

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-090704 and UG-090705
Puget Sound Energy, Inc.'s
2009 General Rate Case**

PUBLIC COUNSEL DATA REQUEST NO. 137

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- a) Puget Energy's March 31, 2009 S.E.C. Form 10-Q indicates that Puget Energy's common stock balance on February 5, 2009 (the day before consummation of the merger) the balance of common equity was \$2.229 Billion, and the next day the balance of common equity was \$3.3 Billion. Please provide a narrative description supporting that recorded increase in common equity.
- b) Puget Energy's March 31, 2009 S.E.C. Form 10-Q indicates that in the three months ending March 31, 2009, the Company recorded approximately \$68.6 Million in dividend expense, while recording \$32.4 Million in the three months ending March 31, 2008. Please explain why the Company has elected to double its dividend payout.
- c) A comparison of Puget Energy's March 31, 2009 S.E.C. Form 10-Q with that of Puget Sound Energy indicates that the latter (PSE) paid out \$48.6 Million in dividends to its parent (PE) in the first quarter of 2008 while the parent (PE) paid out only \$32.4 Million to stockholders during the first quarter of 2008. Why?

Response:

- a) The merger triggered purchase accounting under SFAS No. 141 (R), *Business Combinations*. Puget Energy, Inc.'s ("Puget Energy") common equity of \$2.229 billion as of February 5, 2009 reflected all transactions prior to the merger with Puget Holdings, LLC. As a result, equity for the successor company is calculated based on merger consideration. In addition, SFAS No. 141 (R) requires the assets and liabilities of the acquired company, Puget Energy, to be valued at fair value using the principles of SFAS No. 157, *Fair Value Measurements*.

Total merger consideration was \$3.9 billion. \$0.6 billion of the merger consideration were financed by debt proceeds. \$3.3 billion of equity reflects the investor equity contribution of \$3.0 billion plus the stepped up basis of the investors' previously-owned shares of Puget Energy stock of \$0.3 billion.

The chart below reconciles the February 5, 2009 equity balance to February 6, 2009, equity balance.

(In millions)	
Equity on February 5, 2009	\$ 2,229
Plus: Goodwill Fair Value Adjustment	1,661
Less: Debt Financing Proceeds	<u>(588)</u>
Equals: Equity on February 6, 2009	<u>\$ 3,302</u>

- b) The predecessor company dividend amount of \$32.4 million reflects the first quarter dividend declaration to shareholders of record on January 21, 2009, which was the normal quarterly dividend paid on February 15, 2009. A stub-dividend of \$5.8 million reflects additional dividends to shareholders of record on February 5, 2009. After the merger, the Board of Directors of Puget Energy paid dividends of \$30.4 million to Puget Equico LLC, which then made a dividend payment to Puget Intermediate Holdings Inc. related to interest payments owned to investors.

	Three Months Ending 3/31/09	Three Months Ending 3/31/08
(In millions)		
Regular Dividend	<u>\$ 32.4</u>	<u>\$ 32.4</u>
Stub-Dividend	5.8	--
Post-merger Stub-Dividend	30.4	--
Total	<u>\$ 68.6</u>	<u>\$ 32.4</u>

- c) In the first quarter ending March 2009, Puget Sound Energy, Inc. paid \$48.6 million in dividends to Puget Energy. \$32.4 million were related to Puget Energy dividends declared to Puget Energy's shareholders with a record date of January 23, 2008, and \$16.2 million in dividends were paid to Puget Energy to cover expenses.