

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**DOCKETS UE-090704  
and UG-090705 (consolidated)**

**COMMISSION STAFF  
PETITION FOR  
RECONSIDERATION**

1 Pursuant to WAC 480-07-850, the Staff of the Washington Utilities and Transportation Commission (“Commission”) respectfully petitions for reconsideration of Commission Order 11, issued in these proceedings on April 2, 2010. Staff’s petition is limited to one issue: the Commission’s decision to include a cost of long-term debt of 6.70 percent in the overall cost of capital for Puget Sound Energy, Inc. (the “Company”).<sup>1</sup>

**REASONS TO GRANT RECONSIDERATION**

2 In its original direct case, the Company proposed a cost of long-term debt of 6.82 percent based, in part, on projected costs for new debt issues in September 2009 (6.90 percent), March 2010 (6.72 percent), and September 2010 (6.86 percent).<sup>2</sup> In supplemental direct testimony, the Company reduced the cost of long-term debt to 6.70 percent to reflect the issuance of bonds that had actually occurred in September 2009 at a rate of 5.757 percent.<sup>3</sup> However, the Company made no similar reduction for the March 2010 and September 2010 debt issues.<sup>4</sup>

<sup>1</sup> *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11 at ¶¶ 288-289 (April 2, 2010) (“Order 11”).

<sup>2</sup> Gaines, Exh. No. DEG-5C at 5:31-33.

<sup>3</sup> Gaines, Exh. No. DEG-9T at 14:2-10.

<sup>4</sup> Gaines, Exh. No. DEG-9CT at 14:2-6 and Gaines, Exh. No. DEG-10C at 5:31-33.

3 For its part, Staff priced the March 2010 and September 2010 debt issues at 5.757 percent since that rate, having just been achieved by the Company, represented the best evidence of the Company's cost of long-term debt in the capital markets. The resulting cost of long-term debt recommended by Staff was 6.48 percent.<sup>5</sup> However, the Commission rejected Staff's proposal given testimony from the Company that the rate paid in September 2009 was unprecedented.<sup>6</sup>

4 There are several reasons for the Commission to reconsider its decision. First, the rate the Company paid for the September 2009 debt issue is not unprecedented. On March 2, 2010, the Company filed notice of its intent to issue \$325 million in senior secured notes (Docket UE-100365). The notice indicated that the Company expected a range of coupon rates for 10-year or 30-year senior notes consistent with the rate Staff assumed for the March 2010 and September 2010 issues, and well below the rate the Company assumed for those same issues.<sup>7</sup>

5 On March 9, 2010, the Company filed the final terms and conditions of the transaction described in the earlier notice. Those final terms and conditions show that the Company priced the March 2010 long-term debt issue at an all-in price of 5.857 percent, rather than 6.72 percent, as assumed by the Company.<sup>8</sup> In contrast, the rate actually achieved for the March 2010 issue was only 1/10 of 1 percent higher than the rate Staff assumed for that same issue.

6 Second, reply briefs in this case were filed on March 2, 2010. At that time, the Company was well aware that the rate it would pay for the March 2010 issue would be well

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<sup>5</sup> Parcell, Exh. No. DCP-1T at 28:22-29:2 and Parcell, Exh. No. DCP-3 at 2.

<sup>6</sup> Order 11 at ¶¶ 227-288.

<sup>7</sup> Confidential Attachment 1 at Attachment A ("Indicative Terms & Pricing"). Staff asks that the Commission take official notice of the contents of the file in Docket No. UE-100365 pursuant to WAC 480-07-495(2).

<sup>8</sup> Non-Confidential Attachment 2.

below the 6.70 percent it projected for that issue, given that its understanding of coupon rates for senior secured notes had already been achieved as of February 18, 2010.<sup>9</sup> Yet, the Company did not advise the Commission of that knowledge in its reply brief. Nor did the Company ever come forward with the fact that the March 2010 debt issue was actually priced at 5.857 percent on March 3, 2010, the day after reply briefs were filed.<sup>10</sup>

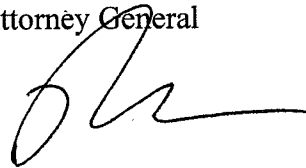
7           Finally, in its reply brief, the Company stated that its “compliance filing in the case can incorporate the actual rate for the March 2010 debt issuance, as it will be known.”<sup>11</sup> The compliance filing made by the Company did not follow through on that commitment. Granting Staff’s petition for reconsideration ensures that the Company’s commitment is enforced and that the cost of capital accurately reflects rate year costs.

8           For the reasons set forth above, the Commission should reconsider Order 11 by adopting Staff’s recommended 6.48 percent as the cost of long-term debt for Puget Sound Energy, Inc.

DATED this 12<sup>th</sup> day of April 2010.

Respectfully submitted,

ROBERT M. MCKENNA  
Attorney General



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ROBERT D. CEDARBAUM  
Assistant Attorney General  
Counsel for Washington Utilities and  
Transportation Commission Staff

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<sup>9</sup> Attachment 1 at Confidential Attachment A.

<sup>10</sup> Attachment 2. The Company could have sought permission under WAC 480-07-830 to reopen the record for the limited purpose of entering into evidence in this case the information filed with the Commission in Docket UE-100365.

<sup>11</sup> Company Reply Brief at ¶ 21.

# ATTACHMENT 1

Confidential Per Protective Order



Donald E. Gaines  
Vice President  
Finance & Treasurer

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

March 2, 2010

David Danner, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
Olympia, WA 98504-7250

Re: Planned Securities Issuance - \$325 Million Senior Secured Notes

Dear Mr. Danner:

Puget Sound Energy (the "Company" or "PSE") furnishes the following information, in compliance with RCW 80.08.040, (1), (2) and (3), with respect to a planned \$325 million senior secured note issue. The notes will be issued under PSE's existing S-3 shelf registration statement on file with the Securities and Exchange Commission dated January 15, 2010.

On February 26, 2010, PSE had \$347.9 million of short-term debt outstanding. On February 22, 2010, the Company's 7.96% series \$225 million bond matured. Proceeds from the planned sale of the senior secured notes will be used to replenish cash used to repay the \$225 million bond that matured and, in part, to repay short-term debt outstanding under PSE's \$400 million capital expenditure credit facility.

The following documents are attached in support of this filing:

- Attachment A - One page summary describing the transactions, provided to the Asset Management Committee
- Attachment B - The resolutions of the Asset Management Committee authorizing the Company to price the notes within certain terms

Certain items contained in Attachments A and B have been marked confidential as they contain valuable commercially sensitive or material non-public information. Accordingly, with regard to the contents, the Company claims confidentiality and protection from inspection or copying under WAC 480-07-160. We further understand that, prior to any release of this material; the Company will be notified in order to allow it to invoke any and all statutory procedures for securing a court order protecting the materials as proprietary and confidential.

2010 MAR -3 AM 0:10  
COMMUNICATIONS  
DIVISION  
REGISTRATION  
SECTION

As required by WAC 480-07-160, the Company identifies itself, its ultimate owners and its customers as the entities that might be directly affected by disclosure of the confidential information. Also, conforming to WAC 480-07-160, the confidential pages submitted herewith have been sealed in an envelope clearly marked "Confidential per WAC 480-07-160", and each page of the filing containing confidential information has been so marked.

The transaction is in the public interest inasmuch as it allows the Company to access funds from the long-term debt capital markets to replenish cash used to repay a \$225 million bond upon maturity and to repay short-term borrowings used to fund utility capital expenditures on reasonable terms.

In view of the foregoing, and in accordance with WAC 480-90-242 (1)(a) and WAC 480-100-242 (1)(a), the undersigned hereby certifies that the proceeds from this securities issuance will be used for one or more of the purposes allowed by RCW 80.08.030 and that the information provided herein is true and correct to the best of his knowledge and belief, under penalties of perjury as set forth in the laws of the State of Washington.

**The Company, having provided herewith all information and statements required by subsections (1), (2), and (3) of RCW 80.08.040, does NOT request an order affirming that it has complied with such requirements as part of these planned securities transactions.**

Thank you for your assistance.

Sincerely,

PUGET SOUND ENERGY

By 

Donald E. Gaines

Vice President Finance & Treasurer

Attachments

cc: Simon J. fitch

**ATTACHMENT A**

**One page summary from the February 18, 2010 meeting of the Asset Management  
Committee**

**Puget Sound Energy  
Planned \$225 Million Senior Secured Notes Issuance  
RCW 80.08.030 (1), (2) and (3) Compliance Filing**

**THIS PAGE CONFIDENTIAL PER  
PROTECTIVE ORDER**



## ATTACHMENT 2



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

Donald E. Gaines  
Vice President  
Finance & Treasurer

March 9, 2010

David Danner  
Executive Director and Secretary  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
Olympia, WA 98504-7250

**Re: Securities Issuance Filing – \$325 Million Senior Secured Notes  
WUTC Docket No. UE-100365**

Dear Mr. Danner:

In accordance with WAC 480-90-242(6) and WAC 480-100-242(6), Puget Sound Energy (the "Company") encloses for filing an original and two copies of the final terms and conditions of the transaction described in the notice dated March 2, 2010, filed in compliance with RCW 80.08.040.

On March 3, 2010, the Company priced \$325 million 5.795% Senior Secured Notes due 2040 as described in the term sheet, enclosed herewith as Attachment A, outlining the final terms and conditions of the transaction. Net proceeds of \$322,156,250 were received on March 8, 2010 and will be applied as described in the Company's original notice.

In view of the foregoing, and in accordance with WAC 480-90-242(6) and WAC 480-100-242(6), the undersigned hereby certifies that the information provided herein is true and correct to the best of his knowledge and belief.

Thank you for your assistance with this matter.

Sincerely,

PUGET SOUND ENERGY

By

Donald E. Gaines

Vice President Finance & Treasurer

Attachment  
cc: Simon J. fitch

**ATTACHMENT A**

**Final Term Sheet  
\$325 million 5.795% Secured Notes due 2040**



**Puget Sound Energy, Inc.**

**\$325,000,000 5.795% Senior Notes (Fail-away FMBs) due 2040**

**Confirmation of Terms**

| Puget Sound Energy, Inc.    |   |              |
|-----------------------------|---|--------------|
| Security                    | Senior Notes (Fail-away FMBs)                                     |              |
| Ratings (outlook)           | Baa1 / A- (Stable / Stable)                                       |              |
| Principal Amount            | \$325,000,000   |              |
| Pricing Date                | March 3, 2010   |              |
| Settlement Date (T + 3)     | March 8, 2010   |              |
| Maturity Date               | March 15, 2040  |              |
| First Coupon Date           | September 15, 2010  |              |
| Treasury Benchmark          | 4.375% due November 15, 2039                                      |              |
| Benchmark Price             | 96 - 14+  |              |
| Benchmark Yield             | 4.595%  |              |
| Reoffer Spread to Benchmark | +120 bp   |              |
| Reoffer Yield               | 5.795%  |              |
| Coupon                      | 5.795%  |              |
| Reoffer Price (%)           | 100.000%  |              |
| Gross Spread (%)            | 0.875%  |              |
| Selling Concession (%)      | 0.500%  |              |
| Reallowance (%)             | 0.250%  |              |
| Net to Company (%)          | 99.125%   |              |
| Reoffer Price (\$)          | \$325,000,000   |              |
| Gross Spread (\$)           | \$2,843,750   |              |
| Net Proceeds (\$)           | \$322,156,250   |              |
| All-in Yield (%)            | 5.857%  |              |
| Call Provisions             | Make Whole Call at T+20 bp  |              |
| Payment Dates               | Semi-annually each March 15 and September 15                      |              |
| Day Count Convention        | 30 / 360, following business day, unadjusted for period end dates |              |
| CUSIP / ISIN                | 745332 CB0 / US745332CB04   |              |
| Bookrunners (Economics)     | Barclays Capital Inc.(18.75%)                                     | \$60,937,500 |
|                             | KeyBanc Capital Markets Inc. (18.75%)                             | \$60,937,500 |
|                             | Scotia Capital (USA) Inc. (18.75%)                                | \$60,937,500 |
|                             | Wells Fargo Securities, LLC (18.75%)                              | \$60,937,500 |
| Co-Managers (Economics)     | Banc of America Securities LLC (5%)                               | \$16,250,000 |
|                             | Commerzbank Capital Markets Corp. (5%)                            | \$16,250,000 |
|                             | Fifth Third Securities, Inc. (5%)                                 | \$16,250,000 |
|                             | J.P. Morgan Securities Inc. (5%)                                  | \$16,250,000 |
|                             | Macquarie Capital (USA) Inc. (5%)                                 | \$16,250,000 |

