

EXHIBIT NO. ___(RG-11)
DOCKET NO. UE-07 ___
2007 PSE PCORC
WITNESS: ROGER GARRATT

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-07 ___

**TENTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
ROGER GARRATT
ON BEHALF OF PUGET SOUND ENERGY, INC.**

MARCH 20, 2007



Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734

CONFIDENTIAL

August 18, 2006

Calpine Corporation
50 W. San Fernando Street
5th Floor
San Jose, CA 95113
Attention: Richard L. Thomas

Dear Mr. Thomas:

As you are aware, Puget Sound Energy, Inc. ("PSE") and Calpine Corporation ("Calpine") have held various discussions in connection with the possible acquisition by PSE of the Goldendale Energy Center, an approximately 245 MW (nominal) gas-fired combined cycle facility located in Klickitat County, Washington (the "Project"). Pursuant to our recent discussions, this letter (including the non-binding term sheet (the "Term Sheet") attached hereto as Exhibit A) is intended to outline for you and for the creditors' committee for the Calpine bankruptcy case the basic terms upon which PSE would be willing to proceed to negotiate Definitive Agreements pursuant to which PSE would act as a "stalking horse" bidder for the sale of the Project. PSE and Calpine are sometimes hereinafter referred to individually as a "Party" and collectively as the "Parties." Capitalized terms used but not separately defined herein shall have the meanings ascribed to them in the Term Sheet.

It is our expectation and desire that, should Calpine choose to move forward with negotiations with PSE regarding the Proposed Transaction, the Parties would employ commercially reasonable efforts to seek to complete the negotiation, execution and delivery of mutually acceptable Definitive Agreements on or prior to sixty (60) days following the date hereof.

This letter and the proposed terms contained herein shall be subject to the terms of the Confidentiality and Non-Disclosure Agreement, dated June 24, 2005, executed by Calpine and PSE.

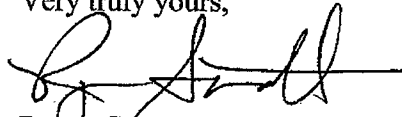
This letter (including the attached Term Sheet) (1) is not an offer or a commitment on the part of PSE, (2) constitutes a non-binding statement of PSE's intentions with respect to the Proposed Transaction and (3) may be withdrawn by PSE upon prior written notice to Calpine. It does not contain all matters upon which agreement would need to be reached in order for the Proposed Transaction to be consummated, and therefore does not constitute a binding commitment or agreement with respect to the Proposed Transaction itself. Any transaction which might arise from discussions shall be contingent upon negotiation and execution of the Definitive Agreements, receipt of necessary or appropriate approvals, including, to the extent necessary or appropriate, those of the management and board of PSE, and no binding commitment shall arise prior to then even if the Parties reach some understanding(s) or agreement(s) in principle. The consummation of such transaction shall be contingent upon

Calpine Corporation
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receipt of all required governmental approvals and such other conditions precedent to the closing as shall be set forth in the Definitive Agreements. Any actions taken by a Party in reliance on the non-binding terms expressed herein or on statements made during negotiations of the Definitive Agreements shall be at that Party's own risk, and this letter (including the attached Term Sheet) shall not be the basis for a contract by estoppel, implied contract or any other legal theory.

We look forward to working with you towards a successful transaction. Please confirm your intention to move forward on the negotiation of Definitive Agreements and upon receipt of such confirmation we will mobilize our commercial and legal teams to commence efforts in that respect. If we do not receive a copy of this letter signed by you in the space below before the close of business on August 25, 2006, you should consider this indication of interest withdrawn.

Very truly yours,



Roger Garratt
Director, Resource Acquisition

Acknowledged and Accepted:

GOLDENDALE ENERGY CENTER, LLC

By:



Name: Richard L. Thomas

Title: Vice President, Project Development

Dated: August 22, 2006

Exhibit A

Term Sheet for
Proposed Acquisition of
Goldendale Energy Center

**Principal Structure
of Proposed
Transaction**

Upon the satisfaction of all conditions precedent and receipt of all applicable orders of the bankruptcy court, PSE would effect the purchase of the Project pursuant to a multi-step structure reflected in the definitive acquisition agreements (the "Definitive Agreements"), as follows:

- (1) Goldendale Energy Center, LLC ("Goldendale LLC") would contribute and assign to a newly-formed, wholly-owned limited liability company ("New LLC") all of the assets comprising the Project and all land held by Goldendale LLC (collectively, the "Project"), free and clear of all liens, charges, encumbrances, and conflicting or competing claims. New LLC will assume from Goldendale LLC certain specified liabilities related to the Project and the operation of its business in the ordinary course, which would include liabilities arising (i) post-Closing and related to the Project and the operation of its business and (ii) pre- and post-Closing in respect of obligations arising under, or violations of, environmental laws (collectively, the "Assumed Liabilities"); then
- (2) PSE would purchase 100% of the membership interests in New LLC pursuant to the terms and conditions to be set forth in a purchase agreement (the "Purchase Agreement") that Goldendale LLC and PSE would enter into; and then
- (3) New LLC would be merged into PSE or dissolved immediately or shortly after the Closing, with the result that the Project would be held directly by PSE.
- (4) As part of the Proposed Transaction, PSE would also purchase directly the real property adjacent to the Project Site and held by an affiliate of Goldendale LLC (the consideration for which is included within the Purchase Price described below).

If PSE's due diligence reveals facts or legal issues that make acquisition of the Project via the New LLC structure inadvisable or that might otherwise reasonably subject PSE to more risk than an outright purchase of the Project, the Parties will use their commercially reasonable efforts to convert the Proposed Transaction to a direct sale of the Project to PSE, subject to mutual agreement on the allocation of responsibility for any

additional taxes..

Purchase Price

PSE would pay to Goldendale LLC the amount of \$100 million to acquire the Project (the "Purchase Price"). PSE would not assume any obligations in respect of any existing indebtedness or other claims encumbering the Project and liabilities under contracts not assumed by PSE, except for the Assumed Liabilities; provided, that if PSE is required to pay any amount necessary to cure any default, breach or other claim in connection with the assignment or assumption of any contract or other asset comprising the Project, the amount thereof (as agreed to by Goldendale LLC, which agreement would not be unreasonably withheld)¹ would be applied against and reduce the Purchase Price. The closing of the transactions contemplated by the Purchase Agreement (the "Closing") would occur after receipt by the Parties of all consents, authorizations and approvals, satisfaction or waiver of conditions precedent specified in the Purchase Agreement and receipt of all final and non-appealable approvals of the Bankruptcy Court, including the Bidding Procedures Order and the Sale Order (each as defined below).

Upon execution of the Purchase Agreement, PSE will deposit \$3.75 million into an escrow account (the "Escrow Account"). Upon entry of the Sale Order by the Bankruptcy Court, PSE will deposit an additional \$3.75 million into the Escrow Account. The Escrow Account shall be interest-bearing, shall be with a financial institution mutually acceptable to the Parties and shall be subject to a mutually satisfactory agreement (the "Escrow Agreement"). Among other customary terms and conditions for transactions of this type, the Escrow Agreement will provide that all principal and accrued interest in the Escrow Account will be (i) paid to Goldendale LLC and credited towards the Purchase Price concurrently upon the occurrence of the Closing, and (ii) paid to PSE upon a termination of the Purchase Agreement in accordance with its terms.

Employee Matters

PSE would be permitted, but would not be obligated, to make offers of employment to Project personnel. Any offers would be subject to PSE's standard hiring criteria and procedures.

Due Diligence

PSE shall be entitled to conduct, and Calpine shall fully cooperate with PSE and facilitate, certain additional and confirmatory due diligence of the Project, including the transmission and operation arrangements and agreements therefor, as well as legal, information systems, human resources, insurance and regulatory aspects (including the availability and terms of all required real estate rights, permits and licenses)

¹ Calpine will be responsible for paying such amounts directly, prior to the occurrence of the Closing, and will act reasonably to reach agreement with the various contract counterparties in order to set such cure amounts.

associated with the ownership, operation and maintenance of the Project. In the Definitive Agreements, the Parties would negotiate mutually agreeable procedures regarding the exchange of and access to due diligence materials during the time period between the execution of the Definitive Agreements and the Closing. The Definitive Agreements will not provide for any due diligence “outs” following execution of the Definitive Agreements.

Access

Calpine shall, subject to reasonable advance notice from PSE, afford PSE representatives the opportunity to obtain information pertaining to the Project and perform on-site inspection and due diligence of the Project, during the normal business hours thereof. PSE’s employees and agents would be subject to and observe any applicable rules regarding safety, security and confidentiality and not interfere with or hinder the operation of the Project.

Certain Tax Matters

Goldendale LLC would be responsible for any transaction taxes payable in connection with the Proposed Transaction, including but not limited to the Washington real estate excise tax and the business and occupation tax; provided, however, that it shall be a condition precedent to the Closing that the Department of Revenue of the State of Washington shall have issued a ruling, in form and substance satisfactory to each of the Parties, based upon a complete description of the relevant facts, that the implementation of the Proposed Transaction shall not result in the imposition of Washington sales or use taxes on any party in respect of any of the multi-step parts of the Proposed Transaction. The cost and responsibility of preparing the Washington tax ruling request shall be for the account of PSE.

Bankruptcy Court Matters

The Closing of the Proposed Transaction will be conditioned upon, and subject to, orders of the Bankruptcy Court (which orders shall be final and non-appealable and in form and substance reasonably satisfactory to the Parties): (i) establishing bidding procedures (the “Bidding Procedures Order”) whereby PSE would serve as a “stalking horse” bidder in respect of the Project and detailing the manner in which higher and better offers may be solicited by the Calpine Parties, which procedures shall include provisions acceptable to PSE in respect of (A) bidding increments and acceptance of higher and better offers and (B) bid protection, including the payment to PSE of a breakup fee in the amount of \$2.5 million in the event that Goldendale LLC consummates a topping bid with a third party other than PSE or one of its affiliates and (ii) approving the Proposed Transaction and the sale of the Project to PSE, free and clear of all liens and encumbrances of any kind (the “Sale Order”).

Regulatory and Other Approvals

The regulatory and other approvals required to effect the Closing would include FERC, Bankruptcy Court, HSR, internal approvals and any

applicable third party consents regarding assignment of contracts and permits.

**Representations,
Warranties and
Covenants**

The Definitive Agreements would contain standard representations, warranties and covenants by the Calpine Parties and PSE for bankruptcy sale transactions similar to the Proposed Transaction. Except as otherwise agreed by the Parties, the representations and warranties will not survive Closing.

**Conditions to
Closing**

The Purchase Agreement would contain standard closing conditions for transactions of this nature, including receipt by PSE of a final title report and irrevocable commitment to issue an extended coverage title insurance policy applicable to the real property included as within the Project, in an amount equal to the Purchase Price, with commercially reasonable endorsements and exceptions limited to the Schedule B ALTA "General Exceptions."

Termination Rights

Termination rights of the Parties would be standard for transactions of this nature. In addition, in the event that the Closing shall not have occurred within 270 days of the date of execution of the Purchase Agreement, the Purchase Agreement would be terminable by either Party, subject to an extension of up to three (3) months in the event the only condition precedent to Closing that remains unsatisfied is the receipt of federal regulatory approvals.²

**Transition Service
Arrangements**

As part of the Proposed Transaction, the Parties would undertake negotiations in respect of the possible entry into of certain transition arrangements relating to the Project and the operation thereof, pursuant to which Calpine would provide to PSE various services for the Project, to the extent the Parties agree upon mutually acceptable terms and conditions relating thereto. The Calpine Parties would cooperate in good faith in order to help achieve a smooth transition of the ownership of the Project from Goldendale LLC to PSE.

Expenses

Each Party shall bear its own legal, accounting, consulting, regulatory, tax and other professional fees and expenses and other transaction costs, regardless of whether the Proposed Transaction is consummated.

Dispute Resolution

The Definitive Agreements would contain appropriate provisions for the resolution of disputes, including (i) referral to senior management for a specified period; and (ii) remedies available at law or equity if senior management cannot resolve the dispute by the expiration of the specified period.

² PSE's expectation is that the Definitive Agreements would provide for a schedule of events (e.g., timing of the auction process) that would be significantly accelerated as compared to the proposed 270 day termination date.

Governing Law The Definitive Agreements would be governed by the laws of the State of New York, without regard to principles of conflict of laws that would call for application of law other than that of the State of New York, except to the extent that the laws of the State of New York are superseded by the Bankruptcy Code and except that the laws of the applicable jurisdiction in which any real property is located shall govern matters related to the title thereto.

Submission to Jurisdiction For so long as Goldendale LLC is subject to the jurisdiction of the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), the Bankruptcy Court would be the sole judicial forum for the resolution of disputes arising out of the Purchase Agreement. After such time as Goldendale LLC is not subject to the jurisdiction of the Bankruptcy Court, the Parties would be subject to the non-exclusive jurisdiction of the courts of the State of New York sitting in Manhattan or of the United States for the Southern District of New York.

No Consequential Damages The Definitive Agreements would provide that, in the event of a breach of the obligations of one of the parties, such party would be liable for direct, actual damages only and would under no circumstances be liable for consequential (including, but not limited to, lost profits, business interruption and the like), incidental, punitive, exemplary or similar damages.

Assignment The parties to the Definitive Agreements would be able to assign such agreements or their rights and obligations thereunder with the prior written consent of the other party, such consent not to be unreasonably withheld or delayed. In addition, PSE would be permitted, post-Closing or in connection with the Closing, to assign, pledge or otherwise alienate its interest in the Project and the Definitive Agreements for security purposes without the consent of the Calpine Parties, but on prior written notice to the Calpine Parties, for the purposes of any financing or refinancing relating thereto. It is anticipated that PSE's interest in the ~~Project and the Definitive Agreements would become subject to PSE's~~ utility mortgage and indenture effective upon the Closing. Except as otherwise agreed by the parties in the Definitive Agreements, no such assignment would relieve the assignor of its obligations to the other party.