

1 **I. JURISDICTION**

2 3 PSE is a public service company subject to the Commission’s jurisdiction.
3 RCW 80.04.010. Commission authorization is necessary under RCW 80.12.020 for PSE
4 to sell, lease, assign, or otherwise dispose of, or merge or consolidate, any of its
5 franchises, properties, or facilities with any other public service company. Under
6 RCW 80.12.040, Commission authorization is necessary before another public service
7 company can, directly or indirectly, purchase, acquire, or become the owner of any of the
8 franchises, properties, facilities, capital stocks or bonds of PSE. More generally,
9 RCW 80.01.040 establishes the Commission’s general powers and duties and, among
10 other things, empowers the Commission to regulate in the public interest “the rates,
11 services, facilities, and practices” of all persons engaging within Washington in the
12 business of supplying any utility service or commodity to the public for compensation
13 and “related activities.” On the basis of the preceding statutory authority, the
14 Commission has concluded it has jurisdiction over transactions “whenever the control of
15 a plainly jurisdictional public utility changes through a corporate transaction for the
16 transfer of the whole or a controlling interest in the company.” *In the Matter of the*
17 *Application of PacifiCorp and Scottish Power plc*, Docket No. UE-981672, Second
18 Supplemental Order at 9 (Mar. 1999); *see also In the Matter of the Application of GTE*
19 *Corp. & Bell Atl. Corp.*, Docket No. UT-981367, Fourth Supplemental Order
20 (Dec. 1999).

1 **II. TIME FOR PROCESSING THE JOINT APPLICATION**

2 4 The Joint Applicants respectfully request completion of review of the
3 Proposed Transaction by July 1, 2008, in order to complete the acquisition on or before
4 October 25, 2008. The Proposed Transaction is an important transaction for PSE’s
5 customers, employees, and communities. To mitigate the effects of uncertainty
6 associated with the Proposed Transaction, and expedite the delivery of customer benefits,
7 the Joint Applicants respectfully request that the Commission schedule review of the
8 Joint Application in a manner that will facilitate an order by July 1, 2008.

9 5 The Agreement and Plan of Merger, dated as of October 25, 2007, by and
10 among Puget Energy, Inc. (“Puget Energy”)¹, Puget Holdings², Puget Intermediate
11 Holdings Inc. (“Puget Intermediate”)³, and Puget Merger Sub Inc. (“Merger Sub”)⁴ (the
12 “Merger Agreement”), a copy of which is included as Appendix A to this Joint
13 Application, permits Puget Energy or Puget Holdings to terminate the Merger Agreement
14 if the Proposed Transaction has not been consummated on or before October 25, 2008 (or
15 April 20, 2009, if certain regulatory approvals have not been received but all other
16 conditions to closing are fulfilled or capable of being fulfilled).

¹ Puget Energy is the parent company of PSE.

² Puget Holdings is a Delaware limited liability company. Puget Holdings was formerly named Padua Holdings LLC.

³ Puget Intermediate is a Washington corporation, is a wholly owned subsidiary of Puget Holdings, and is the parent of Merger Sub. Puget Intermediate was formerly named Padua Intermediate Holdings Inc.

⁴ Merger Sub is a Washington corporation and is a wholly owned subsidiary of Puget Intermediate. Merger Sub was formerly named Padua Merger Sub Inc.

1 **III. NOTICES AND COMMUNICATIONS**

2 6 Persons authorized on behalf of PSE to receive notices and
3 communications with respect to this Joint Application are:

Tom DeBoer	Sheree Strom Carson
Director – Rates and Regulatory Affairs	Jason Kuzma
Puget Sound Energy, Inc.	Perkins Coie LLP
10885 NE 4th Street	10885 NE 4th Street, Suite 700
P.O. Box 97034 PSE-08N	Bellevue, Washington 98004-5579
Bellevue, Washington 98009-9734	Phone: (425) 635-1400
Phone: (425) 462-3495	Fax: (425) 635-2400
Fax: (425) 462-3414	Email: scarson@perkinscoie.com
Email: tom.deboer@pse.com	jkuzma@perkinscoie.com

4 7 Persons authorized on behalf of Puget Holdings to receive notices and
5 communications with respect to this Joint Application are:

Christopher Leslie	Sheree Strom Carson
Puget Holdings LLC	Jason Kuzma
Level 22, 125 West 55th Street	Perkins Coie LLP
New York, New York 10019	10885 NE 4th Street, Suite 700
Phone: (212) 231-1686	Bellevue, Washington 98004-5579
Fax: (212) 231-1828	Phone: (425) 635-1400
Email: chris.leslie@macquarie.com	Fax: (425) 635-2400
	Email: scarson@perkinscoie.com
	jkuzma@perkinscoie.com

6 **B. Data Requests**

7 8 Data requests for the Joint Applicants should be addressed in the
8 following manner with copies to Joint Applicants’ counsel:

Addressed to:	Jason Kuzma
By email (preferred):	psedrs@perkinscoie.com
By fax:	(425) 635-2400
By regular mail:	Perkins Coie LLP
	10885 NE 4th Street, Suite 700
	Bellevue, Washington 98004-5579

1 **IV. INFORMATION REGARDING THE JOINT APPLICANTS**

2 **A. PSE**

3 9 PSE is a wholly-owned subsidiary of Puget Energy and is Washington
4 state’s oldest and largest energy utility, with a 6,000-square-mile service territory
5 stretching across eleven counties. PSE serves more than 1 million electric customers and
6 725,000 natural gas customers. PSE meets the energy needs of its growing customer
7 base in Western and Central Washington through incremental, cost-effective energy
8 conservation, procurement of sustainable energy resources, and far-sighted investment in
9 the energy-delivery infrastructure. PSE employees are dedicated to providing great
10 customer service to deliver energy that is safe, reliable, reasonably priced, and
11 environmentally responsible.

12 **B. Puget Holdings**

13 10 Puget Holdings is a Delaware limited liability company, the members of
14 which are wholly owned indirect subsidiaries of:

- 15 (i) Macquarie Infrastructure Partners⁵ (31.8% ownership interest);
- 16 (ii) Macquarie Capital Group Ltd (15.9% ownership interest);
- 17 (iii) Macquarie-FSS Infrastructure Trust (3.7% ownership interest);
- 18 (iv) Canada Pension Plan Investment Board (28.1% ownership
19 interest);
- 20 (v) British Columbia Investment Management Corporation (14.1%
21 ownership interest); and

⁵ Macquarie Infrastructure Partners is comprised of three limited partnerships who will indirectly invest in Puget Holdings: Macquarie Infrastructure Partners A, L.P.; Macquarie Infrastructure Partners International, L.P.; and Macquarie Infrastructure Partners Canada, L.P.

1 (vi) Alberta Investment Management (6.3% ownership interest).⁶

2 All of these members are referred to collectively in this Joint Application and related
3 prefiled direct testimony as the “Investor Consortium.” Macquarie Infrastructure
4 Partners, Macquarie Capital Group Ltd and Macquarie-FSS Infrastructure Trust are all
5 members of the Macquarie Group.⁷ If the Proposed Transaction is approved, Puget
6 Energy’s common stock will cease to be publicly traded, and Puget Energy will become a
7 wholly-owned subsidiary of Puget Intermediate, which itself is a wholly owned
8 subsidiary of Puget Holdings LLC. Provided as Appendix B is a diagram of the
9 corporate structure in the event the Proposed Transaction is approved.

10 **1. The Macquarie Group**

11 11 The Investor Consortium includes three members of the Macquarie Group:

12 (i) Macquarie Infrastructure Partners: Macquarie Infrastructure
13 Partners is a diversified unlisted fund that is headquartered in New
14 York which focuses on infrastructure investments in the United
15 States and Canada. The majority of Macquarie Infrastructure
16 Partners’ investors are U.S. and Canadian institutions such as
17 public pension funds, corporate pension funds, endowments and
18 foundations and Taft-Hartley (Union) funds. Macquarie
19 Infrastructure Partners has eleven infrastructure investments in the
20 utility, toll road, ports and communications sectors.

21 (ii) Macquarie-FSS Infrastructure Trust: Macquarie-FSS
22 Infrastructure Trust is an unlisted Australian infrastructure trust
23 managed by Macquarie Specialised Asset Management Limited.
24 The investment objective of Macquarie-FSS Infrastructure Trust is
25 to make investments in a diversified range of infrastructure assets

⁶ Please note that the ownership interests add to 99.9% due to rounding.

⁷ For purposes of this Joint Application, the Macquarie Group refers to Macquarie Group Limited with its subsidiaries, affiliates and the vehicles they manage. Macquarie Group comprises two separate sub groups, a Banking Group (including Macquarie Bank Limited) and a Non-Banking Group known as Macquarie Capital, which undertakes investment activity and provides a full range of investment services including financial advisory and funds management.

1 and related assets. Macquarie-FSS Infrastructure Trust currently
2 holds interests in five assets across sectors including
3 communications infrastructure, vehicle inspection, utilities, and
4 water infrastructure in three countries: the U.S., Spain, and the
5 U.K.

6 (iii) Macquarie Capital Group Ltd.: Macquarie Capital Group Ltd. is a
7 wholly owned subsidiary of the Australian-listed Macquarie Group
8 Limited and the operating company for Macquarie Group
9 Limited's non banking operations. Macquarie Capital Group Ltd.
10 often invests alongside Macquarie Group managed funds in an
11 underwriting capacity. This is the case for Puget Holdings, and
12 Macquarie Capital Group Ltd. will look to sell down its minority
13 position to other Macquarie Group managed funds or other like-
14 minded third party investors prior to financial close or shortly
15 thereafter.

16 12 The Macquarie Group is a diversified international provider of banking,
17 financial, advisory and investment services, with approximately US\$200 billion of total
18 assets under management (as of September 30, 2007). The Macquarie Group is
19 headquartered in Australia with subsidiaries located across the globe and employs over
20 11,000 people in 25 countries including more than 1,300 in North America. The
21 Macquarie Group has been active in North America for over a decade, establishing its
22 first office in New York in 1994. The Macquarie Group is one of the world's largest
23 owners and managers of infrastructure assets, managing more than \$50 billion of equity
24 in infrastructure and specialized assets around the world. Through its 31 listed and
25 unlisted funds and other managed entities, the Macquarie Group manages, operates and
26 invests in a diversified group of infrastructure businesses, including water companies,
27 natural gas transmission and distribution companies, and electric transmission and
28 distribution companies. Through its investments, the Macquarie Group is responsible for
29 providing utility service to over 13.7 million households. In addition, the Macquarie

1 Group through its investments in airports and rail serves over 75 million air passengers
2 and over 2.7 million rail passengers annually. Over 1.9 million cars per day travel on toll
3 roads in which the Macquarie Group has invested.

4 ¹³ The Macquarie Group is a committed, long-term investor in infrastructure
5 that seeks to own, develop and responsibly manage investments in this sector that are
6 financially stable and predictable over the long term. From these investments, it seeks
7 stable, predictable cash flows and seeks to effectively manage and grow the businesses
8 under its control.

9 ¹⁴ In North America, the Macquarie Group's energy and utility investments
10 include: (i) Aquarion Company, a regulated New England water utility; (ii) Duquesne
11 Light Company, a regulated Pennsylvania electric utility; (iii) AltaLink, an Alberta
12 electricity transmission company; (iv) Cardinal Power, an Ontario cogeneration power
13 facility; (v) The Gas Company, a Hawaiian full-service gas utility; (vi) Thermal Chicago
14 Corporation, a district energy⁸ company with assets located in Chicago, Illinois, and Las
15 Vegas, Nevada; and (vii) Clean Power Operating Trust, an investor in renewable
16 generation assets in Canada and the U.S.

17 ¹⁵ Outside of North America, Macquarie Group's utility investments include:
18 (i) Wales & West Utilities, a regulated gas utility in the U.K.; (ii) Thames Water, the
19 largest regulated water utility in the U.K.; (iii) the Dampier to Bunbury pipeline, a natural

⁸ District energy is the provision of chilled water, steam and/or hot water to customers from a centralized plant through underground piping for cooling and heating purposes. A typical district energy customer is the owner/manager of large office or condominium buildings or facilities such as hospitals, universities and other municipal buildings.

1 gas transmission pipeline in Australia; (iv) Multinet, a gas utility in Australia; and
2 (v) United Energy Distribution, an electricity utility in Australia.

3 **2. Canada Pension Plan Investment Board**

4 16 The Canada Plan Pension Investment Board invests the funds not needed
5 by the Canada Pension Plan to pay current benefits on behalf of 16 million Canadian
6 contributors and beneficiaries. In order to build a diversified portfolio of Canada Pension
7 Plan assets, the Canada Plan Pension Investment Board is investing in publicly-traded
8 stocks, private equities, real estate, inflation-linked bonds, infrastructure and fixed
9 income investments. Based in Toronto, the Canada Plan Pension Investment Board is
10 governed and managed independently of the Canada Pension Plan and at arm's length
11 from governments. At September 30, 2007, the Canada Pension Plan Fund totaled
12 C\$121.3 billion including C\$2.5 billion in infrastructure investments. For more
13 information, please visit www.cppib.ca.

14 17 The Canada Pension Plan Investment Board's utility and energy interests
15 include: (i) AWG Plc., whose key business is Anglian Water Services, a regulated water
16 and sewage business in the South East of England; (ii) Transelec S.A., which is the
17 leading electrical transmission company in Chile, serving more than 98% of the
18 population; and (iii) Wales & West Utilities, a regulated gas utility in the U.K. (a
19 Macquarie Group led transaction).

1 **3. British Columbia Investment Management Corporation**

2 18 British Columbia Investment Management Corporation is an investment
3 management corporation based in Victoria, British Columbia. With over \$83 billion in
4 assets under administration, British Columbia Investment Management Corporation
5 offers fund management services for all major asset classes, including currency and
6 infrastructure investment. British Columbia Investment Management Corporation’s
7 clients include public sector pension plans, provincial government, public trusts, and
8 insurance funds. For more information, visit www.bcimc.com.

9 19 British Columbia Investment Management Corporation’s direct utility and
10 energy investments include: (i) Aquarion Water Company, a U.S. water utility (a
11 Macquarie Group led transaction); (ii) Thames Water, the largest regulated water utility
12 in the U.K. (a Macquarie Group led transaction); (iii) Transelec S.A., which is the
13 leading electrical transmission company in Chile; (iv) InterGen N.V., an international
14 power generation company; and (v) Corix, a water products, water systems and water
15 utility company.

16 **4. Alberta Investment Management**

17 20 Alberta Investment Management, based in Edmonton, Alberta, is one of
18 the largest asset managers in Canada, with US\$78 billion in assets under management as
19 of October 31, 2007. Alberta Investment Management manages capital for public sector
20 pension plan and government endowment fund clients across a wide range of asset
21 classes, and is mandated to maximize the risk-adjusted returns of client funds, without

1 regard to political or other non-investment related criteria. Alternative investments
2 include private equity, real estate, timberland, and infrastructure. Alberta Investment
3 Management has made infrastructure investments and investment commitments of more
4 than US\$1.5 billion and has significant investment experience in the regulated energy
5 and utility sectors. Infrastructure investments are made on a long-term basis. The
6 portfolio is diversified across sector and geography, including investments in North
7 America, Europe, Asia, and Australia. For more information on Alberta Investment
8 Management and its investments, please visit
9 www.finance.alberta.ca/business/investments.

10 21 Alberta Investment Management’s direct utility and energy interests
11 include: (i) InterGen N.V., an international power generation company with an equity
12 share of 5,235MW of production capacity; (ii) Thames Water, the largest regulated water
13 utility in the U.K. (a Macquarie Group led transaction); and (iii) Sutton & East Surrey
14 Water, a regulated water utility in the U.K.

15 **V. DESCRIPTION OF THE PROPOSED TRANSACTION**

16 22 On October 26, 2007, Puget Energy announced that it had entered into the
17 Merger Agreement. Under the terms of the Merger Agreement, Merger Sub will merge
18 with and into Puget Energy, with Puget Energy continuing as the surviving corporation.
19 Upon completion of the Proposed Transaction, Puget Energy’s common stock will cease
20 to be publicly traded, and Puget Energy will be a wholly-owned subsidiary of Puget
21 Intermediate, which itself is a wholly-owned subsidiary of Puget Holdings. PSE will

1 continue to be subject to the regulatory authority of the Commission and the Federal
2 Energy Regulatory Commission (“FERC”).

3 23 Pursuant to the Merger Agreement, the merger consideration will be
4 \$30.00 per share in cash, representing a premium of over 25% based upon Puget
5 Energy’s closing share price on October 25, 2007 (the last trading day prior to the
6 announcement of the Proposed Transaction) and a premium of over 25% over Puget
7 Energy’s average 90-day closing price ending October 25, 2007. The Investor
8 Consortium will also assume approximately \$2.6 billion of Puget Energy redeemable
9 securities and outstanding debt obligations (estimated at completion). The Proposed
10 Transaction has an enterprise value of approximately \$7.4 billion.

11 24 In addition, on December 3, 2007, members of the Investor Consortium
12 invested approximately \$296 million in 12.5 million shares of newly issued common
13 stock of Puget Energy under a separate private placement, priced at \$23.67 per share.
14 These proceeds will be invested in PSE to strengthen its equity base and be used to fund
15 the company’s ongoing construction program and working capital needs.

16 25 At completion, the Proposed Transaction will be funded as follows:

- 17 (i) \$3.2 billion in shareholder capital provided by the Investor
18 Consortium;
- 19 (ii) \$1.6 billion of newly issued debt; and
- 20 (iii) \$2.6 billion of existing debt.

21 26 The Proposed Transaction has been approved by the Board of Directors of
22 Puget Energy and the members of the Investor Consortium. The Proposed Transaction is

1 also subject to customary closing conditions, including the approval of Puget Energy's
2 shareholders and various regulatory agencies, including the Commission and FERC.

3 **VI. FINANCIAL AND TECHNICAL FITNESS OF**
4 **THE INVESTOR CONSORTIUM**

5 27 As described above, the Investor Consortium comprises a group of
6 investment funds and infrastructure investors that seek long-term stable cash flows, and
7 each member of the Investor Consortium is an experienced infrastructure and utility
8 investor.

9 28 The largest investor in the Investor Consortium, Macquarie Infrastructure
10 Partners, together with Macquarie Capital Group Ltd. and Macquarie-FSS Infrastructure
11 Trust are all members of the Macquarie Group. The Macquarie Group provides
12 specialized investment advisory and financial services, including fund and investment
13 management, in select markets, with over 11,000 staff in 25 countries. The Macquarie
14 Group is a global leader in the infrastructure sector, with recognized strength in both
15 infrastructure funds management and infrastructure advisory services. The Macquarie
16 Group manages more than \$50 billion of equity in more than 110 infrastructure and
17 specialized assets around the world.

18 29 Each of the Canada Pension Plan Investment Board, British Columbia
19 Investment Management Corporation, and Alberta Investment Management also has
20 significant infrastructure investments and capital to invest in infrastructure assets.

1 30 Access to capital markets is one of the key attributes of successful
2 infrastructure management and managed growth over the long-term. The Proposed
3 Transaction will provide important support for PSE’s ongoing generation, transmission,
4 and distribution infrastructure investment program. For these reasons, the Investor
5 Consortium is a good fit to acquire control of PSE.

6 31 Regarding technical fitness, PSE’s management team, including the Chief
7 Executive Officer and operating personnel, will be retained by Puget Holdings, thereby
8 providing continued safe and reliable service to customers. In addition, technical fitness
9 will be enhanced by providing PSE access to experienced individuals with relevant
10 industry backgrounds both in the Investor Consortium and in their investments around
11 the world. PSE will continue its commitment to provide a high level of performance to
12 customers.

13 **VII. PUBLIC INTEREST CONSIDERATIONS**

14 **A. Standard for Approval of the Proposed Transaction**

15 32 WAC 480-143-170 establishes the standard by which the Commission
16 reviews applications filed pursuant to Chapter 80.12 RCW. The rule states that:

17 If, upon examination of any application and accompanying
18 exhibits, or upon a hearing concerning the same, the commission
19 finds that the proposed transaction is not consistent with the public
20 interest, it shall deny the application.

21 The Commission has found that this standard does not require a showing of positive
22 benefits to the public in order to approve the Proposed Transaction:

23 The standard in our rule does not require the Applicants to show
24 that customers, or the public generally, will be made better off if

1 the transaction is approved and goes forward. In our view,
2 Applicants' initial burden is satisfied if they at least demonstrate
3 no harm to the public interest.

4 ...

5 Generally, then, we need consider only whether Applicants are
6 qualified to take over management of a jurisdictional public utility
7 in Washington.

8 *In the Matter of the Application of PacifiCorp and Scottish Power plc*, Docket No. UE-
9 981672, Third Supplemental Order at 2, 3 (Mar. 1999).

10 33 The discussion that follows demonstrates that the Proposed Transaction is
11 consistent with the public interest, and satisfies the standard under WAC 480-143-170 for
12 Commission approval.

13 **B. The Proposed Transaction is Consistent with the Public Interest**

14 34 PSE is a well-run public utility that provides excellent service to a
15 growing region. However, to fund the additional energy resources and delivery
16 infrastructure needed to support the region's growth, PSE must obtain substantial
17 external financing on a regular basis going forward. The capital needs in relation to the
18 current capital base of PSE are very large. The magnitude of this external funding need
19 puts PSE and the region at risk. The investors comprising Puget Holdings can address
20 that need given their access to significant sources of capital. They are seeking
21 investments in businesses like PSE, given the essential service PSE provides, the quality
22 of its management, and its overall business environment. Furthermore, Puget Holdings
23 wants to retain the current management team and the existing headquarters. Accordingly,
24 the Proposed Transaction is consistent with the public interest because Puget Holdings

1 will provide needed capital to sustain a successful, locally managed public utility. In
2 addition to providing these substantial benefits for PSE's customers, the Joint Applicants
3 are offering specific commitments that benefit PSE's customers and that protect PSE's
4 customers from risk of harm from the Proposed Transaction.

5 **C. The Joint Applicants Are Offering Commitments That Benefit PSE's**
6 **Customers**

7 35 The Joint Applicants are offering a list of commitments that the
8 Commission may include as conditions in approving the Proposed Transaction. These
9 commitments are set forth in Appendix C to this Joint Application and in Exhibit
10 No. ___(CJL-7) accompanying Mr. Leslie's testimony. The first 24 commitments were
11 made as part of the Merger Agreement. The subsequent 10 commitments (Commitments
12 25 to 34) are additional commitments that the Joint Applicants are making as part of this
13 Joint Application. In general, the commitments can be characterized in the following
14 categories:

- 15 • Quality of Service
- 16 • Capital Requirements
- 17 • Environmental, Renewable, Energy Efficiency
- 18 • Ring-Fencing
- 19 • Financial Integrity
- 20 • Rate Treatment of Cost Savings
- 21 • Staffing, Management, Governance
- 22 • Local Presence
- 23 • Regulatory

1 • Low-Income Assistance

2 36 The commitments regarding Quality of Service; Capital Requirements;
3 Environmental, Renewable and Energy Efficiency; and Cost Savings provide benefits for
4 PSE’s customers. In addition, the commitment of Puget Holdings to make a one-time
5 contribution of \$5 million to the Puget Sound Energy Foundation (Commitment No. 19)
6 represents a benefit of the Proposed Transaction for those local organizations receiving
7 assistance from the Foundation.

8 **1. Quality of Service**

9 37 PSE and Puget Holdings commit to continue the Service Quality measures
10 currently in place for PSE. Commitment No. 1.

11 **2. Capital Requirements**

12 38 Puget Holdings acknowledges PSE’s need for significant amounts of
13 capital to invest in its energy supply and delivery infrastructure and commits that meeting
14 these capital requirements will be considered a high priority by the Boards of Puget
15 Holdings and PSE. Commitment No. 2.

16 39 Puget Holdings will secure and provide at closing contractually committed
17 credit facilities for PSE and Puget Energy of a term not less than three years, in an
18 amount not less than \$1.4 billion to support PSE’s capital expenditure program as set
19 forth in the summary of PSE’s multi-year Business Plan, dated October 19, 2007.
20 Commitment No. 3.

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3. Environmental, Renewable, Energy Efficiency

40 Puget Holdings acknowledges PSE’s obligations under Washington’s Renewable Portfolio Standard and commits to support PSE with additional expertise and capital as necessary to enable PSE to fulfill those obligations. Commitment No. 4.

41 Puget Holdings commits to work with PSE to acquire all renewable energy resources required by law and such other renewable energy resources as may from time to time be deemed advisable in accordance with its biennial integrated resource planning process. Commitment No. 5.

42 Puget Holdings commits to and supports PSE’s Greenhouse Gas and Carbon Policy contained in PSE’s current Integrated Resource Plan. Commitment No. 6.

43 Puget Holdings commits to and supports PSE’s energy efficiency goals and objectives set forth in PSE’s May 2007 Integrated Resource Plan and its ongoing collaborative efforts to expand and enhance them. Commitment No. 7.

4. Rate Treatment of Cost Savings

44 Any net cost savings that may be achieved by PSE as a result of the Proposed Transaction will be reflected in subsequent rate proceedings, as such savings materialize. Commitment No. 12.

1 **D. The Joint Applicants Are Offering Additional Commitments Designed**
2 **to Provide that the Proposed Transaction Will Not Harm PSE's**
3 **Customers**

4 **1. Ring-Fencing**

5 45 Within ninety (90) days of the Proposed Transaction closing, PSE and
6 Puget Holdings will file a non-consolidation opinion with the Commission which
7 concludes, subject to customary assumptions and exceptions, that the ring fencing
8 provisions are sufficient that a bankruptcy court would not order the substantive
9 consolidation of the assets and liabilities of PSE with those of Puget Energy or its
10 affiliates or subsidiaries. Commitment No. 8. If the ring-fencing provisions are
11 insufficient to obtain a non-consolidation opinion, Puget Holdings and PSE agree to
12 promptly undertake actions sufficient to obtain a non-consolidation opinion.

13 Commitment No. 26.

14 46 PSE will (i) maintain separate books and records; (ii) agree to prohibitions
15 against loans or pledges of utility assets to Puget Energy or Puget Holdings without
16 Commission approval; and (iii) generally hold PSE customers harmless from any
17 business and financial risk exposures associated with Puget Energy, Puget Holdings and
18 its other affiliates. Commitment No. 9.

19 **2. Financial Integrity**

20 47 PSE will maintain separate debt and preferred stock, if any. PSE will
21 maintain its own corporate and debt credit rating, as well as ratings for long-term debt
22 and preferred stock. Commitment No. 10.

1 48 PSE will commit to a common equity ratio for PSE of not less than 50% at
2 closing or shortly thereafter, and not less than 44% thereafter except to the extent a lower
3 equity ratio is established for ratemaking purposes by the Commission. Commitment
4 No. 11.

5 **3. Staffing, Management, Governance**

6 49 Puget Holdings and PSE commit that PSE will honor its existing labor
7 contracts. Commitment No. 13.

8 50 PSE will maintain its current pension funding policy in accordance with
9 sound actuarial practice. Commitment No. 14.

10 51 PSE and Puget Holdings will maintain staffing and presence in the
11 communities in which PSE operates at levels sufficient to maintain the provision of safe
12 and reliable service and cost-effective operations. Commitment No. 15.

13 52 As part of the Proposed Transaction, Puget Holdings will seek to retain all
14 current senior management of PSE. Commitment No. 16.

15 53 At least one director of PSE will be an Independent Director who is not a
16 member, stockholder, director (except as such Independent Director of PSE), officer,
17 employee, partner, attorney, creditor, supplier, or customer, other than an individual
18 consumer, of Puget Holdings or its subsidiaries. The organizational documents for PSE
19 will not permit PSE, without the unanimous consent of all its directors including the
20 Independent Director, to consent to the institution of bankruptcy proceedings or the

1 inclusion of PSE in bankruptcy proceedings. The Chief Executive Officer of PSE will be
2 a member of the board of PSE. Commitment No. 17.⁹

3 **4. Local Presence**

4 ⁵⁴ PSE and Puget Holdings commit that PSE and Puget Energy corporate
5 headquarters will remain in the Bellevue, Washington area for a period of at least five
6 years after closing (unless such headquarters are relocated as a result of a decision issued
7 by the Commission). Commitment No. 18.

8 ⁵⁵ PSE and Puget Sound Energy Foundation will maintain its existing level
9 of corporate contributions and community support in the State of Washington (as
10 identified by PSE for such region in its budget for 2007) for a period five years after
11 closing. Upon closing of the Proposed Transaction, Puget Holdings will make a one-time
12 contribution of \$5 million to the Puget Sound Energy Foundation. Commitment No. 19.

13 **5. Regulatory**

14 ⁵⁶ Puget Holdings and PSE will make reasonable commitments, consistent
15 with recent Commission merger orders, to provide access to PSE's books and records;
16 access to financial information and filings; audit rights with respect to the documents
17 supporting any costs that may be allocable to PSE; and access to PSE's board minutes,

⁹ Please note that Commitment No. 17 in Exhibit B to the Merger Agreement placed this Independent Director at Puget Energy. Subsequent to the execution of that agreement, however, the Joint Applicants agreed to place this Independent Director at the operating utility to better protect the utility from any nonregulated activities of any affiliates.

1 audit reports, and information provided to credit rating agencies pertaining to PSE.

2 Commitment No. 20.

3 57 PSE agrees (i) to file cost allocation methodologies used to allocate Puget
4 Energy or Puget Holdings-related costs to PSE; (ii) to propose methods and standards for
5 treatment of affiliate transactions; and (iii) that there will be no cross-subsidization by
6 PSE customers of unregulated activities. Commitment No. 21.

7 58 PSE and Puget Holdings agree that there will be no recovery of legal and
8 financial advisory fees associated with the Proposed Transaction in rates and no recovery
9 of the acquisition premium in rates. Commitment No. 22.

10 59 Puget Holdings and PSE will not advocate for a higher cost of debt or
11 equity capital as compared to what PSE's cost of debt or equity capital would have been
12 absent Puget Holdings' ownership. Commitment No. 25.

13 60 Puget Holdings and PSE commit that PSE's customers will be held
14 harmless from the liabilities of any nonregulated activity of PSE or Puget Holdings. In
15 any proceeding before the Commission involving rates of PSE, the fair rate of return for
16 PSE will be determined without regard to any adverse consequences that are
17 demonstrated to be attributable to the nonregulated activities. Any new nonregulated
18 subsidiary will be established as a subsidiary of either Puget Holdings, Puget
19 Intermediate, or Puget Energy rather than as a subsidiary of PSE. Measures providing for
20 separate financial and accounting treatment will be established for each nonregulated
21 activity. Commitment No. 27(a).

1 61 Puget Holdings and PSE will notify the Commission subsequent to Puget
2 Holdings' board approval and as soon as practicable following any public announcement
3 of: (1) any acquisition of a regulated or unregulated business representing 5 percent or
4 more of the capitalization of Puget Holdings; or (2) the change in effective control or
5 acquisition of any material part or an of PSE by any other firm, whether by merger,
6 combination, transfer of stock or assets. Commitment No. 27(b).

7 62 Neither PSE nor Puget Holdings will assert in any future proceedings, that
8 by virtue of the Proposed Transaction and the resulting corporate structure, the
9 Commission is without jurisdiction over any transaction that results in a change of
10 control of PSE. Commitment No. 27(c).

11 63 PSE and Puget Holdings will maintain the necessary books and records so
12 as to provide an audit trail for all corporate, affiliate, or subsidiary transactions with PSE,
13 or that result in costs that may be allocable to PSE. Commitment No. 28(a).

14 64 PSE will provide Commission Staff and Public Counsel access to books
15 and records (including those of Puget Holdings or any affiliate or subsidiary companies)
16 required to be accessed to verify or examine transactions with PSE, or that result in costs
17 that may be allocable to PSE. The Proposed Transaction will not result in reduced access
18 to the necessary books and records that relate to transactions with PSE, or that result in
19 costs that may be allocable to PSE, and the Proposed Transaction and resulting corporate
20 structure will not be used by PSE as a basis to oppose requests for such books and
21 records made by the Commission or by Commission Staff or Public Counsel.
22 Commitment No. 28(b).

1 65 Nothing in the Proposed Transaction will limit or affect the Commission's
2 rights with respect to inspection of accounts, books, papers and documents of PSE
3 pursuant to RCW 80.04.070 or RCW 80.16.030. Nothing in the Proposed Transaction
4 will limit or affect the Commission's rights with respect to inspection of accounts, books,
5 papers and documents of Puget Holdings pursuant to RCW 80.16.030; provided, that
6 such right to inspection shall be limited to those accounts, books, papers and documents
7 of Puget Holdings that pertain to transactions affecting PSE's regulated utility operations.
8 Commitment No. 28(c).

9 66 Puget Holdings and PSE will provide the Commission with access to
10 written information provided by and to credit rating agencies that pertains to PSE. Puget
11 Holdings and each of its members will also provide the Commission with access to
12 written information provided by and to credit rating agencies that pertains to Puget
13 Holdings' subsidiaries to the extent such information may potentially affect PSE.
14 Commitment No. 28(d).

15 67 If and when any subsidiary of PSE becomes a subsidiary of Puget
16 Holdings, Puget Intermediate, or Puget Energy, PSE will so advise the Commission
17 within thirty (30) days and will submit to the Commission a written document setting
18 forth PSE's proposed corporate and affiliate cost allocation methodologies. Commitment
19 No. 29(a).

20 68 PSE will notify the Commission of any change in corporate structure that
21 affects PSE's corporate and affiliate cost allocation methodologies. PSE will propose
22 revisions to such cost allocation methodologies to accommodate such changes. PSE will

1 not argue that compliance with this provision constitutes approval by the Commission of
2 a particular methodology for corporate and affiliate cost allocation. Commitment
3 No. 29(b).

4 ⁶⁹ PSE and Puget Holdings will comply with all applicable provisions of
5 Title 80 RCW, including those pertaining to transfers of property under Chapter 80.12
6 RCW, affiliated interests under Chapter 80.16 RCW, and securities and the assumption of
7 obligations and liabilities under Chapter 80.08 RCW. Commitment No. 29(c).

8 ⁷⁰ With respect to the ratemaking treatment of affiliate transactions, PSE and
9 Puget Holdings will comply with the Commission's then-existing practice; provided,
10 however, that nothing in this Commitment limits PSE from also proposing a different
11 ratemaking treatment for the Commission's consideration or limit the positions any other
12 party may take with respect to ratemaking treatment. Commitment No. 29(d).

13 ⁷¹ PSE will bear the burden of proof in any general rate case that any
14 corporate and affiliate cost allocation methodology it proposes is reasonable for
15 ratemaking purposes. Neither PSE nor Puget Holdings will contest the Commission's
16 authority to disallow, for retail ratemaking purposes in a general rate case, unsupported,
17 unreasonable, or misallocated costs from nonregulated or affiliate businesses to PSE's
18 regulated utility operations. Commitment No. 29(e).

19 ⁷² PSE and Puget Holdings acknowledge that all existing orders issued by
20 the Commission with respect to PSE or its predecessors, Puget Sound Power & Light
21 Company and Washington Natural Gas Company, will remain in effect, and are not

1 modified or otherwise affected by the Proposed Transaction or any order of the
2 Commission approving the Proposed Transaction. Notwithstanding the immediately
3 preceding sentence, the Commission's *Order Accepting Stipulation and Approving*
4 *Corporate Reorganization to Create a Holding Company, With Conditions*, dated August
5 15, 2000, in Docket No. UE-991779 will be superseded and replaced in its entirety by
6 any order of the Commission approving the Proposed Transaction. Commitment No. 30.

7 73 By June 1, 2009 and each June 1 thereafter through June 1, 2013, PSE will
8 file a report with the Commission regarding the implementation of the Commitments.
9 The report will, at a minimum, provide a description of the performance of each of the
10 Commitments that have quantifiable results. If any of the Commitments is not being met,
11 relative to the specific terms of the Commitment, the report shall provide proposed
12 corrective measures and target dates for completion of such measures. PSE will make
13 publicly available at the Commission non-confidential portions of the report.
14 Commitment No. 33.

15 **6. Low-Income Assistance**

16 74 PSE and Puget Holdings commit to maintain existing low-income
17 programs. Commitment No. 23.

18 75 PSE and Puget Holdings commit to continue to work with low-income
19 agencies to address issues of low-income customers. Commitment No. 24.

1 **VIII. OTHER REGULATORY APPROVALS**

2 76 The Joint Applicants will seek approval of FERC, pursuant to Section 203
3 of the Federal Power Act, for the Proposed Transaction, inasmuch as it will result in the
4 indirect transfer, to Puget Holdings, of control of the “jurisdictional facilities” of PSE.

5 77 Puget Holdings and Puget Energy will make notification filings pursuant
6 to the Hart-Scott-Rodino Antitrust Improvement Act of 1976 (the “HSR Act”). The
7 Proposed Transaction cannot be consummated until the waiting periods prescribed in the
8 HSR Act lapse.

9 78 Puget Holdings and Puget Energy will also seek approval from the Federal
10 Communications Commission, of the change of control with respect to certain
11 communication licenses held by PSE.

12 79 A filing is also required with the U.S. Committee on Foreign Investment,
13 pursuant to the Exon-Florio Amendment to the Defense Production Act of 1950.

14 **IV. DESCRIPTION OF THE FILING**

15 80 This Joint Application is supported by testimony from the following
16 witnesses:

17 81 **Stephen P. Reynolds**, Chairman, President and CEO of PSE, will provide
18 an overview of some of the current and future challenges facing PSE and will describe
19 why the Proposed Transaction is in the best interests of PSE’s customers, employees, and
20 other stakeholders.

1 82 **Christopher J. Leslie**, Chief Executive Officer of Macquarie
2 Infrastructure Partners and a Manager of Puget Holdings, will describe the members of
3 the Investor Consortium and their business platforms, with a specific focus on their utility
4 and energy businesses; describe the Proposed Transaction; describe the corporate
5 structure of Puget Holdings and where PSE will fit within that structure; and describe the
6 governance of Puget Holdings and PSE after the closing. Mr. Leslie will also explain
7 why the Proposed Transaction is consistent with the public interest; describe how PSE
8 will become a ring-fenced business under Puget Holdings; and describe the structural and
9 financial commitments offered by the Joint Applicants to ensure that the Proposed
10 Transaction will not expose PSE’s customers to any risk of harm. Mr. Leslie will also
11 provide testimony regarding the experience of Duquesne Light Company, Aquarion
12 Company, and The Gas Company as regulated utilities operated under the direction of the
13 Macquarie Group. Mr. Leslie will also sponsor some of the regulatory commitments
14 being offered by Puget Holdings.

15 83 **Eric M. Markell**, Executive Vice President and Chief Financial Officer of
16 PSE, will describe Puget Energy and PSE from a financial perspective and will testify
17 about the Merger Agreement and recent equity investment by the members of the
18 Investor Consortium. Mr. Markell will also describe the corporate and financial structure
19 and commitments that will be in place after completion of the transaction, and explain
20 why the Proposed Transaction is consistent with the public interest.


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Dated: December 17, 2007.

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Respectfully submitted,

PERKINS COIE LLP

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CERTIFICATION

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In accordance with WAC 480-143-140, I hereby certify that the information


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included in the Application is true and correct to the best of my information and belief,

6

under penalty of perjury as set forth in RCW 9A.72.085.

By 
 Tom DeBoer
 On behalf of Puget Sound Energy, Inc.

By 
 Christopher J. Leslie
 On behalf of Puget Holdings LLC

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