of 6/30/06)	Buy	Hold	Sell
Corresponding Institutional Research Ratings and Distribution	Buy 50%	Neutral 45%	Underperform 5%
Corresponding Private Client Research Ratings and Distribution	Outperform 76%	Market Perform 24%	Underperform 0%
Distribution of Combined Ratings	54%	42%	4%

Distribution of companies from whom D.A. Davidson & Co. has received compensation for investment banking services in last 12 mos.	Buy	Hold	Sell
Institutional Coverage	6%	4%	0%
Private Client Coverage	0%	0%	0%
Distribution of Combined Investment Banking	5%	3%	0%



D.A. Davidson & Co. Institutional Research Rating Scale (maintained since 7/9/02)
Buy, Neutral, Underperform

PUGET ENERGY INC

Currency = USD

Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
10-Jan-2006	21.02	BUY	05-May-2006	21.05	24.00
			10-Jan-2006	21.02	23.50
			02-Nov-2005	21.03	24.00
			01-Sep-2005	22.90	24.00
			22-Feb-2005	22.88	23.00
			27-Dec-2004	24.62	24.00
			25-Oct-2004	22.71	23.00
			24-Jul-2003	22.05	22.00

D.A. Davidson & Co.

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Target prices are our Institutional Research Department's evaluation of price potential over the next 12-18 months and 5 years, based upon our assessment of future earnings and cash flow, comparable company valuations, growth prospects and other financial criteria. Certain risks may impede achievement of these price targets including, but not limited to, broader market and macroeconomic fluctuations and unforeseen changes in the subject company's fundamentals or business trends.

Other Disclosures

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August 04, 2006

United States of America

Puget Energy (PSD - US\$ 22.13) 2-Equal weight

Earnings Review/Sales Analysis

Strong Q2; Hydro, Sales Drive Margin
Energy & Power
Power & Utilities

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Investment Conclusion

- PSD reported Q2 '06 ongoing EPS of \$0.26, far exceeding consensus and our estimate of \$0.14. Key drivers included strong hydro conditions and increased customer usage. We maintain our 2-EW and '06/'07E of \$1.46 and \$1.63. Our \$23 price target reflects a 5% regulatory risk discount to the '07 group multiple of 13.9X \$1.63.

Summary

- PSD completed the sale of InfrastruX on May 7. The all-cash transaction and \$96m in proceeds will facilitate further investment in its core utility business.
- The company reaffirmed '06 ongoing EPS guidance of \$1.40 - \$1.55, in line with our estimate of \$1.46.
- Rebuttal testimony in the GRC proceeding is scheduled for Aug.23 with full-commission hearings set for mid-September. Outcome scenarios are outlined below. Settlement remains a possibility.

EPS (US\$) (FY Dec)

	2005		2006		2007		% Change		
	Actual	Old	New	St. Est.	Old	New	2006	2007	
1Q	0.67A	0.63A	0.63A	0.63A	N/A	N/A	0.74E	-6%	N/A
2Q	0.12A	N/A	0.26A	0.14E	N/A	N/A	0.16E	117%	N/A
3Q	0.06A	N/A	N/A	0.09E	N/A	N/A	0.09E	N/A	N/A
4Q	0.52A	N/A	N/A	0.57E	N/A	N/A	0.62E	N/A	N/A
Year	1.42A	1.46E	1.46E	1.45E	1.63E	1.63E	1.63E	3%	12%
P/E			15.2			13.6			

Market Data

Market Cap (Mil.)	2576
Shares Outstanding (Mil.)	116.40
Float (%)	116
Dividend Yield	4.52
Convertible	No
52 Week Range	23.82 - 20.13

Financial Summary

Revenue FY06 (Mil.)	N/A
Five-Year EPS CAGR	4.0
Return on Equity	9.00
Current BVPS	18.00
Debt To Capital (%)	56.00

Stock Overview



Stock Rating

Target Price

New: 2-Equal weight	New: US\$ 23.00
Old: 2-Equal weight	Old: US\$ 23.00

Sector View: 3-Negative

A Strong Quarter and on Track for the Year

PSD reported Q2 '06 continuing EPS of \$0.26 compared to \$0.12 in '05, or an increase in net income of \$17.9M to \$30.1M from \$12.2M in Q2 '05. The company reported customer growth of 1.3% electric and 3.0% for gas in the last 12 months. Retail sales volumes for electricity increased by 3.4% v. Q2 '05 and 5.1% for gas. Quarter over quarter electric margin increased \$25.8M primarily due to favorable hydro conditions resulting in lower power costs than the amount reflected in PSD's rates. The company expects that its true-up baseline power rate will result in a neutral position for the year. Q2 '06 also benefited from increases in retail customer usage and varied usage among customer classes. Lower power costs under the PCA mechanism contributed \$11.3M to margin Q2 '06 v. Q2 '05. Retail customer kWh sales increased 3.4% quarter over quarter, and contributed \$5.9M to electric margin. Changes in customer class usage increased margin by \$8.9M for the quarter. Gas margin increased \$7.2M for the quarter compared to Q2 '05, primarily due to a one-time true-up of previously

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Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 3 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4

Exhibit No. ___(BAV-9)

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reported gas costs under the Purchased Gas Adjustment mechanism in Q2 '05, which increased the margin \$5M. In addition, retail customer therm sales increased 5.1% for the quarter, which provided \$2.6M to margin. Gas margin decreased \$0.4M for the quarter compared to Q2 '05 as a result of changes in customer class usage.

Depreciation and amortization expense increased by \$4.9M Q2 '06 due to additional utility plant placed in service during the last twelve months, including \$2.2M related to the 150 megawatt Hopkins Ridge wind-powered generating facility that became operational in November 2005.

Other income increased quarter over quarter primarily due to the Chelan (Hydro) Contract prepayment in which PSD is now earning its regulatory ROE. The contract payment represents a capacity reservation charge in conjunction with a new contract for hydroelectric power beginning 2011. PSD obtained an accounting order from the Washington Commission and FERC that treated the payment made on April 26 as a regulatory asset. Additional factors (not disclosed) in other income included equity AFUDC and corporate owned life insurance. PSD also recorded a \$4.5M in income associated with its July 24th \$15M funding of the Puget Sound Energy Foundation (that applied InfrastruX sale proceeds).

PSD's average number of fully-diluted common shares outstanding in Q2 increased to 116.4M v. 100.7M from the November 2005 secondary offering of 15M shares. The dilutive impact for the quarter was \$0.04.

Utility Construction Program

Construction expenditures, excluding equity AFUDC were \$306.4M year to date. Utility construction expenditures, excluding new generation resources other than the Wild Horse project (which will be determined as the Company proceeds through the least cost planning process) are anticipated to be \$850M in '07 and \$500M in '07. The projected \$850M in 2006 includes the \$89 Chelan contract payment addressed above.

Regulatory Update

PSD's general rate case was filed in mid-February for rates to go in effect January '07. The case factors in rate base additions relating to T&D and Wild Horse wind project (currently in construction and on schedule to be brought into service by 12/06) as well as a 20-year hydro electric extension with the Chelan Public Utility District. As part of this filing PSD proposed an energy delivery infrastructure tracker to provide a mechanism to recover depreciation to allow for an earned ROE closer to the allowed ROE. Additionally, PSD sought a sales/weather decoupling as well as certain revisions to the Power Cost Adjustment (PCA) mechanism (to make forward looking and to adjust the sharing band) to enable the company to reduce excess price exposure. Current rate base is approximately \$4.15B (including the 12/05 addition of Hopkins Ridge) representing approximately \$2.97 in electric rate base and \$1.2B in gas; an 8.1% ROE (10.3% allowed); and a 44% equity ratio.

WUTC staff members, intervenors and counsel filed testimony in the PSD GRC on July 25. In addition to the financial parameters set forth in the table following, the parties rejected PSD's request for the depreciation tracker and changes to the existing Power Cost Adjustment (PCA) mechanism. Parties agreed to a gas decoupling mechanism as a 3-year pilot for conservation, but not for the weather normalization factors that would enable PSD to fully recover fixed cost in mild conditions.

Puget Energy

General Rate Case Proceeding Scenarios

	Company Requested	Lehman Estimate	Staff Rec.	Intervenor Rec.
Rate Base	\$4.15M	\$4.17M	\$4.2M	\$4.2M
Equity Ratio	45%	45%	43%	44.10%
ROE	11.25%	10.80%	9.38%	9.90%
Depreciation Tracker	included	excluded	excluded	excluded
Implied Impact on '07 Earnings	\$ 1.78	\$ 1.63	\$ 1.40	\$ 1.47

Source: Lehman Brothers

Procedural Schedule

PSD is scheduled to file its rebuttal testimony on August 23. Hearings are set for September 18-29th. The state has a history of settling these cases and it is possible for a settlement to occur during this timeframe.

Valuation

We maintain our 2-EW and '06/'07E of \$1.46 and \$1.63. Our \$23 price target reflects a 5% regulatory risk discount the '07 group multiple of 14.9X \$1.63.

Analyst Certification:

I, Daniel Ford, CFA, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

Other Team Members:

Straka, M. Beth

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mstraka@lehman.com

Company Description:

Puget Energy, Inc. is a public utility holding company. Puget Sound Energy is an electric and gas utility subsidiary.

Important Disclosures:

Puget Energy (PSD)

US\$ 22.13 (03-Aug-2006)

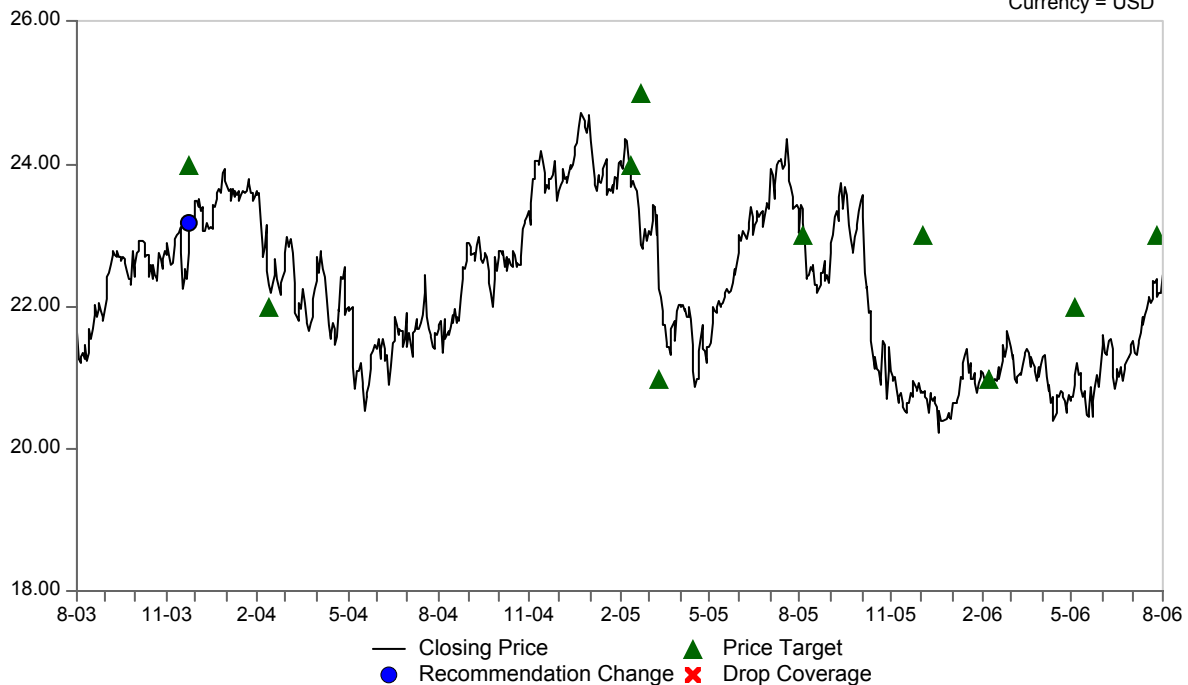
2-Equal weight / 3-Negative

Rating and Price Target Chart:

PUGET ENERGY

As of 01-Aug-2006

Currency = USD



Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
27-Jul-06	22.14		23.00
05-May-06	21.05		22.00
08-Feb-06	21.10		21.00
02-Dec-05	20.79		23.00
03-Aug-05	23.37		23.00
11-Mar-05	22.25		21.00

Date	Closing Price	Rating	Price Target
22-Feb-05	22.88		25.00
10-Feb-05	24.00		24.00
12-Feb-04	22.31		22.00
25-Nov-03	23.19		24.00
25-Nov-03	23.19	2-Equal weight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc. and/or an affiliate has managed or co-managed within the past 12 months a 144A and/or public offering of securities for Puget Energy.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of Puget Energy.

Valuation Methodology: Our \$23 price target is premised upon a 5% regulatory risk imputed discount applied to a 14.9X utility average PE on 2007E of \$1.63.

Risks Which May Impede the Achievement of the Price Target: Puget's operations are primarily subject to federal and state regulatory risk, interest rate risk, exposure to the wholesale commodity markets, hydro conditions, and general economic conditions.

Important Disclosures Continued:

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price (03-Aug-2006)	Stock / Sector Rating
Puget Energy	PSD	US\$ 22.13	2-Equal weight / 3-Negative

Sector Coverage Universe

Below is the list of companies that constitute the sector coverage universe against which the primary stock, Puget Energy, is rated:

AES Corp (AES)	Alliant Energy (LNT)
Ameren Corp (AEE)	American Electric Power (AEP)
Aquila, Inc (ILA)	CMS Energy (CMS)
Consolidated Edison (ED)	Constellation Energy (CEG)
Dominion Resources (D)	DPL Inc (DPL)
DTE Energy (DTE)	Duke Energy (DUK)
Duquesne Light Holdings (DQE)	Edison International (EIX)
Empire District Electric (EDE)	Entergy Corp (ETR)
Exelon Corp (EXC)	FirstEnergy Corp (FE)
FPL Group (FPL)	Great Plains Energy (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)
Mirant Corp. (MIR)	NiSource, Inc (NI)
Northeast Utilities (NU)	NRG Energy (NRG)
OGE Energy (OGE)	Ormat Technologies (ORA)
Pepco Holdings (POM)	PG&E Corp (PCG)
Pinnacle West Capital (PNW)	PPL Corporation (PPL)
Progress Energy (PGN)	Public Service Enterprise Gp (PEG)
Puget Energy (PSD)	Reliant Energy Inc. (RRI)
Sempra Energy (SRE)	Sierra Pacific Resources (SRP)
Southern Co (SO)	TECO Energy (TE)
TXU Corp (TXU)	Westar Energy (WR)
Wisconsin Energy (WEC)	Xcel Energy (XEL)

Guide to Lehman Brothers Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). To see a list of the companies that comprise a particular sector coverage universe, please go to www.lehman.com/disclosures

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Distribution of Ratings:

Lehman Brothers Equity Research has 1856 companies under coverage.

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40% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as Hold rating, 5% of companies with this rating are investment banking clients of the Firm.

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Americas

Electric Utilities

**Rating Neutral 2
Unchanged**
**Price target US\$23.00
Unchanged**
Price US\$22.56

RIC: PSD.N BBG: PSD US

7 August 2006**Trading data**

52-wk. range	US\$23.75-20.23
Market cap.	US\$2.61bn
Shares o/s	116m
Free float	80%
Avg. daily volume ('000)	387
Avg. daily value (US\$m)	8.3

Balance sheet data 12/06E

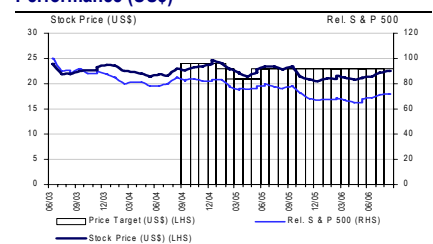
Shareholders' equity	US\$2.05bn
P/BV (UBS)	1.1x
Net cash (debt)	(US\$2.77bn)

Forecast returns

Forecast price appreciation	+2.0%
Forecast dividend yield	4.4%
Forecast stock return	+6.4%
Market return assumption	9.9%
Forecast excess return	-3.5%

EPS (UBS, US\$)

	12/06E			12/05
	From	To	Cons.	Actual
Q1	0.63	0.63	0.63	0.68
Q2	0.14	0.26	0.14	0.15
Q3E	0.09	0.08	0.09	0.06
Q4E	0.58	0.57	0.57	0.52
12/06E	1.45	1.55	1.45	
12/07E	1.65	1.65	1.63	

Performance (US\$)

Source: UBS

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UBS Investment Research
Puget Energy Inc.
Raising 2006 EPS Estimate on a Strong 2Q
2Q06 Results Beat Estimates by a Wide Margin

Puget realized a 73% jump in 2Q EPS, to \$0.26 from \$0.15 in 2Q05. Note, our 2Q06 EPS excludes \$0.08/share impact of charitable foundation funding and 2Q05 EPS excludes \$0.03/share hit related to true-up of gas costs. The results far exceeded our and consensus est. of \$0.14. The upside was driven by lower hydro costs (\$0.07), better than expected electric and gas sales and higher other income.

Raising '06 EPS Est. to \$1.55 from \$1.45 on a Strong 2Q

Our '06 EPS estimate does not reflect any benefit/ impact from the PCA mechanism. The current PCA runs from July to December 2006 and apportions increases or decreases in power costs, from the baseline rate of \$56.9/MWH, between the utility and its customers. Shareholders bear 100% of the variability in power costs for the first +/- \$10 MM and beyond that share with customers in a graduated manner.

Our '07 EPS Est. reflect a 10.3% ROE and a 45% equity ratio

Notwithstanding a wide spread between the company's request of \$101 MM electric and gas rate increase and the WUTC Staff recommendation of \$22 MM, we remain hopeful of a constructive outcome. The rate schedule calls for PSE's rebuttal testimony on August 23rd, hearings in September and a final order in December.

Valuation: No change to our rating or price target

We maintain our Neutral 2 rating and 12-month price target of \$23, which is derived using DCF analysis.

Highlights (US\$m)	12/04	12/05	12/06E	12/07E	12/08E
Revenues	2,199	2,573	2,532	2,631	-
EBIT (UBS)	403	392	437	473	-
Net income (UBS)	151	146	180	192	-
EPS (UBS, US\$)	1.51	1.42	1.55	1.65	-
Net DPS (UBS, US\$)	1.00	1.00	1.00	1.00	-

Profitability & Valuation	5-yr hist. av.	12/05	12/06E	12/07E	12/08E
EBIT margin %	15.5	15.2	17.3	18.0	-
ROIC (EBIT) %	-	-	-	-	-
EV/EBITDA x	-	5.9	6.0	5.6	-
PE (UBS) x	14.9	15.8	14.6	13.7	-
Net dividend yield %	5.9	4.5	4.4	4.4	-

Source: Company accounts, Thomson Financial, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$22.56 on 04 Aug 2006 19:34 EDT

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■ Puget Energy Inc.

Puget Energy, Inc. is an energy services holding company incorporated in the state of Washington. All of its operations are conducted through its subsidiaries, Puget Sound Energy, Inc. (PSE), a utility company, and InfrastruX Group, Inc. (InfrastruX), a construction services company. PSE furnishes electric and gas service in a territory covering 6,000 square miles, principally in the Puget Sound region of Washington State. Puget has decided to exit the Infrastrux business and classifies it as discontinued operations.

■ Statement of Risk

Investors should be aware that PSE is short power and purchases a proportion of its power requirement in the spot market. This exposes the utility to volatile power costs - a concern given that PSE does not have a complete fuel pass-through. PSE has a power tracker mechanism in place that shares power costs / savings with customers in a specified manner. The utility absorbs the first \$10 million of the excess power costs, beyond which it shares with its customers in a graduated manner. This mechanism is in place till December 2006. PSE has requested a modification of this mechanism in its general rate case filing that is pending decision. It is also important to note that PSE relies on hydro for roughly 27% of its total power requirement. While hydro is a cheap fuel source, it comes with a high degree of volatility since it is highly dependent on the weather and, more specifically, on the stream flow. This introduces fuel cost volatility that forces PSE to purchase electricity in the spot market in the event the company faces a low hydro year.

To address the short power situation, PSE is embarking on a \$1.3 billion generation acquisition program that will add 1,500 MW over the next 8 years. While this plan is integral to Puget's growth strategy, it introduces significant execution risks. These include the availability of generation assets, pricing, integration of the new acquisitions, and negotiating a working relationship with co-owners on partial ownership acquisitions. Investors should also be aware of the potential impact of weather on Puget's regulated utility sales and the impact of soft patches in the economy. As a regulated entity, PSE faces regulatory risks. Finally, while Puget does not have any rating downgrade triggers that would accelerate the maturity dates of its outstanding debt, a rating downgrade could adversely impact its ability access the capital markets.

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UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	48%	34%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	45%	35%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	7%	32%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 June 2006.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

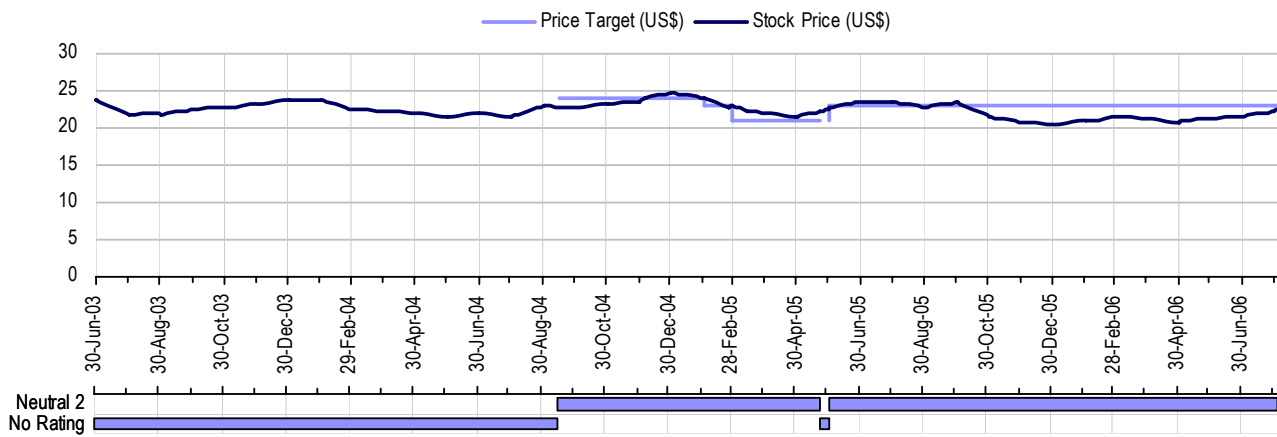
Company Name	Reuters	Rating	Price	Price date/time
Puget Energy Inc. ^{2,4,5,6a,6b,7,16}	PSD.N	Neutral 2	US\$22.56	04 Aug 2006 19:34 EDT

Source: UBS. EDT: Eastern daylight time.

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5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
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- 6b. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-securities services are being, or have been, provided.
7. Within the past 12 months, UBS Securities LLC has received compensation for products and services other than investment banking services from this company/entity.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Puget Energy Inc. (US\$)



Source: UBS; as of 4 August 2006.

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