

EXHIBIT NO. ____ (EMM-5HC)
DOCKET NO. UE-07 ____
2007 PSE PCORC
WITNESS: ERIC M. MARKELL

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-07 ____

**FOURTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
ERIC M. MARKELL
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

MARCH 20, 2007

Goldendale Energy Center

Board of Directors' Meeting
November 3, 2006

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M E M O R A N D U M

November 3, 2006

Privileged and Confidential Attorney - Client Communication

To: PSE Board of Directors

cc: LeBoeuf, Lamb, Greene and MacRae, L.L.P.

From: Eric M. Markell

Subject: Proposed acquisition of 100% of the membership interests of a new, single-member Delaware limited liability company holding the assets that comprise the Goldendale Energy Center pursuant to the successful outcome of PSE's participation in the sale process under Section 363 of the Bankruptcy Code and approval by the U.S. Bankruptcy Court, and the consolidation of those interests into PSE thereafter.

The purpose of this Memorandum is to describe:

- The proposed transaction by which PSE will acquire a 100% interest in a 277 MW natural gas-fired combined cycle generating facility (the "Goldendale Energy Center" or "Facility"), that began commercial operation in September 2004, and is currently owned by Goldendale Energy Center, LLC ("GEC") (a Delaware limited liability company), an indirect wholly-owned subsidiary of Calpine Corporation ("Calpine"), a Delaware corporation. (On December 20, 2005, Calpine and GEC, among other

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Calpine affiliates, filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code.) (See **Exhibit 3**, "Transaction Structure".)

- The principal commercial terms and conditions of the proposed transaction including the bankruptcy sale process and estimated schedule and timeline. (See **Exhibit 1**, "Summary of the Principal Agreements".)
- The need for, and benefits of, the proposed resource acquisition.
- The analyses supporting the selection by PSE of the proposed resource.
- Key risk factors related to the proposed transaction.
- The asset management plan describing the staffing plan and operational considerations of the transition to PSE ownership.
- The expected tax, accounting, and ratemaking treatments for the proposed transaction.
- The projected "stand-alone" financial pro forma¹ (income statement, cash flows and balance sheet) and the Facility's estimated impact on PSE's gross revenue requirements. (See **Exhibit 5**.)
- Proposed financing arrangements for the acquisition cost of the Facility.
- Management's recommendation to PSE's Board of Directors for approval to complete due diligence and contract documentation, to execute the definitive

¹ The Facility will be owned directly by PSE. For clarity of interpretation, the stand-alone pro forma illustrates the financial impacts of the Facility, separate and apart from PSE's financial statements, as if the Facility were held by a wholly-owned subsidiary of PSE.

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agreements, to engage in the bankruptcy auction process, and if successful in such process, to close the transaction.

Summary Project Description

The Facility is a 277 MW natural gas-fired combined cycle ("CCCT") generating facility (252 MW "nominal" plus 25 MW duct firing) located on an approximately 42-acre site within the Goldendale Industrial Park and the City of Goldendale, Washington. The Facility was developed and constructed by Calpine on a greenfield site and achieved commercial operation in September 2004.

The primary components of the plant consist of 1) a General Electric ("GE") Frame 7FA model combustion turbine and generator, 2) a Babcock-Hitachi heat recovery steam generator ("HRSG"), 3) a Hitachi steam turbine, and 4) a Siemens generator. Goldendale's low heat rate makes it one of the most efficient generating facilities in the Western Energy Coordinating Council ("WECC") region.

The GE 7FA is a mature technology, proven and well understood. GE's 7FA dominates the F-class combustion turbine market with the largest installed base of any manufacturer. GE's F-class fleet includes more than 900 units in operation worldwide and has compiled more than ten million hours of commercial operation. Independent operating data confirms that fleet average reliability is about 98% with an availability of 93%². The availability of parts and service is excellent.

The plant was originally designed for baseload operation. The Babcock-Hitachi HRSG has a number of design features that allow for improved operating profiles compared to a conventionally designed HRSG, such as its improved readiness capability and

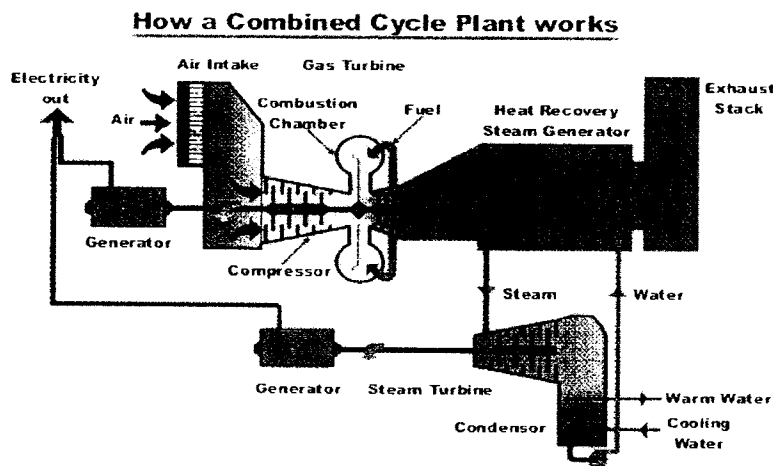
² Reliability is equal to 100% less the forced outage rate; availability is equal to 100% less the sum of the planned outage rate (or percentage of time allotted for planned maintenance) and the forced outage rate.

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reduced tendency to trip the steam generator. Although supported by a smaller installed base, the Hitachi steam turbine and Siemens generator are each recognized as reliable equipment. The availability of parts and service is considered good.

PSE's technical review has been thoroughly documented. This review reflects a well-designed and maintained facility that has been guided by documented operating procedures and compliance.

The following diagram depicts the combined cycle process.



The combined cycle process using a natural gas cycle and a steam cycle is a highly efficient process that results in greater operating efficiencies and lower fuel costs and emissions.

Figure 1. How a Natural Gas-Fired Combined Cycle Works

Electric Transmission

The Facility holds long-term, firm, point-to-point transmission service agreements with Klickitat County Public Utility District ("KPUD") and the Bonneville Power Administration ("BPA"). The Project is interconnected at the E.E. Clouse Substation, which is owned and operated by KPUD. The substation is located on a 4.04 acre parcel owned by KPUD within the Facility's borders, but exclusive of the Facility's 41.65 acres. KPUD provides approximately ten miles of 230 kV transmission access to the interconnection point with the BPA transmission system at the Harvalum Substation. KPUD also

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provides station service power for the Facility. The cost of this power has been included in the pro forma.

Under the Facility's point-to-point transmission agreement with BPA, the power received at the Harvalum Substation is then delivered to the Mid-Columbia trading hub ("Mid-C"). While Mid-C provides the greatest liquidity for wholesale trading in the Pacific Northwest, particularly for a merchant generator, PSE's need, as a load-serving entity, is to have power delivered directly to its system. Moving power from Mid-C across the Cascades can pose constraint problems in the winter. PSE recently acquired from BPA 650 MW of additional firm transmission from Mid-C to PSE's system, which will allow delivery of firm power to PSE from the Facility via the Mid-C.

BPA is currently in a public process to reassess and evaluate its transmission capability across its system. There has been preliminary indication from BPA that the Facility's Mid-C point of delivery may be redirected directly to PSE's load centers at Covington and Maple Valley. Obtaining such a redirect would provide both enhanced reliability and significant financial benefits to PSE customers of an estimated \$30 million net present value savings over 20 years or a \$5.35/MWh reduction on a levelized cost basis. Current economic analysis assumes no redirect. A decision by BPA is anticipated by the end of this year. (See **Exhibit 13** for further discussion.)

Gas Transportation

The delivery facilities for natural gas supply consist of a 5.1 mile lateral pipeline that extends from the plant gate of the Facility and intersects with Northwest Pipeline's ("NWPL") existing mainline in Klickitat County. The lateral was constructed and is owned and operated by NWPL. The maximum capacity of the lateral is 50,350 decatherms per day and provides ample capacity under plant maximum operating conditions of 48,000 decatherms when the Facility is duct fired.

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GEC does not hold any long-term, firm, natural gas transportation on NWPL's mainline for the Facility. PSE prefers long-term, firm transportation rights for its firm electric resources. To that end, PSE has identified potential counterparties that are interested in releasing mainline capacity to PSE, including

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Northwest Pipeline is a bi-directional pipeline that operates on physical and displacement capacity. As long as there is gas flowing past the Goldendale plant on the mainline, the Facility will be served. Historically, there have been few occurrences when PSE-owned quantities flowing past Goldendale have been less than the Facility's requirements and, when so, it is generally in the summer months, due to low gas demand. To address this potential of a small gap in firm service, PSE has discussed with the WUTC staff the ability to "exchange" gas with PSE's Core Gas portfolio should this "gap" event occur. Under the exchange, the Facility would deliver Sumas gas to PSE's citygate and the Core portfolio would purchase and deliver gas from the Rockies or Alberta to the Facility. The Core portfolio would receive a fixed annual fee for this "standby" service. The concept has

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received a favorable reaction from WUTC staff in informal discussions. (See **Exhibit 11** for a detailed discussion.)

Fuel Supply

Natural gas is the primary and only fuel supply. The Facility is not capable of dual fuel use (without equipment retrofit) and has no distillate storage capability or an air permit that allows distillate use. Such limitations are common to almost all gas-fired facilities in the I-5 corridor for plants of recent vintage. Given the projected capacity factor on this plant and the competitive market position of the other combustion turbines in PSE's fleet, PSE believes it does not now have to add additional long-term contract gas supplies to its current supply portfolio. PSE's operations and trading group closely monitors and continuously evaluates the need for additional fuel supplies based on daily updates of its dispatch models.

Water Supply

Raw water supply is provided by the City of Goldendale under a 30-year agreement. To reduce the consumption of water, the plant employs an advanced condensing system that includes a conventional condenser and an air-cooled condenser operating in parallel. Two water storage tanks hold about 2.2 million gallons each; a smaller tank holds de-mineralized water that has been treated to protect the equipment.

Adjacent Property

As noted, the Facility is located on 41.65 acres. As part of the transaction, PSE will acquire from Calpine Corporation an additional adjacent parcel of land of 141.5 acres on the Facility's southern border as a buffer against residential and commercial encroachment. This land is currently vacant and is zoned for rural residential use.

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Summary of the Acquisition and Operation

Background

In June 2005, through an informal solicitation, Calpine engaged potential bidders in a reverse auction process for sale of its Northwest generation assets, including the Facility. Previously, Calpine had publicly announced that as part of its strategic plan to meet its debt reduction, it would divest assets that were no longer strategic to its core markets, which it defined as California and Texas.

PSE submitted an indicative non-binding bid on June 29, 2005 and was selected by Calpine in early July 2005. PSE and Calpine entered into a non-binding Letter of Intent at the end of August 2005. At the conclusion of an exclusive 90-day due diligence period, given Calpine's deteriorating credit condition, PSE ceased negotiations. On December 20, 2005, Calpine and its affiliate companies filed for a reorganization bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. PSE's interest in the Facility remained as a potential opportunistic purchase.

In early January 2006, PSE and Calpine restarted discussions for the potential purchase of the Facility through the bankruptcy process, while being mindful of the other resource alternatives revealed in PSE's 2005 RFP solicitation. As the discussions with Calpine evolved and PSE's RFP evaluation advanced, the Facility continued to evaluate well in light of PSE's other resource alternatives.

Acquisition Program

A non-binding Letter of Intent ("LOI") and Term Sheet was executed with Calpine Corporation on August 22, 2006 (see **Exhibit 2**). Such LOI formed 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" bid for the sale of the Facility, as part of Calpine's bankruptcy auction process.

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A detailed summary of the definitive purchase agreements is attached as **Exhibit 1**. The principal commercial terms of the proposed transaction are briefly summarized below:

- Pursuant to a **Membership Interest Purchase Agreement ("MIPA")**, PSE will acquire on the closing date (estimated to be approximately March 1, 2007) 100% of the limited liability company interests in "New LLC", which will be newly formed by GEC at or shortly before the closing. GEC will contribute all of the assets that are associated with the ownership and operation of the Facility, including all real and tangible personal property, and certain liabilities relating to the Facility to New LLC. Immediately following, GEC will sell 100% of the limited liability company interests in New LLC to PSE with the result that PSE will become the sole owner of New LLC. New LLC will be promptly liquidated and will distribute all of its assets and liabilities to PSE. Upon liquidation, PSE will directly own 100% of the Facility. As part of the proposed transaction, PSE will also acquire the 141.5 acre parcel adjacent to the Facility site, which is currently held by another Calpine affiliate.
- PSE's purchase price for the sale and transfer of the purchased interests and the acquisition of the above-referenced real property is **\$100,000,000³** payable as follows:
 - 3.75% of the purchase price deposited into an escrow account upon execution of the MIPA.
 - 3.75% of the purchase price deposited into the escrow account upon entry of the Sale Order by the bankruptcy court.

³ The \$100 million purchase price will be reduced in the MIPA by amounts paid by PSE to cure existing defaults of any assigned contracts, which is estimated to total \$425,000.

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- The balance of the purchase price is due at closing.
- PSE payments into escrow will be paid to GEC at closing and credited towards the purchase price. These payments would be refunded to PSE upon a termination of the MIPA in accordance with its terms (other than due to a PSE breach).
- Closing will occur after receipt by the parties of all consents, authorizations and approvals, satisfaction or waiver of conditions precedent specified in the MIPA and receipt of all final and non-appealable approvals of the Bankruptcy Court including the Bidding Procedures Order and the Sale Order.
- The closing date will depend upon, among other things, the timely filing and receipt of the bankruptcy motions and orders, receipt of all required regulatory approvals including FERC, bankruptcy court, Hart-Scott-Rodino, and any applicable third party consents regarding assignment of contracts and permits.
- In the event GEC receives a higher and better offer than the terms and conditions of the MIPA offered by a purchaser other than PSE (the "Alternative Transaction"), then GEC shall pay PSE a break-up fee equal to 2.5% of the purchase price upon the closing of the Alternative Transaction.

Need for Additional Supply Resources and Resource Solicitation Process

PSE published its Least Cost Plan ("LCP") in May 2005 to analyze and document its projected energy load and resource needs. The LCP incorporated a comprehensive assessment of available conservation resources and a fully-integrated portfolio analysis that evaluated both conservation and supply resources. The LCP identified a need for additional electric energy resources based upon the "B2" planning standard as adopted by PSE's Board of Directors in 2002. Such standard requires that energy be added to meet PSE's highest deficit month. In the winter of 2006-2007, an energy need of 233

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aMW⁴ was identified after accounting for the addition of the Hopkins Ridge and Wild Horse wind projects, as part of its resource supply portfolio.

Following its 2005 LCP, PSE described its resource needs in its draft Request for Proposals from All Generation Sources (the "All-Source RFP") and for Energy Efficiency programs that PSE issued on July 28, 2005. These RFPs were reviewed and approved by the Washington Utility and Transportation Commission ("WUTC") in an order issued on October 26, 2005 after which PSE then issued the final RFPs. Proposals were received in January 2006 and evaluations commenced.

In response to its All-Source RFP, PSE received over 120 different offers from among 48 respondent proposals. Additionally, PSE received seven proposals outside of the formal RFP process which were also evaluated in parallel. PSE has an ongoing obligation to review all bona fide offers submitted for consideration.

In the case of the proposed transaction, PSE evaluated the transaction relative to the responses it received to the All Source RFP.

Energy Market Context

The market continues to experience significantly higher capital costs across all technologies. Many operating costs have also risen significantly. PSE's resource cost comparison of the 20-year levelized "all-in" resource costs from its 2004 RFP versus 2006 RFP showed increases as high as 60 to 80 percent for some technologies. These higher capital costs are due, in large part, to global competition for key commodities such as concrete, copper, and steel, driven predominately by the burgeoning economies of China and India. Skilled labor shortages and rising engineering, procurement and construction ("EPC") contract margins have further exacerbated these costs across all

⁴ The 233 aMW need is before conservation.

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technologies. For example, the 650 MW Big Stone #2 conventional coal project in the Midwest is reportedly committed to an all-in cost to develop and construct of \$2,670 per kilowatt ("kW"). In 2003, PSE estimated conventional coal project costs in the range of \$1,600 to \$1,800 per kW.

The global and U.S. wind turbine market has tightened considerably. Turbine manufacturers are sold out through 2007. In addition to commodity cost increases that drive suppliers' costs up, the weakening of the dollar in the foreign exchange markets has also contributed to rising prices in the US market for equipment of foreign manufacture. All-in 2007 wind project costs are in the range of \$1,800 to \$2,000 per kW, up from \$1,340 per kW for the Hopkins Ridge Project committed to in March 2005.

Climate change has become an important part of the international dialogue as public policy makers and business leaders address the challenges and solutions for global warming. In the absence of federal policy, states and regions are taking the lead on developing policies and programs to address global warming. States are adopting emission reduction targets through policies and programs including increasing renewable generation and energy efficiency goals. California has taken the lead in addressing climate change through legislation that would cut greenhouse gas emissions ("GHG") 25% by 2020. Among other things, a new California law will require all new electricity generated for use in California to come only from sources with GHG emission less than or equal to those of the latest combined cycle natural gas turbines. It would also preclude any imports of coal-fired power into the state, with the possible exception of an Integrated Gasification Combined Cycle ("IGCC") coal plant that was "carbon capture ready". Looking abroad, last year, the European Union implemented a cap-and-trade system for reducing its GHG emissions.

Twenty-two states have adopted renewable portfolio standards ("RPS"). The effects of such mandatory resource use has increased demand for relatively scarce executable

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renewable resources, thus increasing upward price pressure through the value chain for such resources. With California's RPS of 20% by 2010, buyers in the Pacific Northwest have found themselves in direct competition with California's investor owned and public utilities for Northwest renewables. Given a likelihood that Washington State will pass Initiative 937, which calls for a 15% RPS by 2020, competition is certain to intensify. In addition, the ongoing uncertainty of the extension of the federal production tax credit beyond 2007 will again result in project delays and costlier projects for the investor, developer, and ultimately the customer.

High profile developers of conventional coal projects such as Sempra, Bechtel and Great Northern Power Development/Kiewit Mining have all but abandoned their efforts to develop projects in the Pacific Northwest. Further, BPA is making little apparent progress in identifying, funding, and constructing the billion dollar plus transmission facilities that will be required to bring new coal and wind resources from the interior Pacific Northwest to the markets in the I-5 corridor.

Elsewhere, conventional coal projects appear to be stalled in many areas of the country, with the exception of the Midwest and Texas. As these projects enter the permitting process, it is unclear as to whether they will be successful. Additionally, the potential for a carbon tax or for GHG emission caps at the state level appears to be increasing. Consequently, interest in IGCC (coal gasification to power) as a baseload technology alternative, to mitigate further dependence on natural gas for power generation, is growing.

With very little new coal baseload generation being constructed in the WECC, dependence on natural gas plants and wind will grow during the next decade. Due to limited hydro resources, new gas-fired generation will almost certainly be required to integrate the large amount of new wind generation that will follow from RPS requirements. Gas-fired reciprocating engine projects may well start to join combustion

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turbines as the technology of choice due to the highly flexible operating characteristics of such engines.

The secondary value of existing gas-fired and coal-fired plants are rising. In the Pacific Northwest and California, the market has nearly completed rationalizing excess capacity from the overbuild situation of the late 1990s. Indeed, in light of the electric demands experienced in the summer of 2006, California utilities are aggressively seeking to add new gas-fired capacity with the support of the California PUC. Accordingly, values are rising for both gas-fired and renewable resources. As evidence of the turn in the market, financial players such as hedge funds and investment banks have already emerged as aggressive buyers of power assets. (See **Exhibit 6.**)

In summary, these factors will continue to inform our integrated resource planning process and influence PSE's resource investment decisions.

The Cost of Certain Natural Gas Generation Projects is Competitive

In addition to professional judgment of defined qualitative criteria and due diligence findings, PSE utilizes three key quantitative metrics to compare and evaluate electric resources. These are: 1) Portfolio Benefit, 2) 20-Year Levelized Cost and 3) Portfolio Benefit Ratio. The Facility had the highest Portfolio Benefit when compared with the group of seven projects short listed at the conclusion of PSE's evaluation of the respondents to its 2005 RFP.⁵ The 20-Year Levelized Cost of the Facility was also attractive and ranked fourth lowest. The Portfolio Benefit Ratio, which removes bias for project size, reflected a positive benefit ratio that was also reasonably attractive. The Portfolio Benefit Ratio, as contrasted with the 20-year Portfolio Benefit and the 20-year

⁵ The seven projects include three gas plants: Goldendale, Ferndale (Tenaska) and Bellingham Cold Storage ("BCS") (capacity resource); Klondike III wind farm; 25-year Raft River geothermal power purchase agreement ("PPA"); and two short term PPAs, all of which are currently or soon to be in negotiations. Note BCS is the only capacity resource. Capacity resources will have higher levelized costs since they run less.

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Levelized Cost, shows the Facility is comparable to the other short listed projects. PSE considers a balance of these three metrics when selecting a resource. The charts below show the Facility as having the highest Portfolio Benefit and a reasonable Levelized Cost.

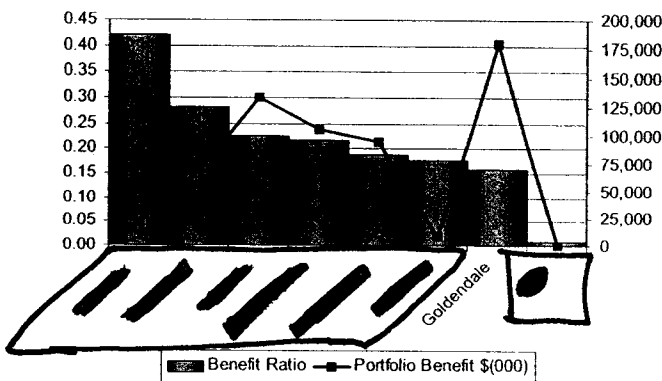


Figure 2. Absolute Portfolio Benefit

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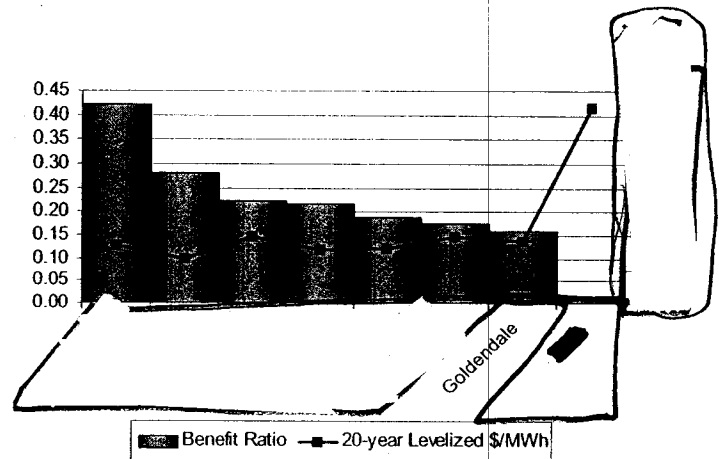


Figure 3. 20-Year Levelized Cost

Relative to the other technologies evaluated in the RFP, certain natural gas projects ranked more favorably. In general, those natural gas plants performed better due to the following reasons: 1) lower capital costs; 2) dispatchability of the plant, 3) incremental capacity (duct fire capability) and 4) the significant rise in capital costs of the competing resource technologies.

Based on PSE's recent data obtained from the RFP process, the capital costs of CCCT gas plants ranged from \$400/kW to \$900/kW, with new construction at the high end and distressed, suspended, or older plants priced lower. Because gas plants have the ability to be cycled more easily than other resources, gas plants can be dispatched based on price signals from the market; in other words, projects run only when it is economically efficient. Projected capacity factors of the most efficient CCCT plants were approximately 40% to 60%. (Capacity factor is highly dependent upon gas price and where the resource fits in the resource dispatch stack.) Many CCCT gas plants have

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duct fire capability of 25 MW or more, depending on the size of the plant. Such capacity is valuable particularly in the winter or summer, when loads as well as prices can peak.

Portfolio Analysis Demonstrates Project Benefits

To assure consideration of a wide range of possible market futures, PSE's portfolio analysis evaluates the individual resources and portfolios of resources under four different futures or risk scenarios. These are: 1) Current Trends (PSE's expected future case), 2) Overbuild (which models a FERC Notice of Proposed Rulemaking which, if enacted, would require a specified reserve margin)⁶, 3) Green World, (many environmental constraints and, consequently, a high gas price), and 4) Low Gas Price. Such scenarios establish the bookends of future market outcomes and are further augmented by Monte Carlo simulation, which is a robust risk-based analysis that evaluates cost and risk on a fuller range of variability. Together, these analyses provide greater insight into the impact of price volatility and its impact on PSE's portfolio.

As illustrated in **Table 1**, the Facility's expected net present value of portfolio benefit to PSE's resource portfolio is approximately \$180 million, as compared with the generic portfolio in PSE's 2005 Least Cost Plan. The generic portfolio is defined as PSE's existing portfolio as modified by generic resources of energy efficiency, PPAs, wind, biomass, CCCTs and coal plants that meet PSE's need through 2026.

Table 1 results are inclusive of the portfolio benefit of the selected short listed resources, as well as the "next best" tier of resource choices from the RFP, and provide a comparison of the relative value of the Facility. The alternative resources shown are those that could be considered "next best" if negotiations to acquire the remaining short-

⁶ As a result of periods of high demand and resource insufficiency that have caused price spikes, planning reserve margins are receiving increasing attention. Although such margins are not required today, there are strong indications that they will be in the near future.

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listed wind and natural gas projects proved unsuccessful. Such "next best" projects include [REDACTED] project, which appeared to be the next best wind alternative after [REDACTED] and the [REDACTED] selected for "continued investigation" at the conclusion of the RFP process. A self-build option, using [REDACTED] economics as bid into PSE's RFP, has also been included to provide further perspective on new construction, with an online date of 2009 or 2010.

The portfolio analysis shows the Facility's Portfolio Benefit to be superior.

Table 1. Static Results in Current Trends

Scenario	Current Trends
Levelized Gas Price (2005 LCP)	[REDACTED]
Portfolio Generic Resources	From 2005 LCP
Portfolio Benefit of Short List (\$ in millions)	
Goldendale (ownership)	\$180
[REDACTED]	\$133
[REDACTED]	\$8
[REDACTED]	\$106
[REDACTED]	\$69
[REDACTED]	\$21
Portfolio Benefit of Next Tier of Resource Alternatives (\$ in millions)	
[REDACTED]	\$30
[REDACTED]	\$117
Portfolio Benefit – New Construction (\$millions)	
[REDACTED]	\$117

(In other scenario testing, the Facility's Portfolio Benefit remains superior as compared with the other short listed projects with the exception of Tenaska's Ferndale cogeneration plant. This is mainly due to Ferndale's lower fixed costs as an

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interconnected resource to PSE's system and the higher heat rates further out in time.)
(See Exhibit 6 for RFP Analysis.)

The risk analysis shows the Facility as lowest cost and lowest risk.

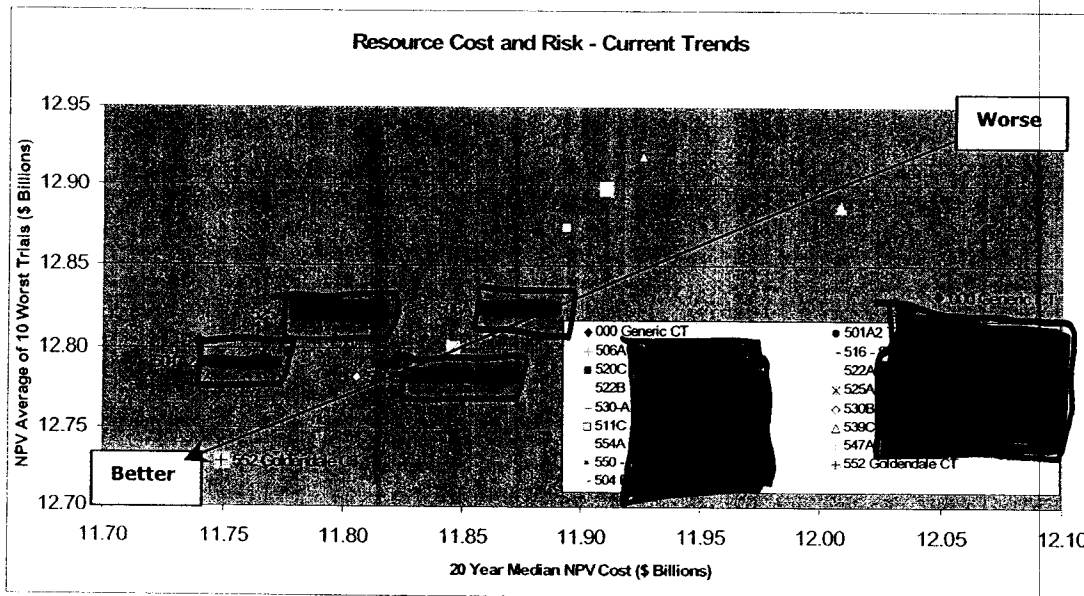


Figure 4. Dynamic Results in CurrentTrends

In a long-term gas price forecast update provided in August 2006 for PSE's 2007 Integrated Resource Plan, Global Insight projects a 12 percent increase in 20-year levelized gas prices, to [REDACTED] (up from [REDACTED] in 2005). As shown in Table 2, using the updated gas price, the results of the analysis continue to support the acquisition of the Facility.

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Table 2. Static Results in Current Trends with August 2006 Gas Update

Scenario	Current Trends	Current Trends-Updated Gas Price
Levelized Gas Price		
Portfolio Generic Resources	From 2005 LCP	From 2005 LCP
Portfolio Benefit of Short List (\$ in millions)		
Goldendale (ownership)	\$180	\$86
	\$133	\$105
	\$8	\$3
	\$106	\$90
	\$69	\$44
	\$21	\$17
Portfolio Benefit of Next Tier of Resource Alternatives (\$ in millions)		
	\$30	\$22
	\$117	\$62
Portfolio Benefit – New Construction (\$ in millions)		
	\$117	\$56

PSE Current Market Assessment Confirms Goldendale

The Facility was one of the leading generation resource opportunities identified throughout PSE's RFP evaluation process. Since the selection of the RFP short list, PSE has continued to meet with developers and to accept and evaluate proposals for other projects and PPAs; although, no new gas projects have been offered since the RFP evaluation process was completed in late summer.

However, it is worth noting that PSE has also been working on restructuring two existing power supply contracts. The first is PSE's lease arrangement with Public Service Resources Corporation for the Whitehorn Units 2 and 3 simple cycle gas-fired turbines (approximately 150 MW). As a result of those negotiations, PSE has recently agreed to

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purchase these 25-year old peaking units at the expiration of the lease term in February 2009 at approximately [REDACTED] The second transaction being examined [REDACTED]

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While complex and uncertain, the Sumas transaction holds the promise of significant customer benefits that merit management's attention.

"Comparable" CCCT Asset Sales

As part of PSE's ongoing due diligence effort, PSE has examined other CCCT transactions that have occurred in the WECC region as well as selected projects in other areas of the U.S. While valuation of CCCT facilities should and do vary greatly reflecting local market conditions, transmission availability and cost, gas transportation availability and cost, and the age or efficiency of equipment, such "comparables" provide high level benchmarks against which to profile a CCCT transaction in the Pacific Northwest. What is difficult to assess is the effect on valuations caused by the growing role of new financial investors, which may be an indicator of "early mover" strategies as generation plant values firm and move strongly upward. (See **Exhibit 7** and Table 3 below for additional detail on CCCT asset sales.)

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Table 3. Asset Sales for Natural Gas-Fired Combined Cycle Plants 2005-2006

Project	Plant Type	Year	Seller	Buyer	State	Capacity (MW)	Price (\$/kW)	Price (\$/kW)	Price (\$/kW)	Price (\$/kW)
Russell City Project	CCCT	2010	Calpine	GE Energy Financial Services	CA	600/ 210	44.0	210	Sep-06	
Ontelaunee Energy Center	CCCT	2002	Calpine	LS Power Equity Partners	PA	584	225.0	385	pending	
Aires Power Plant	CCCT	1999	Calpine	Aquila, Inc.	MO	580	158.5	273	pending	
Dighton	CCCT	1999	Calpine	BG America, plc	MA	170	90.2	531	Jul-06	
Grays Ferry Power Plant	Cogen	1998	Calpine	Thermal North America, Inc.	PA	175/87.5	37.4	427	pending	
Morris Power Plant	Cogen	1998	Calpine	Diamond Generating	IL	156	84.5	542	pending	
LS Power's Gen Portfolio	various	various	LS Power	Dynegy	various	8184	4100.0	470	pending	
Griffith	CCCT	2002	PPL Corporation	LS Power Equity Partners	AZ	300	115.0	383	Jun-06	
Arlington Valley	CCCT	2002	Duke Energy	LS Power Equity Partners	AZ	570	1600.0	254	May-06	
Moss Landing	CCCT	2002			CT	490				
Griffith Energy	CCCT	2002			AZ	300				
Maine Independence	CCCT	2000			CA	700				
Bridgeport Enegy	CCCT	1998			CA	165				
South Bay	Steam	1960			ME	520				
Morro Bay	Steam	1950/60			CA	1002				
Oakland Power Plant	CT	1950's			CA	2511				
COB Energy Facility	CCCT	const.	Peoples Energy	J-Power USA Development	OR	1150			pending	
La Paloma	CCCT	2001	Hedge Funds	Complete Energy Holdings	CA	1022	580.0	568	Aug-05	
Silverhawk	CCCT	2004	Pinnacle West	Nevada Power Company	NV	570/427.5	208.0	487	Jun-05	
Coyote Springs 2	CCCT	2003	Mirant	Avista Corp	OR	230/80.6	62.5	446	Jan-05	
New Construction	CCCT	2009			WA	525	473	900		

Provided for comparative purposes, based on BP's Cherry Point offer from PSE's 2005 RFP.

As illustrated by the data in Table 3, the estimated purchase price range for the Facility is highly competitive.

Determination of Maximum Bid

A public auction process will be held by the bankruptcy estate, should one or more competing bidders emerge, seeking "topping bids" to the initial price agreed to with PSE. Accordingly, PSE has evaluated the additional amount PSE would be willing to pay to acquire the Facility should such an auction occur.

Such analysis takes into account the "next best gas plant" as determined in PSE's RFP process and self-build assessment and is exclusive of those proposals selected for the

REDACTED

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short list. Using the

PSE conducted an analysis that varied the all-in cost of the Facility from In the expected gas price scenario, PSE could pay an all-in cost of to receive the equivalent portfolio benefit of to receive the equivalent levelized cost; and an all-in cost of to receive the same benefit ratio. It should be noted, however, that due diligence work on the is far from complete. In particular, critical assessments about constructability, geo-technical risk, insurability and transmission access have not been completed. Such assessments, if completed, each hold the potential for significant increases in cost-to-complete estimates as well as possibly unacceptable risks.

Other CCCT development projects proposed in PSE's RFP, such as

share potentially similar risks. Indicative non-binding costs proposed by speculative developers are subject to "re-trades" as more becomes known about PSE's executable alternatives and as market conditions change with increasing pressure on EPC contractors, skilled labor, and key commodities. For example, development project increased approximately 30% in the final phase of the RFP evaluation, rendering the project no longer competitive. The potential for cost uncertainty and completion risk for each of the alternative projects appears to be high.

Existing projects such as generating facility and were not competitive. At approximately:

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option was less attractive than other alternatives. [REDACTED] did not offer an ownership option, but rather a 5-year tolling PPA that was not competitive.

All in all, there appear to be no opportunistic purchases that have a lower risk profile than the Facility at this time. Taking into account a survey of CCCT transactions, PSE's analysis, and the inherent completion risk of [REDACTED] and associated risks with other future projects, PSE believes the range of \$100,000,000 to [REDACTED] is reasonable to acquire the Facility. See **Exhibit 7** for bid analysis.

Conclusion

The Facility is an attractive resource among the evaluated proposals and ranks highly on the qualitative evaluation criteria used in the RFP process. The Facility adds 277 MW of capacity and 272 aMW (average Winter energy) which is a significant contribution to meeting PSE's 2008 winter energy need of 305 aMW and brings PSE closer to meeting its longer term energy need of 1,471 aMW⁸ identified in 2013. As a result of this large need, this acquisition would not preclude PSE from acquiring additional resources that are now in consideration or that might result from a 2007/08 RFP.

Additional Generation Resource Opportunities

In addition to the short-listed projects, in which PSE is engaged in negotiations, or is soon to be engaged (some of which are unlikely to make it to the finish line), PSE continues to look at other resource opportunities and is currently evaluating the following:

- [REDACTED]

⁸ The 1,471 aMW need is taken from the 2005 Least Cost Plan and is before conservation.

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Additionally, PSE is continuing to look toward the future, developing a long-term strategy for implementing long-lead time generation projects. PSE has identified and is investigating IGCC developments in the Pacific Northwest and new

Management and Operation of the Project

At closing, estimated to be March 2007, PSE will own 100% of the Facility. PSE is in the process of developing an Asset Management Plan to transition Calpine employees, all software and vendor contracts as well as the operations and maintenance policies and procedures of the Facility.

Staffing Plan

Once the MIPA is signed between the parties, PSE will work with Calpine Operating Services Company, Inc. ("COSCI"), a Calpine subsidiary, which operates and maintains the Facility. Staffing at the Facility will be similar to the Frederickson I project, with approximately 19 employees. (Staff size is projected to remain constant over the life of the Facility.) Employees at the Facility will be screened and interviewed by PSE and conditional offers will be made subject to closing, taking into account the uncertainty of the bankruptcy auction. It is possible that PSE may not be successful in staffing the plant to the 100% level with existing employees. Should this occur, PSE will work with companies that provide temporary staffing services to fill this short term need. Note that the employees at the Facility are not presently unionized so there may be some natural attrition. Details of the Asset Management Plan are discussed in **Exhibit 10**.

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Environmental Matters

A Phase I Environmental Site Assessment ("ESA") was completed at the end of PSE's exclusive due diligence period with Calpine in November 2005. The assessment revealed no evidence of recognized environmental conditions or other environmental concerns in connection with the Facility.

An updated Phase I was conducted in September 2006 to include the 141.5 acre adjacent parcel that is now included as part of the transaction. No significant environmental issues were identified during the environmental due diligence. The Facility appears to be properly sited and constructed and in good shape. There are comprehensive programs in place to address air emissions, wastewater discharge, stormwater discharges, solid waste management, hazardous materials handling and hazardous waste management. Although no sampling was performed (none was deemed necessary), there is no indication of any groundwater, surface water or noise issues associated with the Facility. (**Exhibit 8** provides a summary of the Environmental Findings.)

Other Due Diligence

Real Estate

The Facility is located within the Goldendale Industrial Park in Klickitat County, Washington on previously undeveloped land. The property owned by GEC consists of four contiguous parcels of land that total 41.65 acres. On the southern border of the Facility is the 141.5 acre parcel included in the transaction that will serve as a buffer. This parcel is zoned rural residential for minimum five acre lots. No development has occurred. Within the Facility's borders, but exclusive of the Facility's owned property, is an electrical switchyard that sits on a 4.04 acre parcel owned and operated by KPUD and interconnects the Facility. (**Exhibit 8** provides additional Real Estate detail.)

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Insurance

PSE will add the Facility to its permanent property insurance program with a \$1,000,000 deductible and an insured replacement value of \$260 million. PSE projects a \$10,000 increase in premium by its excess general liability carrier associated with the new Facility. Four loss control recommendations made by PSE's property insurance engineer will be implemented. These recommendations will significantly reduce the fire loss exposure and will also reduce the current quoted annual property insurance premium on the plant. The implementation cost has been reflected in the pro forma.

PSE's insurer also provided some specific recommendations with regard to maintaining the plant equipment. These recommendations resulted from notice by GE that some failures had occurred with the blades on their 7FA combustion turbine compressors. Most recently, a failure occurred in a modified blade with the P-cut and cracks have been found in the P-cut notch area in other machines. PSE's discussions and inspection of the Facility confirmed that the Facility does not have this modified P-cut blade design. (The principal findings of PSE's due diligence investigations are summarized in **Exhibit 8.**)

Tax Benefits/Considerations

The proposed transaction, as described on page 9 of this Memorandum, has been structured to reduce the taxes imposed on the transaction, in particular to eliminate sales and use taxes imposed on the acquisition. A similar transaction structure was used when the Company purchased a minority share of EPCOR's Frederickson facility. The purchase of 100% of the limited liability company interests of New LLC by PSE would result in a similar favorable tax treatment. PSE has received a formal ruling from the Washington State Department of Revenue, confirming PSE's understanding that none of the proposed transactions and transfers would result in a tax liability to PSE

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with the exception of the real estate excise tax which GEC and PSE would share equally.

Rate and Accounting Issues

Rate Filing

PSE will seek rate recovery for the acquisition of the Facility in a rate filing made in early 2007 with the WUTC. The filing will be a Power Cost Only Rate Case ("PCORC") or a General Rate Case ("GRC") and the type of filing will be determined by PSE's needs. State regulatory approval of the rates is anticipated five to eleven months thereafter, depending on the filing. The transaction closing date is estimated to be March 1, 2007. The filing may occur before the transaction is closed, and costs subsequently updated in the filing.

Deferred Accounting Petition

Concurrent with the rate filing, PSE may also file an accounting petition with the WUTC for cost deferral of O&M, depreciation and other costs that could be incurred between the closing date and the effective date of new rates. These costs are not included in the PCA true-up calculations. Absent the WUTC approval for cost deferral, PSE will incur unrecovered costs. The amount of these costs depends upon when rates go into effect, but range from an estimated pre-tax of approximately \$11 million if rates are effective beginning July 2007 and approximately \$22 million if rates are effective beginning January 2008.

General Accounting Treatment

The proposed transaction will be accounted for pursuant to the applicable accounting rules of the FERC and WUTC. For modeling purposes and valuation, the overall useful book life of the Facility is 30 years. Because the operational characteristics of a

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combined cycle are very different from that of a simple cycle, the sets of components or parts inventory will be capitalized and depreciated. As part of the regulatory filing, PSE will file a petition with the WUTC requesting an accounting order to establish the depreciable life for specific units of property. Manufacturers' recommendations are well established in the industry and can be used to support the Company's position.

Income Statement Effects

Provided the WUTC approves accounting and rate treatments proposed with respect to the Facility and as described above, PSE expects to recognize income for financial reporting purposes substantially as described in the stand-alone pro forma. (See **Exhibit 5.**)

(Rate and accounting treatments are discussed in **Exhibit 14.**)

A Discussion of Financing Program

The cash requirements are included in PSE's 2007 Capital Budget and 10-year Financial Forecast, and will be funded as a component of PSE's overall 2007 financing program which may include a combination of securities such as first mortgage bonds and equity.

Risk Factors

PSE's risks associated with the acquisition of the Facility vary in nature and extent based on the phase of the acquisition process. Such phases include:

- Pre-Closing
- Bankruptcy Sale Process
- Post-Closing

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PSE has prepared a detailed description of the principal risks and identified mitigation plans (see **Exhibit 9**). A summary description of these risks follows:

- The Pre-Closing Phase extends until the closing of the MIPA. Principal risks are that the proposed transaction will not be consummated due to 1) failure to resolve the few outstanding commercial terms open between parties and 2) the potential pre-signing risk whereby the Calpine Creditors Committee determines that the transaction is not in the best interests of the creditors. The financial exposure to PSE in the event of a failure to close is principally the risk that transaction costs incurred to date in the amount of approximately \$500,000 would be expensed. Once the MIPA is executed, transaction costs would effectively be covered by the break-up fee in the event PSE does not prevail in the auction process.
- The principal risk in the bankruptcy process is a topping bid. PSE will have the ability to increase its purchase price, subject to its pre-determined maximum bid amount (see **Exhibit 7**, Portfolio Analysis to Determine Maximum Bid). Should PSE be unsuccessful in the public auction, PSE will have to revisit its self-build options and other assets available in the market.
- The principal risk of the post-closing phase is ensuring the technical and financial performance of the asset. PSE's thermal asset group has designed a self-managed maintenance plan to control costs and manage availability. PSE's power supply operations has an articulated plan to manage power and gas prices at the portfolio level by hedging portfolio power and positions up to two years forward. These hedges reduce exposure and help optimize the resource's performance (See **Exhibit 12**.)

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Closing and Schedule

PSE and Calpine have targeted the execution of the MIPA ("Definitive Documents"), to occur on approximately November 1, 2006 following Board consideration for each of the respective companies and approval by Calpine's Creditors Committee. A motion for approval of the bidding procedures with the Bankruptcy Court will be filed by Calpine in mid-November. The bidding procedures establish minimum bidding increments, the qualification of the bidders, and approval of the break-up fee payable to PSE. A Bankruptcy Court ruling approving the bidding procedures would be expected to occur in early December. The public auction is likely to occur in January or February 2007. The result of the auction would be approved by the Bankruptcy Court within a week thereafter. The transaction would close upon receipt of all regulatory and other approvals. The estimated closing date for the transaction is March 2007. (See **Exhibit 1** for the auction sale timeline.)

FERC 203 Approval

Acquisition of the Facility requires the approval of FERC under Section 203 of the Federal Power Act. PSE intends to file the Section 203 application with FERC in November 2006. In reviewing filings under Section 203, FERC must determine whether the proposed transaction is in the public interest. This determination requires an evaluation of the effect of the proposed transaction on competition under a market concentration screening test. Indicative analysis has been performed to examine the effect of the acquisition on PSE's market concentration. Results of this analysis indicate that PSE passes the screens that FERC weighs most; although, there are some areas of uncertainty. PSE met with FERC staff in mid-October to obtain some indication as to how the addition of the Facility would be viewed. PSE anticipates receipt of FERC's ruling on its Section 203 application within two to three months after filing.

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Summary of Project Benefits

Together with the acquisition of planned conservation resources, the Goldendale acquisition of approximately 277 MW of resource will reduce PSE's projected energy shortfall to approximately 1200 aMW⁹ by winter of 2012/13 when PSE is projected to lose a significant amount of resource.

The principal benefits of this new resource would be as follows:

- The Facility is among the lowest cost resources presently available;
- The Facility's generation and projected power costs add estimated portfolio value of approximately \$180 million, when compared to PSE's current portfolio as modified by generic resources of PPAs, CCCTs, biomass, wind and coal plants;
- The Facility is an existing operating plant with known and quantifiable costs which eliminates potential construction or inflationary cost risk of new resource builds;
- The Facility has secure long-term, firm transmission with potential upside (cost reduction) of a redirect;
- The Facility represents an opportunistic purchase of an asset from a distressed seller;
- The Facility is a dispatchable resource with ability to support wind integration;

⁹ A 1,471 aMW deficit for the 2012/13 winter is projected in the 2005 Least Cost Plan before conservation is taken into account.

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- The Facility utilizes proven technology, among the most efficient gas turbine technologies by a world-class manufacturer, GE;
- The Facility utilizes an oversized HRSG which allows for an improved operating profile compared to other similar plants; and
- The acquisition represents an incremental addition that leaves open options for additional renewable and thermal resources during the next decade.

Recommendation

Based on the described benefits of the proposed transaction, management recommends that the Board of Directors approve the transaction as proposed. (See **Board Resolutions.**)

GUIDE TO ACRONYMS AND SHORTENED TERMS

<u>Abbreviation/Term</u>	<u>Meaning</u>
BPA	Bonneville Power Administration
CCCT	Combined-Cycle Combustion Turbine
COSCI	Calpine Operating Services Company, Inc.
Calpine	Calpine Corporation
Dth	Decatherm
EPC	Engineering, Procurement and Construction
ESA	Environmental Site Assessment
FERC	Federal Energy Regulatory Commission
Facility	Goldendale Energy Center
GE	General Electric
GEC	Goldendale Energy Center, LLC
GHG	Greenhouse Gases
GRC	General Rate Case
HRSG	Heat Recovery Steam Generator
IGCC	Integrated Gasification Combined Cycle
KPUD	Klickitat County Public Utility District No. 1
kW	Kilowatt
LCP	Least Cost Plan
LOI	Letter of Intent
Mid-C	Mid-Columbia Trading Hub
MIPA	Membership Interest Purchase Agreement
MMBtu	Million British Thermal Unit
MW	Megawatt
NOPR	Notice of Proposed Rulemaking
NWPL	Northwest Pipeline Corporation
New LLC	New Limited Liability Company
O&M	Operation and Maintenance
PCORC	Power Cost Only Rate Case

GUIDE TO ACRONYMS AND SHORTENED TERMS

<u>Abbreviation/Term</u>	<u>Meaning</u>
PPA	Power Purchase Agreement
RFP	Request for Proposal
RPS	Renewable Portfolio Standards
SnoPUD	Snohomish County Public Utility District No. 1
WECC	Western Electric Coordinating Council
WUTC	Washington Utility and Transportation Commission

List of Exhibits

1. Summary of Principal Agreements
2. Letter of Intent, August 22, 2006
3. Transaction Structure
4. Facility Description
5. Facility Stand-Alone Financial Pro Forma
6. Comparative Analysis (RFP Evaluation)
7. Analysis to Determine Maximum Bid
8. Key Due Diligence Findings
9. Risk Analysis
10. Asset Management Plan
11. Gas Transportation Plan
12. Gas Supply Hedging Strategy
13. Transmission Plan
14. Regulatory and Accounting Issues



Acquisition of the Goldendale Energy Center Presented to the PSE Board of Directors

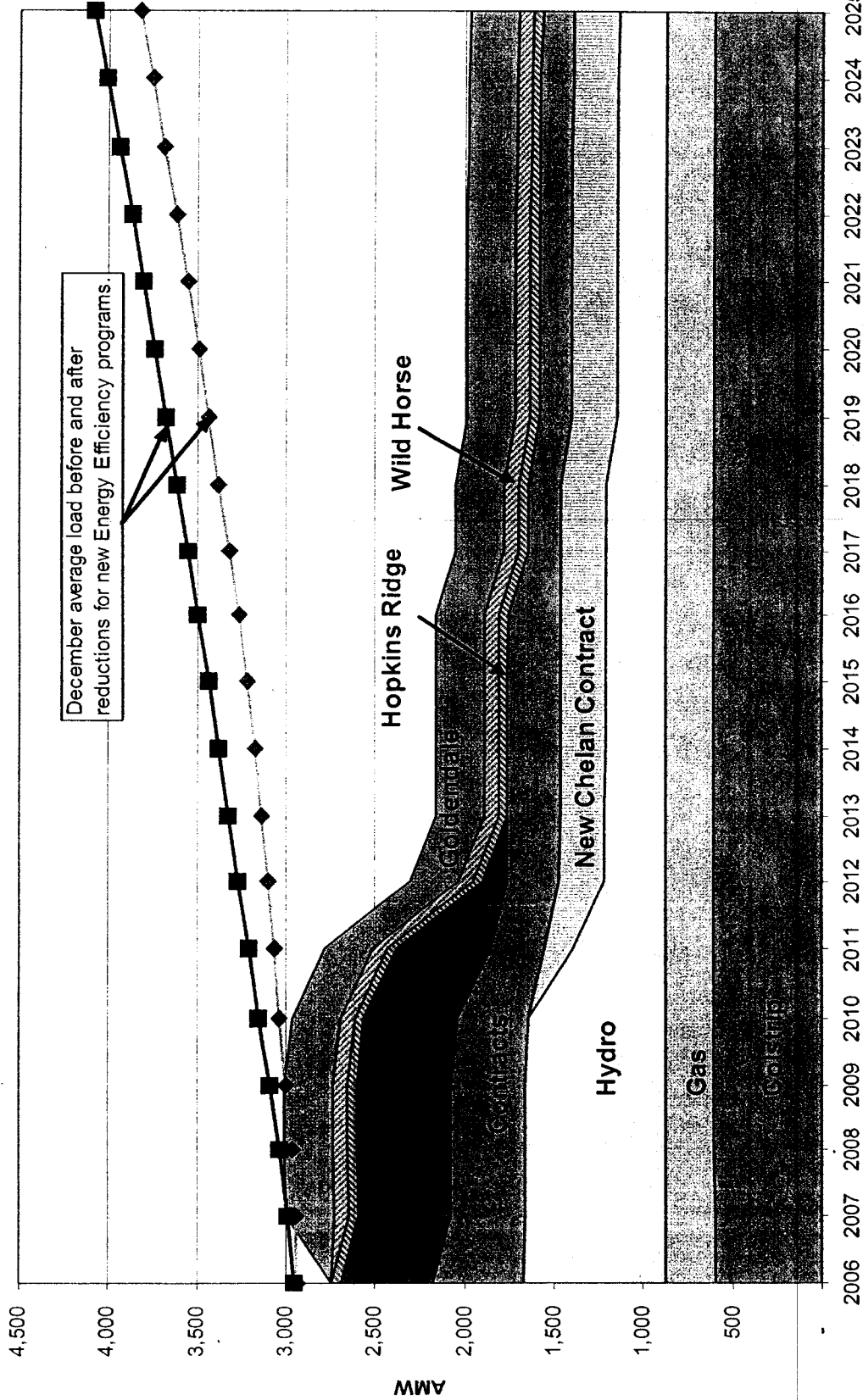
Eric Markell
Senior Vice President, Energy Resources

Recommendation to the Board

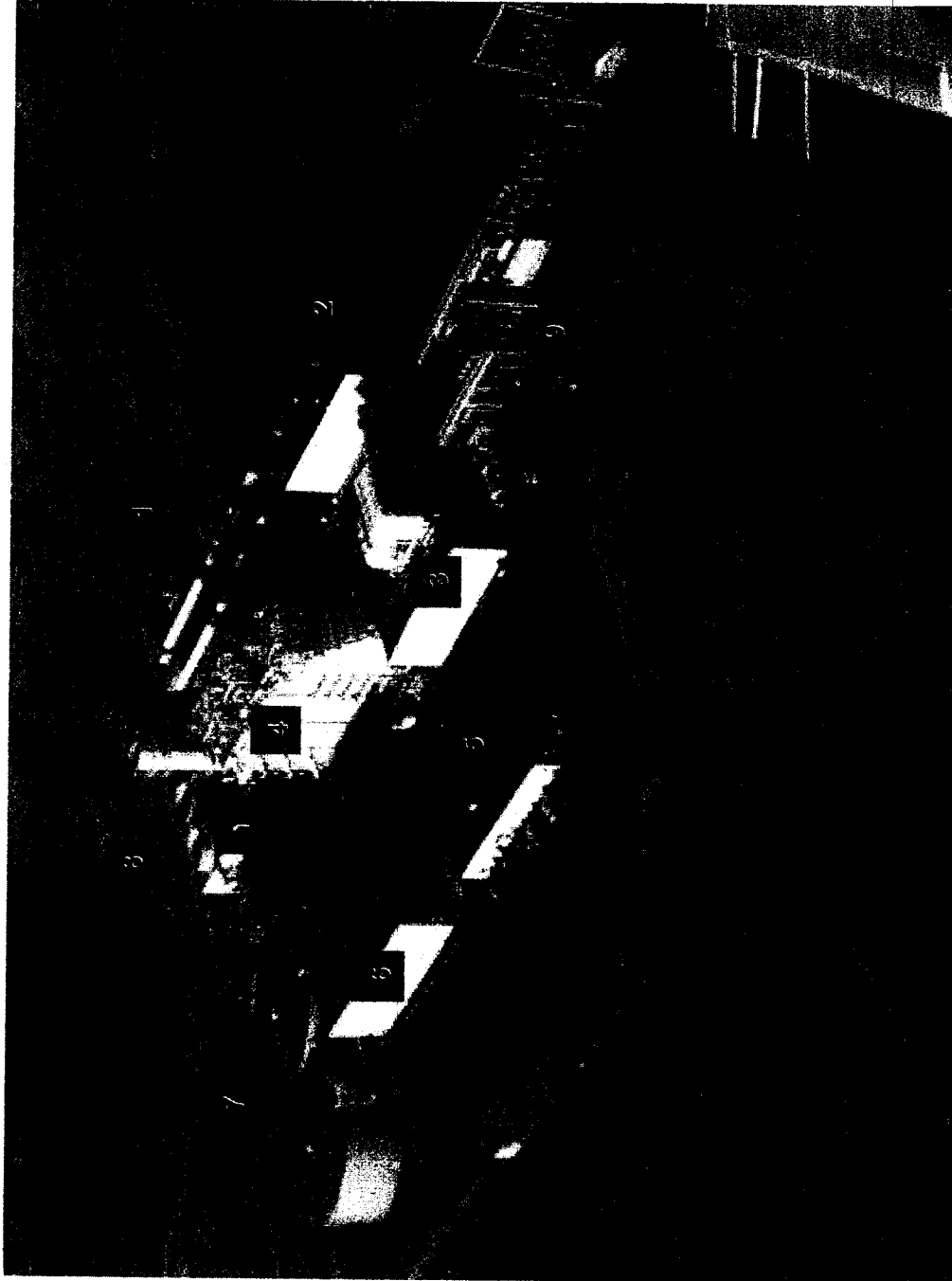
- Request authorization from the PSE Board of Directors to acquire the 277 MW natural gas-fired combined cycle Goldendale Energy Center facility through participation in the bankruptcy auction process

Goldendale reduces need in short term

Energy Load-Resource Balance



Goldendale is a 277 MW Natural Gas-Fired Combined Cycle ("CCCT") Generating Facility



1. Air-Cooled
Condenser

2. Steam Turbine and
Generator

3. Gas Turbine and
Generator

4. HRSG

5. Administration
Building

6. Water Treatment
Building

7. (2) 2.5 million
gallon water tanks

8. Wet Cooling Tower

9. Transformers &
Switchyard



PUGET SOUND ENERGY
The energy to do great things

Facility Overview

Commercial: September 2004

Location: West of the City of Goldendale, WA; Goldendale Industrial Park

Size: 252 MW natural gas-fired combined cycle plant; incremental 25 MW duct fire capability

Heat Rate: [REDACTED] Text in Box is Confidential

Technology: 1x1; GE 7FA turbine (Model 7241); Hitachi HRSG w/ duct burner; 90-MW Hitachi steam turbine; 115-MW Siemens generator; hybrid wet/dry cooling

Fuel: [REDACTED] MMBtu/d; [REDACTED] MMBtu/d (w/ duct fire) Text in Box is Confidential

Gas Transport: NWPL 5.1 mile lateral (50,350 Dth/d)
NWPL mainline transportation to be acquired by PSE [REDACTED]

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Transmission: 315 MW Klickitat PUD to BPA Harvalum Substation (contract term through June 2032)
250 MW from BPA Harvalum to Mid-C (contract term 2004-2023)

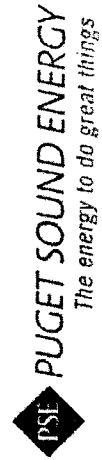
Water Supply: 30-year agreement with the City of Goldendale. Sanitary and wastewater discharged to City of Goldendale sewer system; stormwater is directed to drainage ditch across the facility to 2 detention ponds

Operation: 170 starts; 8,445 hours of operation (Sept 04 - Sept 06)

O&M: No Long Term Service Agreement (O&M will be performed by PSE)

Levelized Cost: [REDACTED] capacity factor (based on Aug-06 gas update)
[REDACTED] All-in capital cost Text in box is Highly Confidential

Gas Cost: [REDACTED] (20-year levelized cost) Text in Box is Confidential



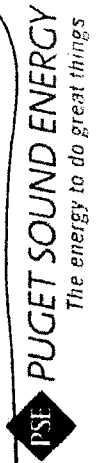
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Natural Gas Transportation Plan

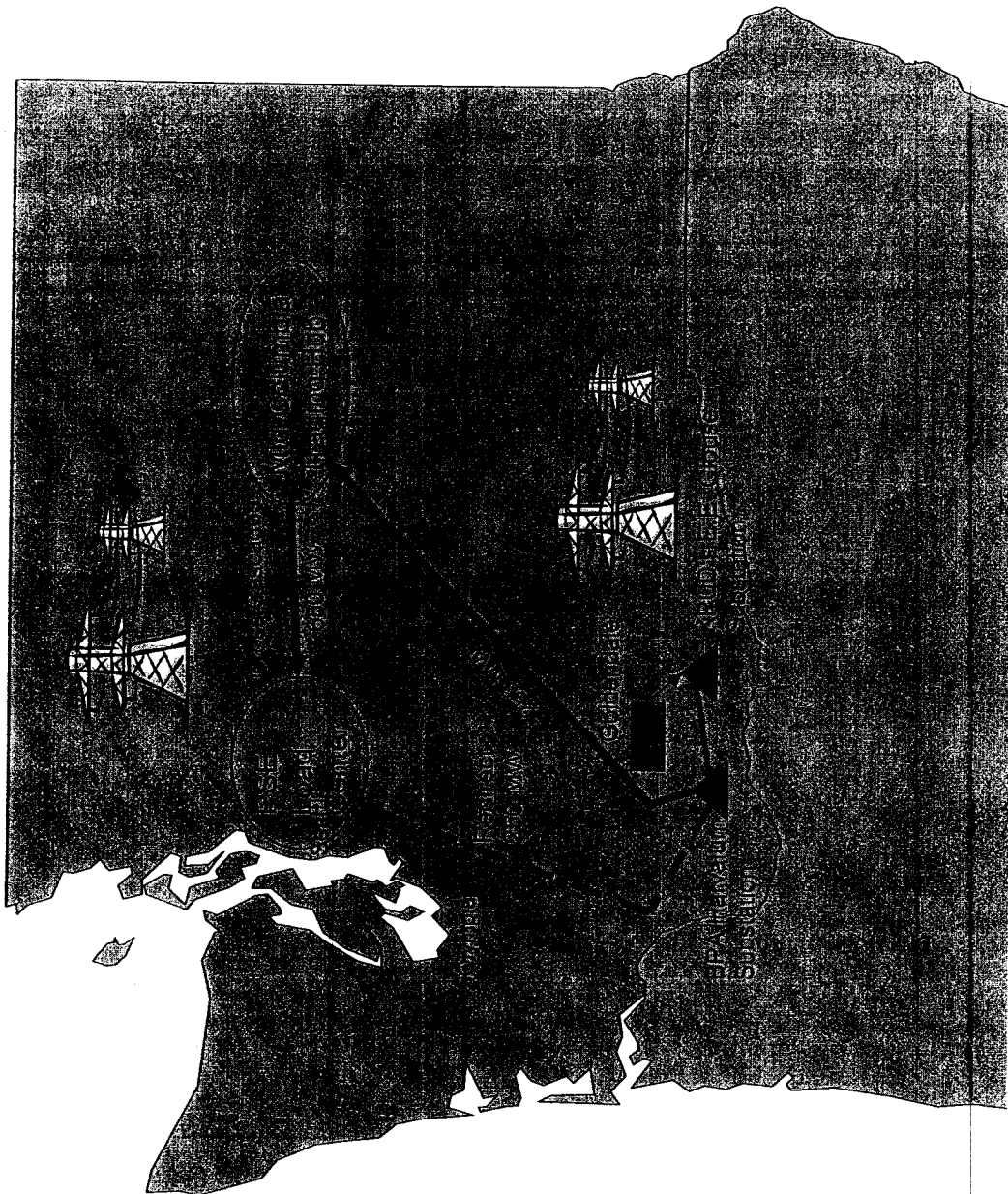
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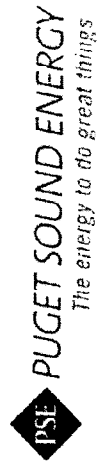
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Transmission Plan

- GEC holds long-term firm point to point transmission on KPUD and BPA.
- Firm delivery from KPUD to BPA via dedicated line.
- BPA delivers 250 MW to Mid-C
 - ♦ For quantities in excess of 250 MW, PSE will buy short term firm capacity for incremental duct fire
- From Mid-C, PSE will use a portion of its 650 MW long-term firm transmission from Mid-C to PSE's system acquired in September and October of 2006
- Potential to redirect BPA transmission to Mid-C directly to PSE will provide estimated \$30 million NPV savings
- ♦ BPA decision expected by the end of 2006

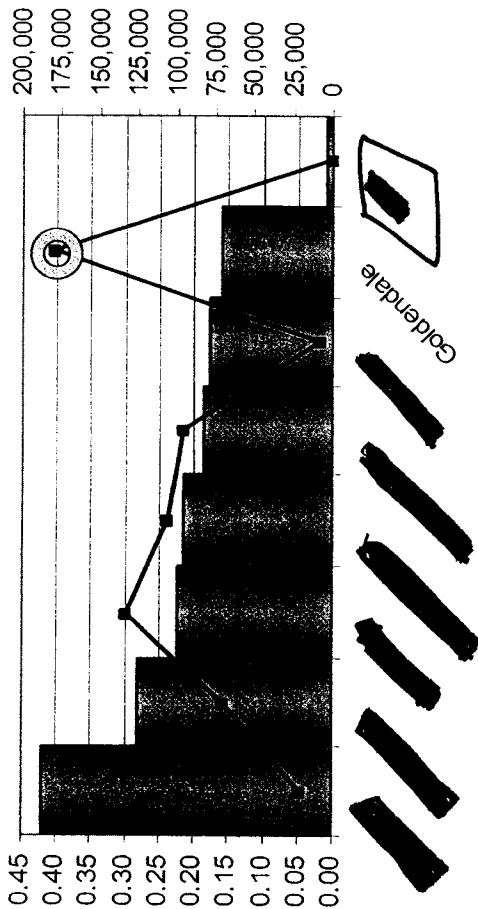


For Illustrative Purposes Only



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Among the short-listed projects, Goldendale has superior portfolio benefit, reasonable levelized cost and benefit ratio

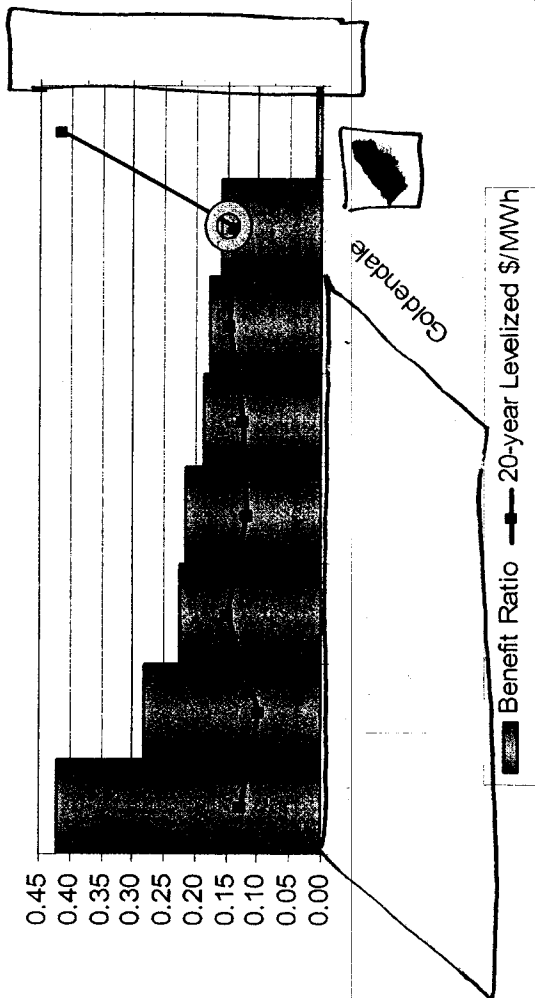


Portfolio benefit is the 20-year present value of all portfolio benefits derived from each project in comparison to the 2005 LCP generic portfolio.

Levelized cost is the average annual cost per MWh produced during a 20-year period for each project.

Portfolio benefit ratio is the present value of portfolio benefits divided by the present value of the project revenue requirements. Ratio used to remove bias for project size.

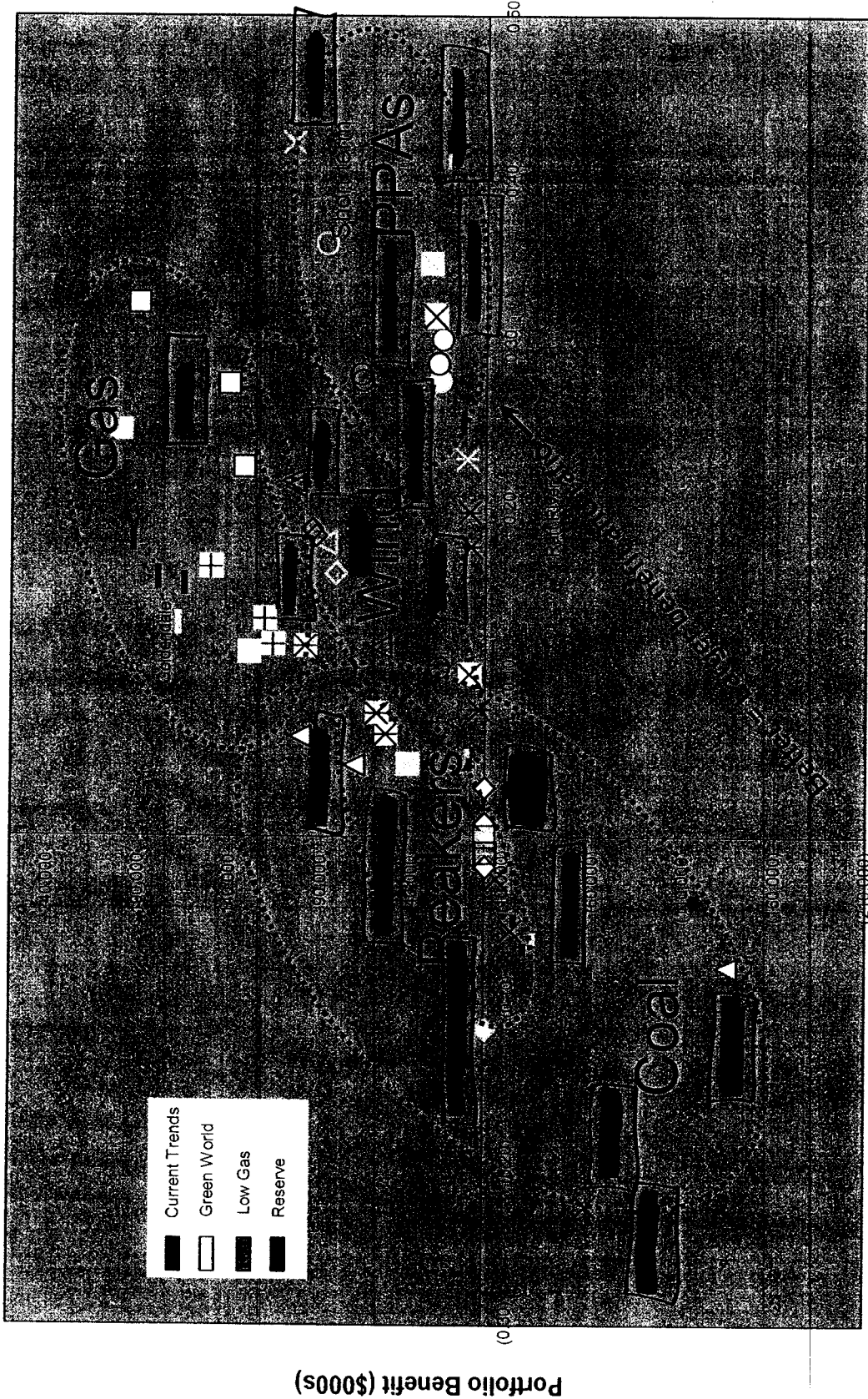
Note Bellingham Cold Storage (BCS) is the only capacity resource selected from the RFP process.



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RFP Analysis shows Goldendale is favorable under all futures

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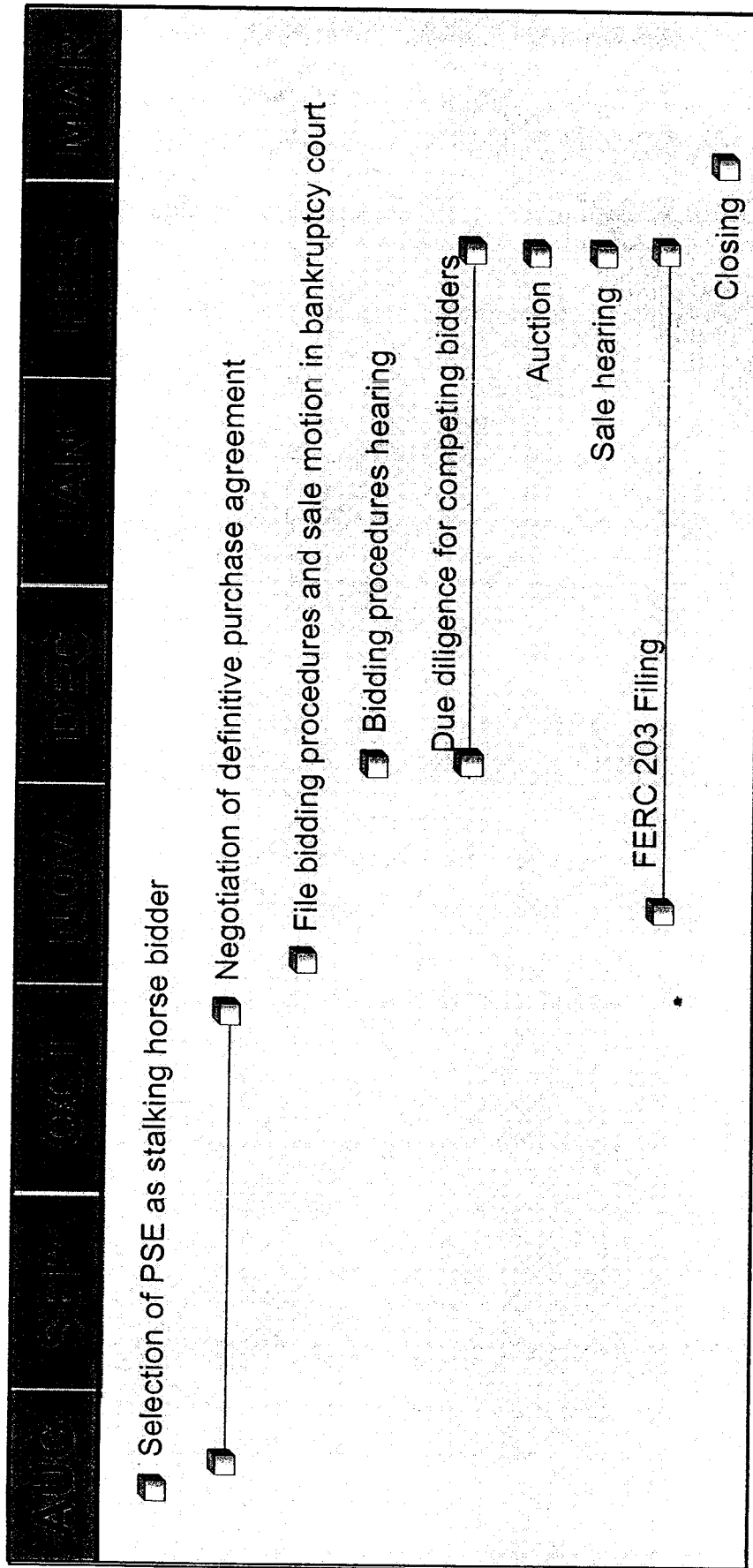
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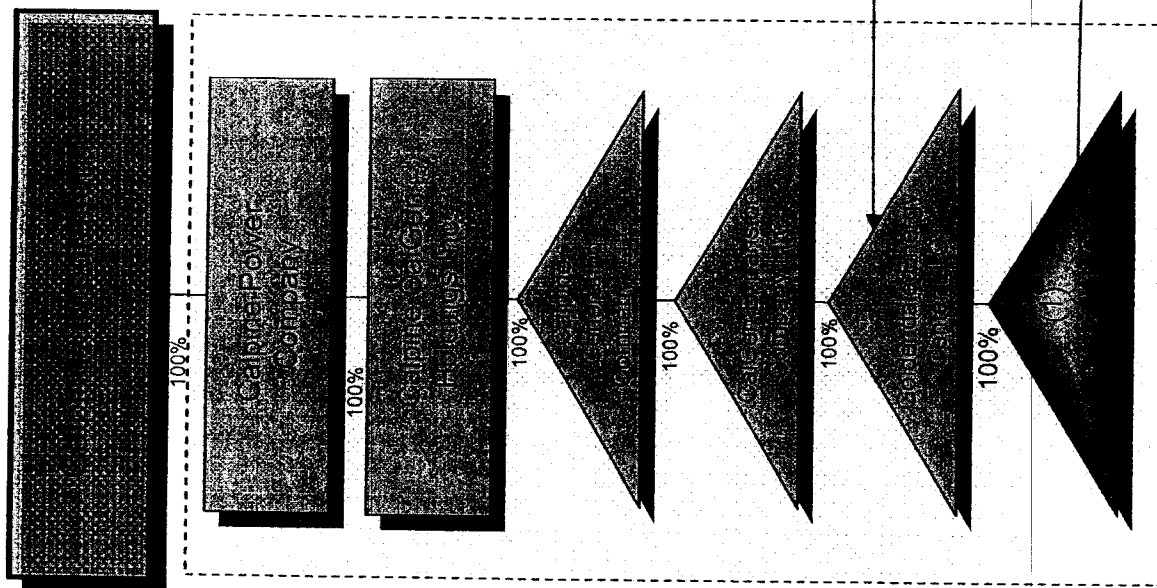
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Bankruptcy process and timeline



Note: Timing is best estimate.

Transaction Structure



Membership Interest
Purchase Agreement

(1) At or before the closing, GEC contributes all assets associated with ownership and operation of the Facility ("drop down structure")

100% Interest in New LLC

(2) Immediately following Transaction 1, PSE purchases 100% of the membership interests of New LLC

(3)

NWPL Transportation
(acquired from SnoPUD)

BPA Transmission

KPUD Transmission

(3) New LLC immediately liquidated, assets and liabilities distributed to PSE; PSE 100% ownership

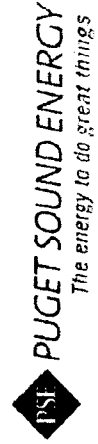
Puget Sound Energy, Inc.

“All-in” Capital Cost of the Facility

- Assumes a purchase price of \$100 million (original assessed value of \$250 million)
- Purchase price includes a 141.5 acre adjacent parcel that will serve as a buffer to the project

Capital Cost	
Facility Purchase Price	
Real Estate Excise Tax (REET) (50%)	
Facility Improvements	
Transaction & Due Diligence	
Redacted	
Property Taxes	
AFUDC	
Total Capital Expense	

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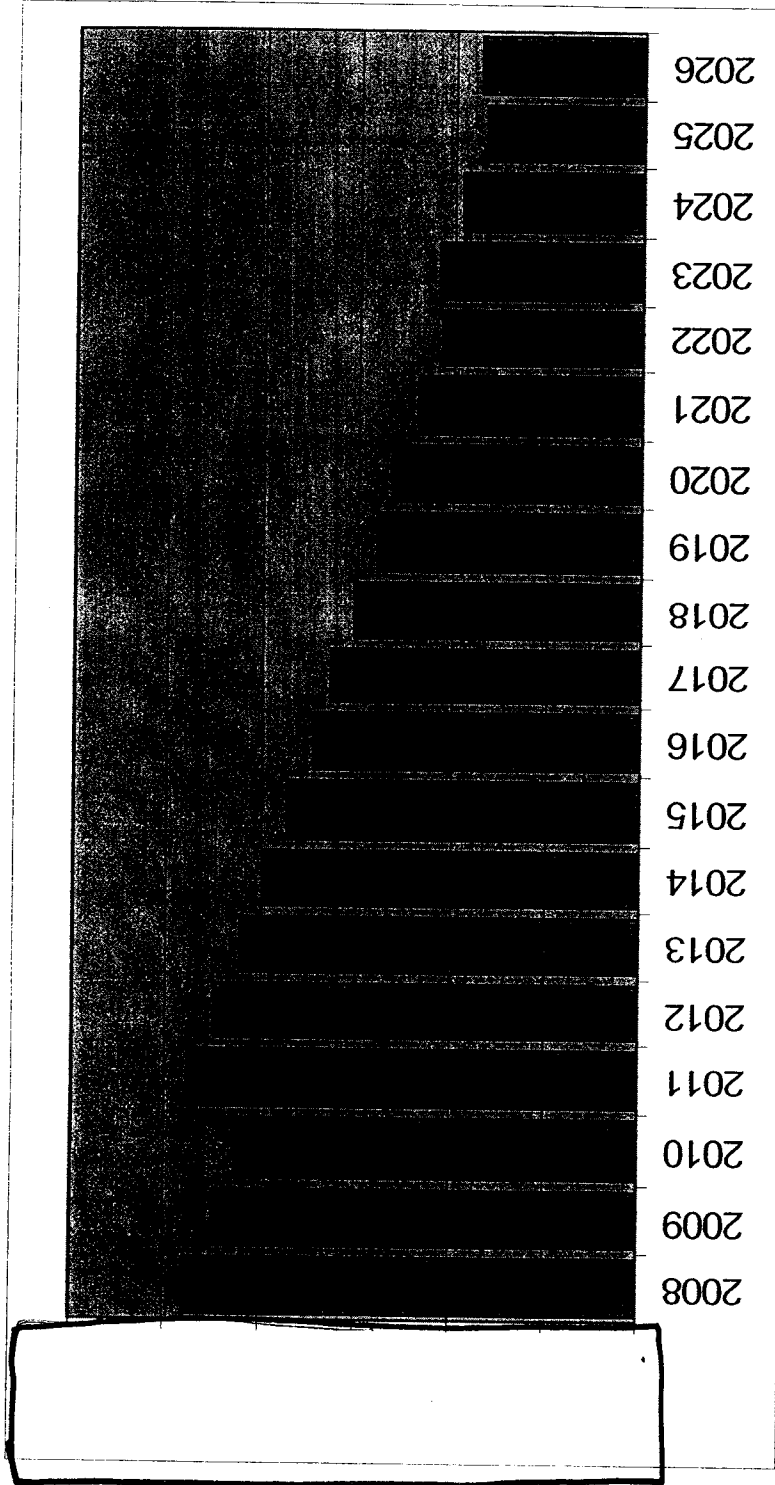
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Key Risks and Mitigation Measures

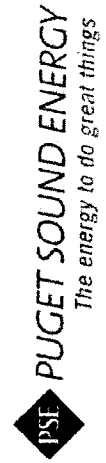
PRINCIPAL RISK		MITIGATION
Pre-Signing	- Failure to resolve outstanding commercial terms - Pre-signing risk; potential for Creditors Committee to disapprove the transaction	Transaction costs incurred to date are approximately \$500,000.
Bankruptcy Process	Risk of a "topping" bid	PSE will have the ability to overbid subject to its pre-determined bid limit. Transaction costs (and more) would be covered by the break-up fee in the event that PSE does not prevail in the auction process.
Post-Closing	Plant technical and financial performance	PSE's Thermal Asset Group will employ a self-managed maintenance plan to control costs and manage availability; Power Supply will absorb gas requirements as part of overall gas/electric portfolio strategy

Facility's Pro Forma Net Income

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PSE Board of Directors Meeting/November 3, 2006

Regulatory

- FERC and Hart-Scott-Rodino filings in November 2006
- Rate filing anticipated early 2007
 - ♦ Company needs will determine whether the filing is a General Rate Case or Power Cost Only Rate Case
 - ♦ Rates effective July or December depending on the filing
 - ♦ Accounting deferral petition may also be filed
 - ♦ Without deferral, PSE will incur unrecovered costs of \$11 - \$22 million, depending on when new rates go into effect
- Rate impact estimated to be approximately 2%

Next Steps

- Execute definitive agreements, the Membership Interests Purchase Agreement (“MIPA”), subject to Board approval for PSE and Calpine
 - ♦ Calpine Board of Directors’ Meeting scheduled for October 25th
 - ♦ If approvals are obtained, Calpine will file a motion for approval of bidding procedures with the Bankruptcy Court in mid-November
- Participate in public auction, if necessary

Goldendale's Value Proposition

- Opportunistic purchase; capital cost of a new CCCT is at least twice the cost of Goldendale
- Gas capacity becoming increasingly more valuable with little new base load generation being built
- As an existing facility, costs are known and quantifiable; inflationary EPC costs, gas costs, skilled labor and raw materials have resulted in 60% to 80% increases in new resource levelized costs from PSE's last RFP
 - ♦ Alternative resources such as [redacted] other new CCCT projects and wind are subject to price pressures

Text in box is Highly Confidential

Redacted

Highly Confidential
Per WAC 480-07-160

PSE Board of Directors Meeting//November 3, 2006

Board of Directors' Resolutions

**RESOLUTIONS OF THE BOARD OF DIRECTORS OF
PUGET SOUND ENERGY, INC.**

APPROVAL OF PURCHASE OF GOLDENDALE GAS-FIRED POWER FACILITY

WHEREAS, the Board of Directors of Puget Sound Energy, Inc. ("PSE" or the "Company") has determined that it is in the best interests of the Company, its customers, shareholders and other stakeholders to add energy resources into the Company's energy resource portfolio consistent with the Company's 2005 Least Cost Plan;

WHEREAS, the Company's review, analyses and evaluation of bids and responses to its 2005 Generation Resources Request for Proposal and of proposals independently identified, as regularly updated, have determined an existing natural gas-fired generating facility located in Goldendale, Washington and owned by Goldendale Energy Center, LLC ("GEC"), an affiliate of Calpine Corporation ("Calpine"), to be a least cost resource for additional energy resource generation;

WHEREAS, the Goldendale facility consists of an approximately 250 MW natural gas electric generation facility situated on approximately 41 acres of land located in the City of Goldendale, Klickitat County, Washington, gas delivery facilities, an electrical switchyard, certain nearby real property, and other facilities (collectively, the "Goldendale Facility");

WHEREAS, Calpine and GEC each filed and commenced cases under chapter 11 of the Bankruptcy Code, Title 11 of the United States Code (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), and Calpine and GEC have determined the sale of the Goldendale Facility to be in the best interest of each, provided that such sale be conducted in accordance with the relevant sections of the Bankruptcy Code under the auspices of the Bankruptcy Court;

WHEREAS, the Company's management has negotiated with Calpine and GEC the terms and conditions of a Membership Interests Purchase Agreement ("MIPA"), pursuant to which the Company would purchase from GEC all of its ownership interest in a new limited liability company to be formed by GEC ("New LLC"), to which GEC will transfer all of its right, title and interest in the Goldendale Facility and to which GEC will assign certain contracts and real estate rights;

WHEREAS, the purchase price for New LLC under the MIPA is \$100,000,000, less certain pre-agreed amounts to be paid by PSE to cure existing defaults of any assigned contracts (the "Purchase Price"), payable as follows: (1) an amount equal to 3.75% of the

Purchase Price payable upon execution, (2) an amount equal to 3.75% of the Purchase Price payable upon entry of the Sale Order (defined below) and (3) the balance payable upon closing;

WHEREAS, at or immediately following the closing, PSE will dissolve New LLC, with the result that all of the assets and liabilities of New LLC will become those of the Company;

WHEREAS, the MIPA and certain related matters are described more fully in a memorandum provided to the Board of Directors in advance of this meeting and filed with the minutes (the "Goldendale Facility Proposal"); and

WHEREAS, the officers now seek Board approval of and authority to enter into the MIPA and all other contracts and actions described in the Goldendale Facility Proposal and relating to the acquisition and operation of the Goldendale Facility.

IT IS, THEREFORE

RESOLVED, that the Board, after full consideration and due deliberation, deems it advisable and in the best interests of the Company, its customers, shareholders and other stakeholders to approve the acquisition and operation of the Goldendale Facility pursuant to the MIPA, and any related agreements and the other transactions described in the Goldendale Facility Proposal; and be it further

RESOLVED, that the Board hereby authorizes the Company's Chief Financial Officer, its Senior Vice President Energy Resources, its General Counsel, and any such other officers they deem appropriate (the "Authorized Officers") to execute the MIPA and all other agreements or contracts described in the Goldendale Facility Proposal, which may include such further additions, amendments or changes to the terms thereof as are deemed necessary and appropriate by the Authorized Officers; and be it further

RESOLVED, that the Authorized Officers are further authorized to waive any conditions precedent to the closing of the MIPA in order to facilitate the closing of such agreement, provided that each of the Authorized Officers agrees to such waiver and deems it to be in the best interest of the Company, its customers, shareholders and other stakeholders.

APPROVAL OF INCREASES OF THE PURCHASE PRICE FOR THE GOLDENDALE FACILITY IN CONNECTION WITH THE POSSIBLE AUCTION THEREOF

WHEREAS, Calpine and GEC intend to seek authorization from the Bankruptcy Court for the sale of the Goldendale Facility in accordance with the terms of the MIPA, and specifically will move the Bankruptcy Court to approve two orders: (1) an order specifying the bidding procedures to be employed in an auction open to third parties and required by the Bankruptcy Court (the "Bidding Procedures Order") and (2) an order

approving the final terms of sale as determined in the court-ordered auction (the "Sale Order") (the motions seeking entry of the Bidding Procedure Order and of the Sale Order being further described in the Goldendale Facility Proposal);

WHEREAS, in the event that any qualified third-party bidders in the court-ordered auction offer a purchase price for the Goldendale Facility that is at least \$3.6 million greater than the Purchase Price in the MIPA (this initial increment reflects a \$2.5 million break up fee payable to the Company under certain circumstances plus a \$1.1 million initial overbid amount set forth in the Bidding Procedures Order), the Company's management believes and this Board of Directors agrees that a purchase of the Goldendale Facility remains in the best interest of the Company, its customers, its shareholders and other stakeholders, at an increased purchase price consistent with the range reflected in the Goldendale Facility Proposal filed with the minutes hereof (the "Potential Auction Price"); and

WHEREAS, the Authorized Officers now seek Board approval of and authority to bid up to the Potential Auction Price during the bankruptcy auction if circumstances so warrant.

IT IS, THEREFORE

RESOLVED, that notwithstanding the terms of the MIPA, in the event that during the course of the bankruptcy auction required by the Bidding Procedures Order the purchase price for the Goldendale Facility exceeds that set forth in the MIPA, it remains in the best interests of the Company, its customers, shareholders and other stakeholders for the Company to offer and pay up to the Potential Auction Price to acquire the Goldendale Facility; and be it further

RESOLVED, that the Board hereby authorizes the Authorized Officers to increase the Purchase Price under the MIPA up to the Potential Auction Price if so necessary.

GENERAL AUTHORITY

AND IT IS FURTHER

RESOLVED, that any and all actions taken by the officers of the Company, or any of them, as deemed by such officers to be necessary or advisable to effectuate the transactions contemplated by the foregoing resolutions, including the filing of appropriate documentation with the WUTC, whether prior to or subsequent to this action by this Board of Directors, are hereby authorized, approved and ratified, and the taking of any and all such actions and the performance of any and all such things in connection with the foregoing shall conclusively establish such officers' authority therefor from the Company and the approval and ratification thereof by this Board of Directors.

Exhibit 1
Summary of Principal Agreements

PSE Board of Directors
November 3, 2006

Exhibit 1
Summary of Principal Agreements

Acquisition of the Goldendale Combined Cycle Generation Facility

- PSE will acquire all of the membership interests of a limited liability company ("New LLC") to be formed by Goldendale Energy Center, LLC ("GEC"), an affiliate of Calpine Corporation ("Calpine"). GEC will contribute to New LLC, and New LLC's sole activity, and sole assets, will relate to a 250 MW natural gas-fired electric generation facility situated on approximately 42 acres of land located in the City of Goldendale, Klickitat County, Washington, and associated gas delivery facilities, an electrical switchyard, certain adjacent real property and other related facilities (collectively, the "Goldendale Facility").
- GEC and Calpine each filed cases under chapter 11 of the Bankruptcy Code, Title 11 of the United States Code (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), and Calpine and GEC have determined the sale of the Goldendale Facility to be in the best interest of each, provided that the sale be conducted in accordance with the relevant sections of the Bankruptcy Code under the auspices of the Bankruptcy Court.
- Pursuant to a **Membership Interest Purchase Agreement ("MIPA")**, PSE will acquire sole ownership of all limited liability company membership interests of New LLC, thereby acquiring all real, personal and intangible property owned by New LLC relating to the Goldendale Facility as of the closing date (estimated to be approximately March 1, 2007). PSE's purchase price for New LLC is \$100,000,000, less certain pre-agreed amounts paid by PSE to cure defaults of assigned contracts (the "Purchase Price"), payable as follows: (i) an amount equal to 3.75% of the Purchase Price payable upon execution of the MIPA, (ii) an amount equal to 3.75% of the Purchase Price payable upon entry of the Sale Order, and (iii) the balance of the Purchase Price payable upon closing. PSE is not obligated to close until after entry by

PSE Board of Directors
November 3, 2006

Exhibit 1
Summary of Principal Agreements

the Bankruptcy Court of the Sale Order and approvals and satisfaction or waiver of conditions precedent specified in the MIPA.

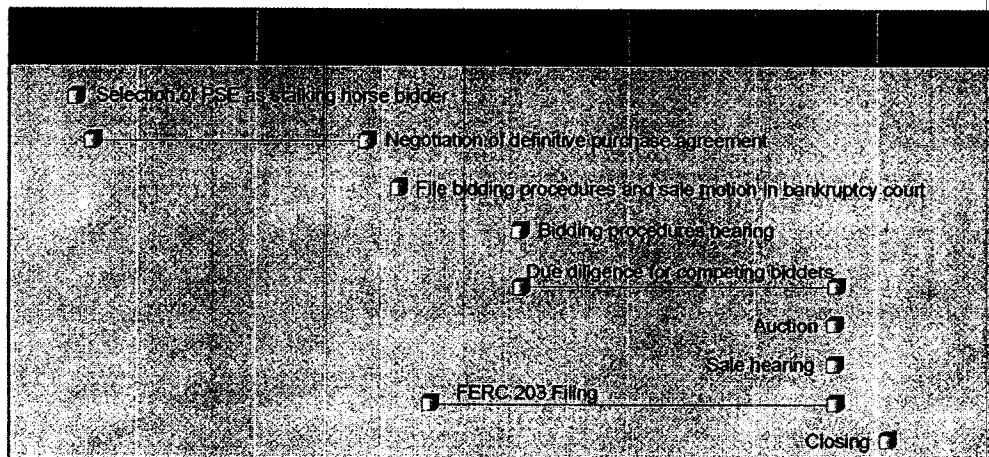
- Because of Calpine's and GEC's status as Chapter 11 debtors-in-possession, certain ***Bankruptcy Procedures*** will be followed once the parties sign the MIPA. Because one of the obligations of the Bankruptcy Court is to help maximize the possible return to Calpine's creditors, the Bankruptcy Court will require that the MIPA serve as a "stalking horse" bid. In effect, the negotiated purchase price in the MIPA will serve as the floor in a court-ordered auction. The mechanics of this process are set forth in two motions negotiated by GEC and PSE and filed by GEC with the Bankruptcy Court. The first motion seeks approval of the sale of the Goldendale Facility in accordance with the terms of the MIPA. The second motion seeks approval of various rules and procedures that will govern the court-ordered auction. Within a month of filing the motions, at a Bidding Procedures Hearing, the Bankruptcy Court will set a date for the auction, which will likely occur after allowing other potential bidders a 30 to 60 day diligence period. At the conclusion of this diligence period, the auction will take place, open to qualified bidders who follow the court-approved bidding procedures (set forth in the "Bidding Procedures Order," these rules cover overbid protections, minimum bidding increments, and other matters).
- At the court-ordered auction, qualified bidders will be permitted to outbid the purchase price in the MIPA. If no bidder outbids the stalking horse bid in the MIPA or if PSE is the high bidder in the auction, PSE can proceed with the transaction. If PSE is outbid, PSE will receive a break-up fee of \$2.5 million upon the closing of the topping bid transaction and the MIPA will be terminated. The highest and best offer resulting from the auction will subsequently be ratified and approved by the Bankruptcy Court at a Sale Hearing, held within a week of the auction.

PSE Board of Directors
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Exhibit 1
Summary of Principal Agreements

- Entry by the Bankruptcy Court of a Sale Order is a condition precedent to the closing of the transaction contemplated in the MIPA. Closing can occur once the Bankruptcy Court enters a Sale Order in favor of PSE, and once all other conditions precedent, such as FERC 203 approval, have been met.
- The following diagram illustrates the timing of the bankruptcy process affecting this transaction:

Calpine Bankruptcy Process



Note: Timing is best estimate.

- Set forth below is a synopsis of the principal terms of the major documents with respect to the proposed transaction, based on the status of parties' negotiations to date.

Membership Interest Purchase Agreement

- The MIPA sets out the structure by which the proposed transaction will take place and the terms and conditions with respect to its consummation.
- Transaction Structure. The MIPA contemplates that, at the closing, GEC as the sole holder of membership interests of New LLC will sell, and PSE will purchase, all issued and outstanding membership interests of New LLC.

PSE Board of Directors
November 3, 2006

Exhibit 1
Summary of Principal Agreements

Immediately after closing, New LLC will be dissolved and all of its assets and obligations will become those of PSE.

- Purchase Price. Pursuant to the terms of the MIPA, PSE will pay a purchase price of \$100,000,000, less certain pre-agreed amounts paid by PSE to cure defaults of assigned contracts (the "Purchase Price"), payable as follows: (i) an amount equal to 3.75% of the Purchase Price payable upon execution of the MIPA, (ii) an amount equal to 3.75% of the Purchase Price payable upon entry of the Sale Order, and (iii) the balance of the Purchase Price payable upon closing. Because the negotiated purchase price is subject to being outbid in the court-ordered auction, the ultimate purchase price payable by PSE should PSE be the high bidder, may be increased beyond the amount set forth in the MIPA up to [REDACTED]. As discussed in more detail below, in the event that PSE is outbid at the auction and does not purchase the Goldendale Facility, GEC is obligated to pay PSE a break-up fee of \$2.5 million.
- All Assets Transferred and All Liabilities Assumed. As an entity purchase, PSE will acquire all assets and assume all liabilities of New LLC, which will be formally dissolved immediately after closing.
- Representations and Warranties. The MIPA contains representations and warranties typical for transactions of this type and taking place under the supervision of bankruptcy courts. Among other things, GEC represents and warrants to PSE with respect to:
 - Organization of GEC and New LLC and enforceability of the MIPA;
 - The fact that the MIPA does not violate or breach any agreement by which GEC is bound and that GEC is in material compliance with all applicable laws;
 - The consents required by GEC to consummate the transaction;
 - The material contracts to which GEC is a party;

PSE Board of Directors
November 3, 2006

Exhibit 1
Summary of Principal Agreements

- The material permits obtained by GEC;
- Environmental matters, tax matters and employee matters;
- The real property and personal property to be transferred by GEC to New LLC;
- GEC's regulatory status with respect to authority to sell power at market-based rates.

Among other things, PSE represents and warrants to GEC with respect to:

- Organization of PSE and enforceability of the MIPA;
- The fact that the MIPA does not violate or breach any agreement by which PSE is bound;
- The fact that PSE will have funds sufficient to consummate the transaction at closing;
- The adequacy of PSE's analysis, due diligence and review of the assets and liabilities to be acquired in the transaction;
- The consents required by PSE to consummate the transaction.

- Covenants. The parties have agreed to various covenants in the MIPA.

Among others, the parties have agreed to:

- Use commercially reasonable efforts to obtain all regulatory approvals and third-party consents necessary to consummate the transaction.

In addition to the foregoing, GEC has covenanted, as follows, to:

- Provide PSE with reasonable access to its books and records and to the Goldendale Facility prior to closing;
- Not make, without PSE's prior consent, any material changes to the assets to be purchased, incur or permit to exist any liens on the assets to be purchased, amend any material terms of any contract or similar agreement, or enter into any material transaction other than in the ordinary course;

PSE Board of Directors
November 3, 2006

Exhibit 1
Summary of Principal Agreements

- Use commercially reasonable efforts to obtain entry by the Bankruptcy Court of the Bidding Procedures Order and the Sale Order;
- Deliver to PSE a survey of each parcel of real property and a title policy; and
- Not to reject any contracts otherwise to be assigned to New LLC without PSE's prior written consent.

In addition, PSE has covenanted, as follows, to:

- To the extent requested by the Bankruptcy Court, and with respect to each contract assigned by GEC to New LLC, use commercially reasonable efforts to provide the Bankruptcy Court, GEC or such counterparty adequate assurance of the future performance of such contract by PSE;
 - Cure any and all defaults under the contracts to be assigned by GEC to New LLC (such cure amounts are anticipated to total an aggregate of \$425,000)¹;
 - Use commercially reasonable efforts to effect a full and unconditional release of GEC from all support obligations to which GEC is currently subject, such as by furnishing replacement letters or credit on substantially similar terms, posting performance bonds, providing substitute guaranties, or otherwise;
 - Promptly after closing, use commercially reasonable efforts to remove from the Goldendale Facility all Calpine trade or dress marks.
- Conditions to Closing.

The MIPA contains several conditions to closing in favor of PSE and/or GEC. Conditions to closing in favor of all parties include that:

¹ Should additional cure amounts become knowable after execution of the MIPA, PSE and GEC will share equally in such additional amounts up to a total of \$300,000. If the excess cure costs exceed \$300,000, PSE would not be obligated to close the transaction.

PSE Board of Directors
November 3, 2006

Exhibit 1
Summary of Principal Agreements

- The representations and warranties of the other party or parties are true and correct in all material respects as of the closing;
- Each other party has performed its obligations under the MIPA in all material respects;
- No orders or laws shall be in effect restraining or prohibiting the transaction;
- No material adverse effect with respect to any party shall have occurred;
- The Bidding Procedures Order and the Sale Order, substantially in the form submitted to the Bankruptcy Court, shall have been entered by the Bankruptcy Court and shall have become final;
- Certain tax rulings requested by each of PSE and GEC shall have been obtained and remain in full force and effect; and
- The applicable waiting period for the transaction under applicable antitrust laws shall have expired or terminated.

In addition to the foregoing, the MIPA contains conditions to closing that run in favor of GEC, including that:

- PSE shall have cured any and all defaults under the contracts to be assigned and otherwise have provided all assurances of future performance required to be provided;
- Certain existing support obligations shall have been terminated and released; and
- PSE shall have delivered the purchase price and the other deliverables required of it.

Further, the MIPA contains conditions to closing that run in favor of PSE, including that:

- The Bankruptcy Court shall have approved the assumption and assignment of certain specified contracts to New LLC;

PSE Board of Directors
November 3, 2006

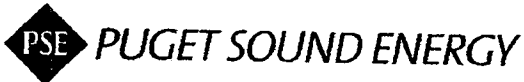
Exhibit 1
Summary of Principal Agreements

- PSE shall have received from the Federal Energy Regulatory Commission authorization of the transfer of the Goldendale Facility under Section 203 of the Federal Power Act; and
- PSE shall have received a binding commitment from a title insurance company for the issuance of a title insurance policy.

The closing is not conditioned on the prior approval of the acquisition by the WUTC.

- Indemnification. The MIPA provides no right of indemnification to either party with respect to any claims arising out of the transactions contemplated by the MIPA.
- Termination. In addition to voluntary termination provisions, the MIPA provides that it shall terminate automatically under certain circumstances, including the following: (1) by PSE at its option, if the Bidding Procedures Order has not been entered and become final within sixty days of the date of the MIPA's execution; (2) by PSE, if a Sale Order has not been entered and become final within ninety days of the entry of the Bidding Procedures Order; (3) by PSE, at any time after the date that is 270 days following the execution date in the event that the closing shall not have occurred by such date (the "Termination Date"); (4) and by one or either party under certain other limited circumstances.
- Break-Up Fee. In the event that the MIPA is terminated due to GEC's entering into an alternative transaction for the Goldendale Facility with a third-party buyer, GEC will return PSE's deposit plus interest and will pay PSE a break-up fee of \$2.5 million. The break-up fee is the exclusive remedy available to PSE in the event of a sale of the Facility by GEC to another party.

Exhibit 2
Letter of Intent, August 22, 2006



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.

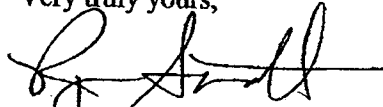
This letter (including the attached Term Sheet) (1) is not an offer or a commitment on the part of PSE, (2) constitutes a non-binding statement of PSE's intentions with respect to the Proposed Transaction and (3) may be withdrawn by PSE upon prior written notice to Calpine. It does not contain all matters 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
Page 2 of 2
August 18, 2006

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.

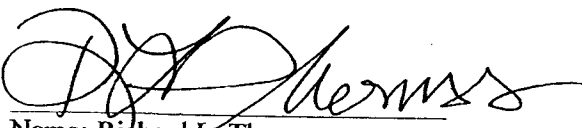
Very truly yours,



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

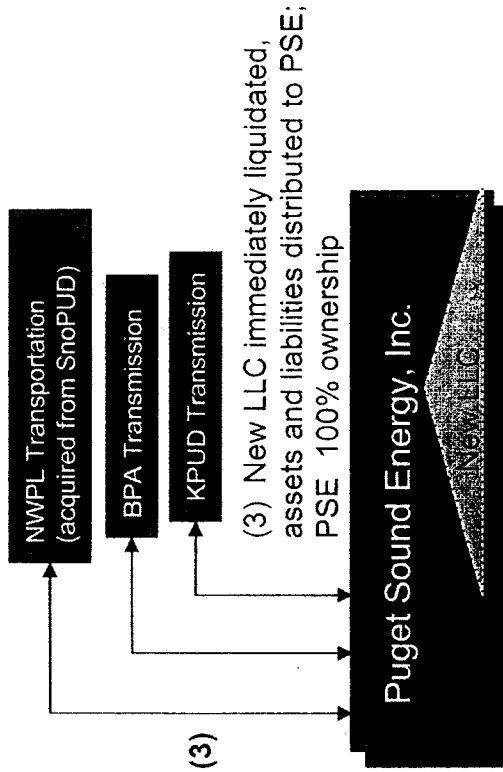
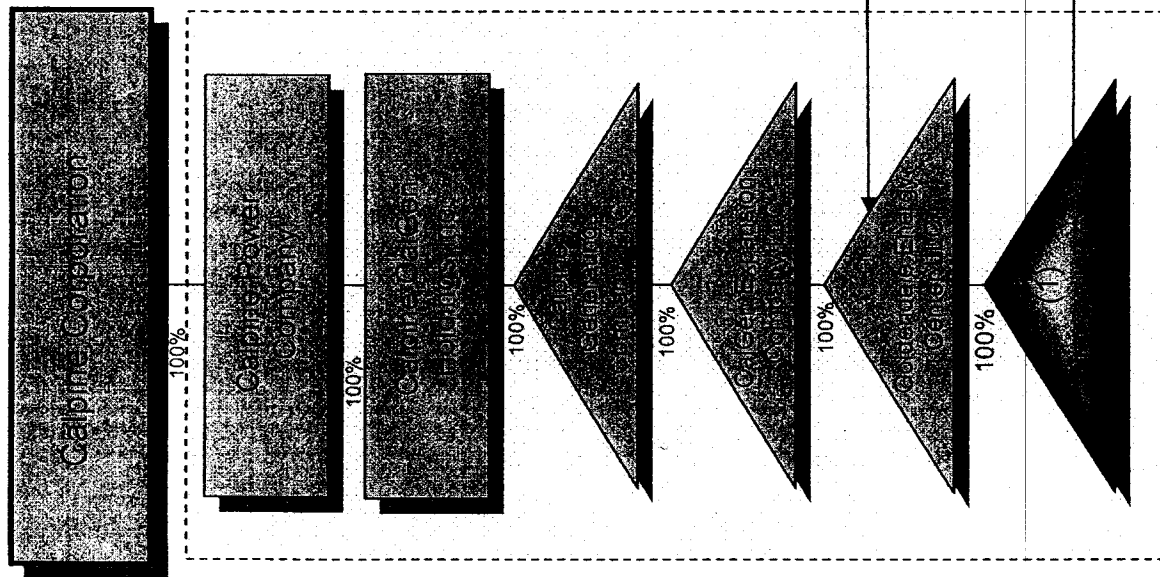
	applicable third party consents regarding assignment of contracts and permits.
Representations, Warranties and Covenants	The Definitive Agreements would contain standard representations, warranties and covenants by the Calpine Parties and PSE for bankruptcy sale transactions similar to the Proposed Transaction. 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 " <u>Bankruptcy Court</u> "), 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.

Exhibit 3
Transaction Structure

Transaction Structure

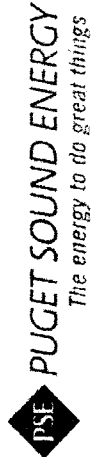


100% Interest in New LLC

Membership Interest
Purchase Agreement

(1) At or before the closing, GEC contributes all assets associated with ownership and operation of the Facility ("drop down structure")

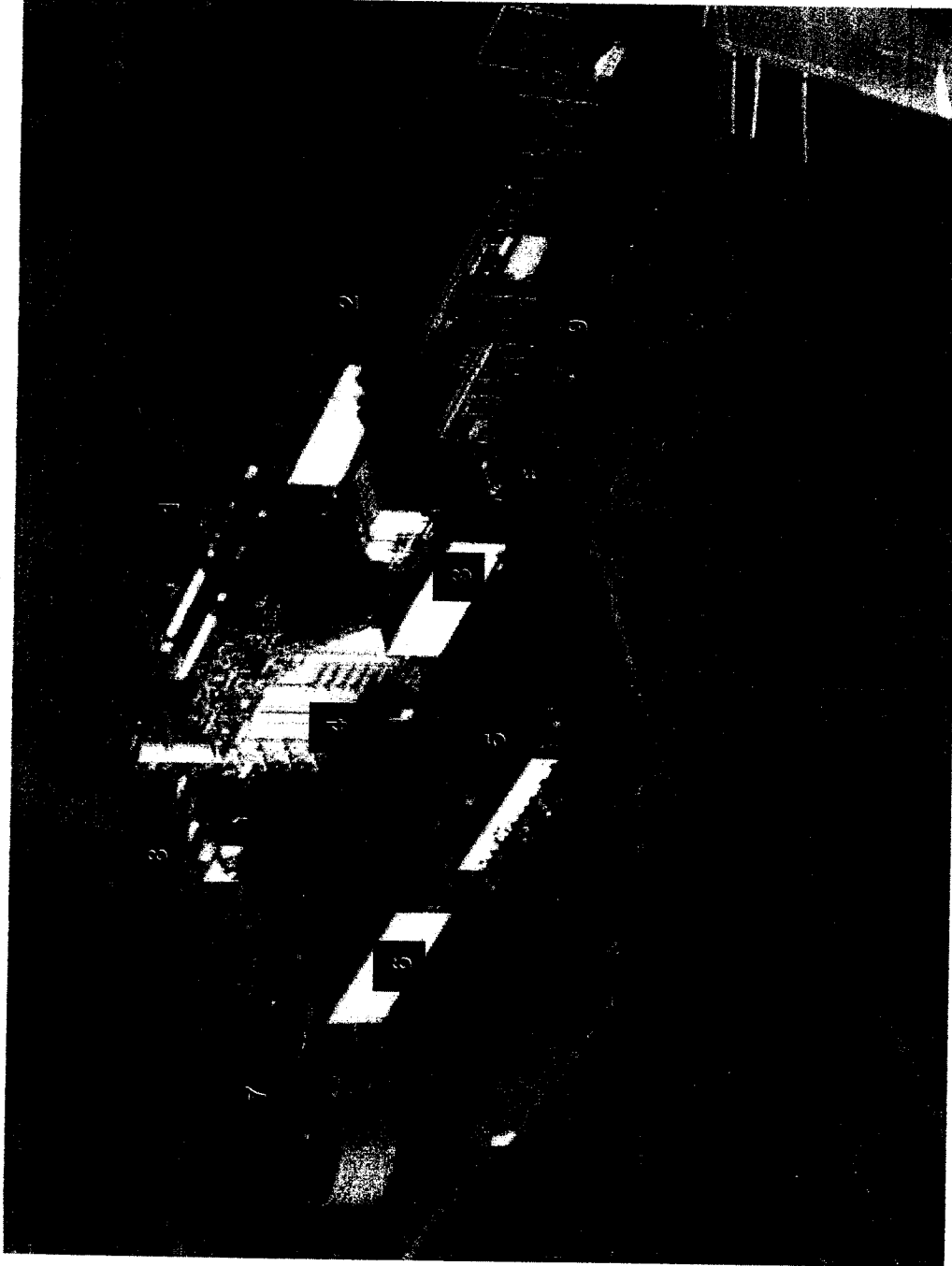
(2) Immediately following Transaction 1, PSE purchases 100% of the membership interests of New LLC



PSE Board of Directors, Exhibit 3 / November 3, 2006

Exhibit 4
Facility Description

277-MW Natural Gas-Fired CCCT



1. Air-Cooled Condenser
2. Steam Turbine and Generator
3. Gas Turbine and Generator
4. HRSG
5. Administration Building
6. Water Treatment Building
7. (2) 2.5 million gallon water tanks
8. Wet Cooling Tower
9. Transformers & Switchyard



PUGET SOUND ENERGY
The energy to do great things

PSE Board of Directors, Exhibit 4 / November 3, 2006

Facility Overview

Commercial: September 2004

Location: West of the City of Goldendale, WA; Goldendale Industrial Park

Size: 252 MW natural gas-fired combined cycle plant; incremental 25 MW duct fire capability

Heat Rate: [REDACTED] Text in Box is Confidential

Technology: 1x1; GE 7FA turbine (Model 7241); Hitachi HRSG w/ duct burner; 90-MW Hitachi steam turbine; 115-MW Siemens generator; hybrid wet/dry cooling

Fuel: [REDACTED] i/d (w/ duct fire) Text in Box is Confidential

Gas Transport: NWPL 5.1 mile lateral (50,350 Dth/d); NWPL mainline transportation to be acquired by PSE from SnoPUD

Transmission: 315 MW Klickitat PUD to BPA Harvalum Substation (contract term through June 2032) 250 MW from BPA Harvalum to Mid-C (contract term 2004-2023)

Water Supply: 30-year agreement with the City of Goldendale. Sanitary and wastewater discharged to City of Goldendale sewer system; stormwater is directed to drainage ditch across the facility to 2 detention ponds

Operation: 170 starts; 8,445 hours of operation (Sept 04 - Sept 06)

O&M: No Long Term Service Agreement (O&M will be performed by PSE)

Levelized Cost: [REDACTED] all-in capital cost) Text in box is Highly Confidential
(based on August '06 gas update)

Gas Cost: [REDACTED] 20-year levelized cost) Text in Box is Confidential

REDACTED

Confidential and Proprietary

Exhibit 5

Goldendale Facility Stand-Alone Financial Pro Forma

PSE Board of Directors
November 3, 2006

Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

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Facility Stand-Alone Financial Pro Forma

Facility Description:

The Facility, to be described further herein, consists of the permits, real estate rights, interconnection agreements, and other necessary rights and agreements to own and operate a 277 MW GE 7FA Combined Cycle Combustion Turbine (the "Facility") located in Klickitat County, WA. The all-in cost to acquire the Facility is approximately million.¹

Text in box is Highly Confidential

Facility and Transaction: Basic Assumptions and Definitions:

Facility:	The Goldendale Energy Center 277 MW Combined Cycle Combustion Turbine Generation Facility located in Klickitat County near Goldendale Washington ("the Facility")
Seller:	Goldendale Energy Center LLC, indirect wholly owned subsidiary of Calpine Corporation ("Seller")
Owner:	PSE (at closing)
Timing and Nature of Acquisition:	PSE is negotiating a binding Membership Interest Purchase Agreement ("MIPA") with the Seller as a "Stalking Horse" bid pursuant to a Form 363 sale under the U.S. Bankruptcy Code. Assuming execution of the MIPA, and no topping bids in a subsequent auction PSE would acquire all of the ownership interests in the Facility at closing.
Closing:	March 2007 (estimated date)

Highly Confidential

Per WAC 480-07-160

Redacted

¹ The all-in cost of \$106 million assumes the Company successfully acquires the Facility at a price payable to Calpine of \$100 million less cure costs, consistent with its stalking horse bid. In the second stage auction, The Company is prepared to increase its bid figure as described in the complete Board Memo.

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Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

Description of Plant:

COD: September 2004

Location: In the City of Goldendale, WA in the Goldendale Industrial Park in Klickitat County, WA.

Output: 252 MW combined cycle plant with an incremental 25 MW duct fire capability

Capacity Factor: Approximately [REDACTED] Text in box is Highly Confidential

Technology: One (1) GE 7FA combustion turbine (Model 7241) and generator
One (1) Hitachi Heat Recovery Steam Generator ("HRSG") with duct burner
One (1) 90 MW Hitachi steam turbine
One (1) 115 MW Siemens generator
Hybrid wet/dry cooling system

Heat Rate: Primary Firing: [REDACTED] (degraded)
Duct Firing: [REDACTED] (incremental basis) Text in Box is Confidential

Gas Requirements: [REDACTED] (with duct fire) Text in Box is Confidential

Gas Transportation: Firm capacity will be purchased for the primary firing and approximately half of the duct firing requirement, with non-firm capacity used for the remaining duct firing requirement.

Transmission: Transmission from the Facility to PSE's service territory has three transmission wheels:
1) 315 MW Klickitat PUD to BPA Harvalum Substation (term through 2032).
2) 250 MW from BPA Harvalum to Mid-C (contract term 2001-2024 plus renewal rights). Short term firm and non-firm transmission will be used for generation in excess of 250 MW.
3) PSE's BPA Cross Cascades transmission from Mid-C to PSE's service territory.²

Water Supply: 30-year agreement with the City of Goldendale. Sanitary and

² BPA is currently reviewing its policies for granting transmission redirects. In that review, BPA is contemplating approval of redirects within the network. If this policy is enacted, PSE would request a redirect from Harvalum to the PSE load center and would not require the third wheel.

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Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

wastewater discharged to City of Goldendale sewer system; storm water is directed to drainage ditch across the facility to two detention ponds

Operation to Date: 170 starts (Sep 2004 - Sep 2006); 8445 hours of operation

Real Estate: The Facility's real estate assets consist of four parcels of contiguous property totaling 183.16 acres. Within the borders of the Facility, an electrical switchyard, 4.04 acres in size, is owned by Klickitat County PUD. The Facility sits upon three parcels totaling 41.65 acres. These three parcels both benefit from and are and burdened by various easements. A 30 foot wide easement over and across the property is appurtenant to the Klickitat switchyard property. In addition, Northwest Pipeline has a 75 foot wide easement along the south border of the Facility terminating at a 100 foot by 100 foot gas metering station within the borders of the 41.65 acres site; the metering station also occupies the property via an easement.

On the Facility's south is a 141.51 acre vacant parcel that is residentially zoned and currently owned by Seller. It will be transferred to PSE at the closing. The Facility is bordered on the east by City of Goldendale Industrial lands. The Facility is bordered on the west by existing improved rural residential housing.

The Projection:

This document and its exhibits (the "Projection") illustrate the projection of financial results to PSE from its investment in the Facility. Included in the Projection are pro forma financial statements illustrating operation of the Facility through the year 2026 and a description of the data and assumptions used to derive them. Although the Facility will be acquired and owned by PSE directly, the financial statements are presented for clarity as though the Facility were a wholly-owned subsidiary that would be consolidated on PSE's books.

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**Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma**

Capital Costs – Summary

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Facility Purchase Price	
Real Estate Excise Tax (REET)	
Facility Improvements	
Additional Roof Construction	
Computer Maintenance Management System (CMMS)	
Reheat Bypass Piping	
Security Upgrades	
IT Infrastructure	
Transaction & Due Diligence	
Documentation / Bankruptcy	
Permitting	
Real Estate Due Diligence	
Technical Due Diligence	
PSE Labor	
PSE Expenses	
Hart-Scott Rodino filing (50%)	
Title Insurance (50%)	
Property Taxes	
AFUDC	
Total Capital Expense	

Text in Box is Confidential

Facility Purchase Price: PSE will purchase all assets associated with the Goldendale Energy Center.³

Real Estate Excise Tax: The Real Estate Excise Tax ("REET") is a Washington State tax levied on the portion of property classified as "real" in which a controlling interest of the property is transferred. The combined tax rate for Klickitat County and Washington State is 1.53%. Seller will bear [REDACTED] of this cost. For the calculation of the REET 80% of the property is assumed as real.

Facility Improvements: Facility improvements are funds to bring the roof into insurance compliance, a computer maintenance and management system ("CMMS"), security upgrades and integration with PSE's IT infrastructure.

REDACTED

³ See footnote 1.

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Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

Transaction
and Due
Diligence:

Transaction and due diligence costs are PSE's internal costs for due diligence and negotiations, title insurance, third party expert consultants and legal fees associated with the transaction.

AFUDC:

Allowance for funds used during construction ("AFUDC") is applicable in this acquisition to all funds expended prior to closing, which include the deposit, payable into escrow and transaction and due diligence costs.



PSE will pay an option fee for the 400 day option to purchase the [REDACTED] This fee is prorated down from its full \$150,000 cost if exercised earlier. However, for this Projection it has been included at the full amount.

Property Tax:

In Washington State, property is assessed at the end of each calendar year with taxes paid in April and October of the following year, in arrears. It is customary in real estate transactions in Washington for property taxes to be prorated based on taxes payable in the year of closing. Since PSE utilizes accrual accounting, the property taxes paid by it subject to the proration as well as those taxes in the following calendar year contributable, for the period until one year from closing are capitalized.

REDACTED

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Facility Stand-Alone Financial Pro Forma

REDACTED

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Revenues:

Revenue Requirement: The Projection calculates revenues required to recover Facility costs, including return on assets included in the rate base, as well as fixed and variable operating expenses. Recovery of major maintenance expenses is calculated by dividing the total generation of the Facility by the total nominal cost of maintenance. This rate, calculated at [REDACTED] is multiplied by the annual generation. Thus for the 20 year life of the Facility, both the major maintenance expense and the major maintenance recovery equal [REDACTED] but on a year to year basis, PSE may under collect or over collect. This methodology is consistent with that used on the Frederickson 1 combined cycle plant.

The revenue requirement calculation assumes complete cost recovery and no regulatory lag. At the same time as its rate recovery filing, PSE may ask for an accounting order to defer costs from closing until completion of the rate case, so as to minimize regulatory lag.

Annual Capacity Factor:

The Projection uses PSE's Portfolio Screening Model ("PSM") in its "Current Trends" scenario to derive plant capacity factor for each of the 20 years in the analysis period. The 20 year average capacity factor is [REDACTED]. The underlying gas price projection uses Global Insight August 2006 forecast for gas delivered at Sumas. Dispatch related (variable) costs from the Projection drive the dispatch decision, which compares the marginal cost to fire the plant to the market price for power. If the plant is "in the money" during a given hour, it will dispatch at full capacity. Market power prices are calculated using PSE's Aurora model. PSM also takes into account forced outage projections, estimated at 2.5%, as well as the following 3-year planned outage cycle.

Annual Energy: Annual Energy is equal to the Net Capacity Factor multiplied by the Capacity multiplied by 8760 (365 x 24) hours.

REDACTED

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Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

Fixed Costs:

Inflation: Both fixed and variable costs are escalated over time by using Global Insight's projected inflation. Global Insight is a well respected firm providing macro economic data to the power industry and is consistent with PSE's IRP and load growth estimations. Global Insight's inflation projection is as follows:

Year	Inflation
2006	
2007	
2008	
2009	
2010	
2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018	
2019	
2020	
2021	
2022	
2023	
2024	
2025	
2026	

Fixed Gas
Transportation:

REDACTED

E5 - 12

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PSE Board of Directors
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Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

To compensate PSE's gas book, the electric book will pay the gas book a \$250,000 per year demand charge for exchange. The calculation methodology is as follows:

PSE gas book buys [REDACTED] per day of Rockies-sourced gas at a \$0.20 premium to Sumas for 30 days per year. ($42,500 \times \$0.20 \times 30 = \$250,000$). For perspective, during 2001-2004, there were 8 days total where PSE had less than 50,000 MMBtu flowing to its city gate from Rockies and/or AECO. WUTC Staff have indicated their support for this approach. An accounting petition can be filed and approved as documentation. This expense is escalated annually at Global Insight's projected inflation rates.

Typical Year Calculations:

Fixed Gas Transport		2008	2015
A	Firm Gas Capacity (MMBtu/d)		
B	Firm Gas Demand Charge (\$/MMBtu)		
C	Non-Firm Gas Capacity (MMBtu/d)		
D	Non-Firm Pipeline Capacity (\$/MMBtu)		
E	Duct Firing Capacity Factor		
	Total Demand Charge (\$ / yr)		
F	$(A \times B + C \times D \times E) \times 365$		
G	Payment to Gas Book		
H	Lateral Charge		
	Total Fixed Gas Transport Expense (F + G + H)		

Fixed
Transmission:

Firm transmission capacity for the Facility is comprised of three wheeling segments.

- 1) The Facility interconnects to and wheels through Klickitat County PUD ("KPUD") to BPA's Harvalum Substation
- 2) The Facility wheels on the BPA system from Harvalum to the Mid-Columbia pursuant to a transmission service agreement that will be transferred to PSE from Goldendale Energy Center at closing
- 3) The Facility will wheel on the BPA system from the Mid-Columbia to the PSE load center utilizing PSE's existing cross-cascades transmission.

A fixed-price contract for firm capacity through KPUD is in place through

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Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

June 2032 and this contract is part of the assets PSE will acquire in this transaction. Currently Seller must post a Letter of Credit for approximately \$7 million for this contract. It is assumed that PSE will take on this obligation at a cost of basis points for a cost in 2008 of [REDACTED]. The Letter of Credit will have a declining balance over the term of the KPUD agreement. Annual payments to KPUD are as follows:

KPUD Transmission Contract	
Year	Annual Payment
2007	
2008	
2009	
2010	
2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018	
2019	
2020	
2021	
2022	
2023	
2024	
2025	
2026	

From KPUD, an existing firm transmission services agreement with BPA for delivery from Harvalum to the Mid-Columbia runs through October 2024.

Ancillary services will be purchased from BPA as well. Until September 2007, BPA will pay the Facility \$95,535 per quarter for its reactive power and after that time the Facility will not be required to pay for a Reactive Power ancillary service from BPA. In 2007, the value of the payment from BPA is deducted from the transmission expense.

All transmission expenses are escalated annually at Global Insight's projected inflation rates. Below is a breakdown of all fixed transmission costs for 2008:

REDACTED

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Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

Fixed Transmission Details		\$/kW-year	2008 Expense
A	BPA Harvalum-Mid C Wheel	\$ 15.61	
B	BPA Scheduled	\$ 2.61	
C	Capacity Factor (Duct Firing Only)		
	DF Short Term Firm Harvalum-Mid C		
D	(A + B) x C x 25 MW	\$ 1.05	
	% of Project Energy Over Cross-Cascades		
E	North		
F	Capacity Factor (Primary & DF)		
	Cross-Cascades Expense		
G	A x F x G x 277 MW		
H	KPUD Contract		
I	KPUD Letter of Credit		
J	BPA Reactive Pwr Payment to PSE		
	Total Fixed Transmission Cost		
	A + B + D + G + H + I + J		

General and
Administrative
Expense:

General and administrative expenses are shown below for a typical operating year. These expenses are escalated annually at Global Insight's projected inflation rates.

General Expenses	2008
Community Relations	
Memberships	
General and Administrative	

REDACTED

PSE Board of Directors
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Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

Fixed
Operations
Expense:

Operations expenses are shown below for a typical operating year. These expenses are escalated annually at Global Insight's projected inflation rates.

Fixed Operations Expense	2008
Consumables, Operations	
Office Machines & Furniture	
Office Supplies	
Recognition	
Telephone Services	
Travel	
Computers, Hardware	
Computers, Software	
Employee Training & Conferences	
Freight / Postage / Shipping	
Janitorial Services	
Legal Fees	
Licenses & Permits, Administration	
Hardware, Operations	
Hazardous Waste Disposal	
Lab Supplies	
Licenses & Permits, Operations	
Professional Services - Operations	
Regulatory Expenditures	
Safety Supplies	
Site Equipment	
Site Services (Maintenance of Site)	
Software, Operations	
Vehicle Fuel	
Low Sulfur Fuel Obligation	
Vehicle Maintenance	
Fixed Power Expense	
Sales Tax	
Wages & Benefits (Oper. & Maint.)	
Fixed Operation Expense	

REDACTED

PSE Board of Directors
November 3, 2006

**Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma**

Property Tax: The Washington Department of Revenue ("DOR") combines three methods to arrive at PSE's annual tax on personal property, two of which involve evaluating PSE's market value based on stock price and PSE's earnings, respectively. Since it is not possible to estimate PSE's future financial or stock performance, the method used in the Projection applies DOR's discount factor approach which divides PSE assets' net book value of personal property (original book value minus accumulated depreciation) by the original book value. The result is an annually varying discount factor, set at 50% for personal property in the Projection.

The personal property tax is calculated by multiplying this discount factor by the Klickitat County estimated mil rate of \$12.46 per \$1,000 of assessed value. The real property tax is calculated by multiplying Klickitat County's real property adjustment of 85% by the same mil rate of \$12.46 per \$1,000 of assessed value. The acquisition cost of [redacted]; estimated to be comprised of [redacted] in personal property and [redacted] in real property.⁴

Property is assessed on January 1st, with payment due the following year in two equal installments, in the months of April and October. The Projection illustrates property taxes on an accrual basis, consistent with PSE's accounting practices.

Cost calculation for a typical year:

Property Tax Expense	
Real Property	\$ [redacted]
Klickitat Cty Real Property Adjustment	85%
Klickitat Cty Prop Tax Mil Rate (\$ / \$1000)	\$ 12.46
Real Property Tax	\$ [redacted]
Personal Property	\$ [redacted]
PSE Centrally Assessed Personal Property	
Discount Factor	50%
Klickitat Cty Prop Tax Mil Rate (\$ / \$1000)	\$ 12.46
Personal Property Tax	\$ [redacted]
Total Property Tax	\$ [redacted]

Text in box is Highly Confidential

⁴ This allocation results from the inclusion of most of the major equipment into the personal-property category. This characterization is consistent with PSE's treatment for its other combustion facilities.

PSE Board of Directors
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Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

Insurance: PSE would add the Facility to its permanent property insurance program underwritten by Starr Tech with a [REDACTED] deductible and an insured value of \$260 million (the plant replacement cost) at a rate of [REDACTED] per [REDACTED]. Additionally, PSE projects a [REDACTED] increase in premium by its excess general liability carrier for the new plant. Both costs are escalated with Global Insight's predicted inflation.

Insurance Expense	
Insured Value	\$ 260,000,000
Premium Per \$100 of Insured Value	\$ [REDACTED]
General Excess Liability	\$ [REDACTED]
Total Insurance Expense	\$ [REDACTED]

Upgrades & Tools: This cost covers Facility upgrades and tools. In practice, some of these items may be capitalized. For purposes of the Projection they are shown as expensed.

Inventory Carrying Cost: Inventory Carrying Cost covers the expense of holding major component parts and Balance of Plant ("BOP") items in inventory.

Personnel: There will be 24 full time employees ("FTEs") and one temporary employee:

Plant (19 FTEs)

One (1) Plant Manager
One (1) Supervisor - Operations
One (1) Supervisor - Maintenance Asst. Manager
One (1) Maintenance Analyst
Two (2) CT Technician IV
Twelve (12) CT Servicemen VI
One (1) Operating Clerk

Corporate Support (5 FTEs and 1 temporary)

One (1) Engineer
One (1) Engineering Aid (temporary)
One (1) Environmental Scientist
One (1) Coordinator CT Training
One (1) Store Keeper
One (1) IT Consultant - SAP MMS

REDACTED

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Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

Variable Costs:

Variable Gas Transportation: Variable gas transportation is charged based on the quantity of gas (measured in MMBtu) actually used and has three components.

- 1) Fuel Adder: The value of the gas that PSE must give to NWPL to compress and move the gas. It is expected to be 2.42% for the life of the Facility.
- 2) Commodity Charge: This is the variable component of the NWPL tariff. This charge is escalated at Global Insight's projected inflation.
- 3) Use Tax: A Washington State tax charged on the Average Fuel Cost expected to be 3.852% for the life of the Facility.

Cost calculation for a typical year:

Variable Fuel Transport Details		2008
A	Gas Usage (MMBtu)	
B	Fuel Adder of 2.42% (\$/MMBtu)	\$ 0.20
C	Commodity Charge, ACA, GRI (\$/MMBtu)	\$ 0.03
D	Use Tax on Gas of 3.852% (\$/MMBtu)	\$ 0.31
Total Variable Fuel Transport		
A * (B + C + D)		

Variable Transmission: Variable transmission costs are comprised of three components:

- 1) Spinning Reserves: The cost of running generation resources to balance spikes in energy or changes in voltage.
- 2) Supplemental: The cost of having additional generation available that can be started in 10 minutes.
- 3) Losses: The cost of the power lost due to resistance in transmission lines. Losses are purchased from BPA.

Cost calculation for a typical year:

Variable Transmission Details		2008
	Spinning Variable	
	Supplemental Variable	
	Losses	
Variable Transmission		

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Facility Stand-Alone Financial Pro Forma

Fuel Cost:

Fuel expenses are calculated by multiplying the applicable Facility Output by the applicable Facility Heat Rate by the fuel price and by the hours per year. Fuel prices are based on monthly estimates from the August 2006 Global Insight projection. Fuel expense is a function of plant capacity factor, and the associated annual dispatch rates are calculated using the Portfolio Screening Model. The underlying yearly average gas price forecast and fuel expenses are as follows:

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026

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Major
Maintenance:

Major Maintenance expense is the cost of part refurbishment, labor, crane rental and consumable items. The new parts themselves are capitalized as described under "Depreciation & Amortization."

Major Maintenance Program	
Item	Amount
Combustion Inspection 1	12,000
Hot Gas Path 1	24,000
Combustion Inspection 2	36,000
Major 1	48,000
Combustion Inspection 3	60,000
Hot Gas Path 2	72,000
Combustion Inspection 4	84,000

Emissions:

Emissions costs reflect the purchase of NO_x and SO₂ allowances and, starting in 2012, CO₂ emission allowances presuming that the Facility is not "grand-fathered" into free allowances. The costs of emissions allowances in 2012 are as follows.

Emissions	2012 Allowance
Carbon Dioxide (CO ₂)	\$ 5
Nitrous Oxides (NO _x)	\$ 349
Sulfur Dioxide (SO ₂)	\$ 1,149
Total Emissions Expense	

Variable
Operations:

The variable operating costs for a typical year are as follows. The costs are escalated using Global Insight's projected inflation.

Variable Operations Expense	2008
Backfeed Power	
Wastewater	
Water	
Chemicals	
Total Variable Operations	

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EBITDA: Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as revenues less all expenses.

Depreciation and Amortization: The Projection assumes the following depreciable lives for book and tax purposes.

	Book Depreciation	Tax Depreciation
Plant	30	20
Buildings	28	15
Equipment	17	20
Trucks	10	20
Boilers	21	20
Heat Exchangers	35	20
Generators	30	20
Transformers	NA	NA
Substations	30	13

Major parts for the combustion turbine (items or sets of items greater than \$500,000 in 2006 dollars) are capitalized and depreciated over their useful life, which ranges from 10 – 35 years based on currently forecasted generation. Two sets of major parts, an "A" and a "B" set, are needed to run the Facility. While one set is being used the other set is idle and both sets are considered in plant and depreciated.

The value of the "A" set of parts, currently in use at the Facility, is valued at the new purchase price of the part, discounted by the ratio of PSE's purchase price to the plant replacement cost. If PSE's purchase price of \$100 million is accepted, this ratio would be $100 / 260$. The total value of a new set of major parts is approximately [REDACTED] million, so the set "A" total value is thus approximately [REDACTED] million.

During major maintenance, the "B" set of spares is placed into service and the "A" set is removed. The "A" set is then immediately sent for refurbishment and the cost of the refurbishment is expensed. The cost of labor, crane rental and minor parts associated with the major maintenance are also expensed.

Each set of parts can only be refurbished a fixed number of times. When set "A" can no longer be refurbished, a new set of spares, set "C", is purchased to replace set "A". Set "C" will be ordered just in time for the next major maintenance, at which time it will be added to the book value of the plant at its purchase price and begins to depreciate.

If set "A" has remaining tax depreciation life, the balance will be expensed for tax purposes when the part is retired. Set "C" will

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receive 20 year MACRS tax depreciation as is consistent for combined cycle equipment.

EBIT: Earnings before interest and taxes is equal to EBITDA less Depreciation and Amortization.

Interest Expense: Interest Expense is calculated based on PSE's mid-year pro forma rate base multiplied by the assumed debt percentage in the capital structure. This method is consistent with conventions used by regulated utilities. The Projection assumes a rate of return of 8.40% and a debt percentage of 57% at a weighted pretax cost of 6.96%.

Pretax Income: Pretax income is equal to EBIT less Interest Expense.

Net Taxable Income: Net Taxable Income is equal to Pretax Income plus book depreciation and amortization, less Tax Depreciation.

Manufacturing Tax Credit (JOBS Act of 2004): PSE estimates a negligible impact due to this tax credit, so it is not included in the Projection.

Income Taxes Paid: Income Taxes paid are calculated as Net Taxable Income multiplied by the Federal corporate income tax rate of 35%.

Deferred Income Taxes: Deferred Income Taxes are calculated as the difference between book and tax depreciation expenses multiplied by the Federal corporate income tax rate of 35%.

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Retained Earnings:	Retained Earnings are calculated as the previous year's Retained Earnings balance plus Net Income, less Dividends Paid. The balance sheet contains no line items for cash or short-term debt, and the Projection assumes that any cash shortfalls or surpluses are financed with debt.
Property Plant and Equipment:	For book purposes, the value of the plant reflects capitalization of all Facility capital costs. Per IRS regulation, AFUDC is not capitalized for tax purposes, but is for book purposes.
Inventory:	Inventory captures the value of major component parts and Balance of Plant ("BOP") items.
Accounts Payable:	The Projection assumes that vendor accounts will be paid within 30 days, and the balance reflects one month's worth of payables.
Long Term Debt:	Based on a capital structure of 57% debt at a long term rate of 6.96%, PSE will incur in new long-term debt obligations. Consistent with regulated utility modeling methods, debt is repaid in a fashion that allows the Projection to maintain PSE's equity/debt split on the Balance Sheet throughout the life of the Facility. This is accomplished by equating debt payment to the sum of depreciation, deferred tax, and working capital multiplied by the PSE debt percent.
Accumulated Deferred Taxes:	Accumulated Deferred Taxes is calculated as the deferred tax balance from previous year plus/less the deferred tax balance from current year.
Common Shares:	Common Shares is the cumulative capital contributions from equity holders.
Total Shareholders' Equity:	Total Shareholders' Equity is calculated as the Common Shares balance plus/less Retained Earnings balance.

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Operating Cash Flow:	Operating Cash Flow is calculated as the sum of After Tax Net Income and depreciation from the Income Statement plus the change from the previous year in deferred taxes and working capital balance from the Balance Sheet.
Investment Cash Flow:	Investment Cash Flow is calculated as the capital expenditures net of any gain/loss on investments.
Financing Cash Flow:	Cash from Financing is cash received from/paid to debt holders, and cash received from equity holders. Debt is repaid in a fashion that allows the Projection to maintain PSE's capital structure ratio on the balance sheet throughout the life of the Facility. This is accomplished by equating debt payment to the sum of book depreciation, deferred tax, and working capital, multiplied by the debt percent assumed for PSE's capital structure.
Max Dividend:	All available Cash from Operations is distributed to equity holders net of the debt repayment. This cash distribution methodology results in the Projection showing negative cumulative retained earnings.

Exhibit 6
Comparative Analysis (RFP Evaluation)

2005 RFP Quantitative Analysis

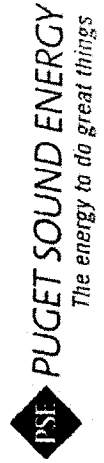


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- Phase I Analysis Process
- Phase I Results
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- Phase II Results Static (by price scenario)
- Phase II Results Dynamic (Monte Carlo)

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➤ Phase I Analysis Process

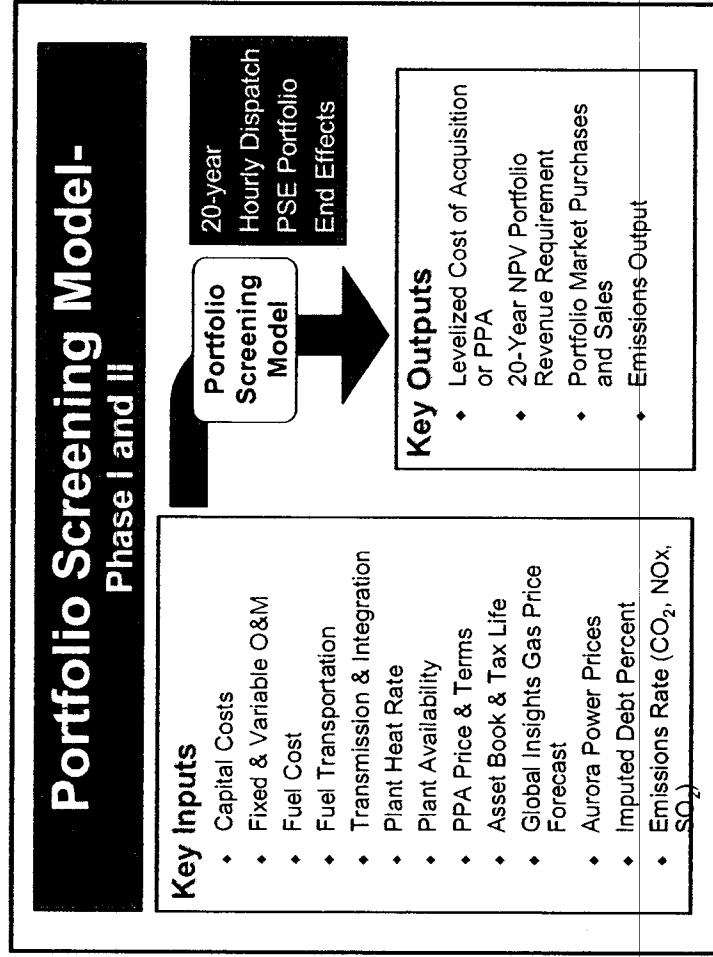
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Analysis Tools - Aurora

- PSE uses the AURORA model to forecast long-term power prices. The long-term power price forecasts are updated periodically to reflect changes in resource costs, natural gas prices, coal prices, and energy policies both at the national and state levels. Ultimately these changes will affect the long-term regional generation resource supply, both in magnitude and resource mix.
- For Phase I analysis, PSE used a single scenario to perform the initial screening of the proposal offers in the RFP. The initial screening scenario was intended to reflect the following differences from PSE's 2005 LCP Current Momentum Scenario:
 - ◆ a higher long-term natural gas price forecast,
 - ◆ greater restrictions on coal builds,
 - ◆ States are successful in meeting RPS requirements within their required time horizon,
 - ◆ PTCs are extended through 2010, but at declining levels, and
 - ◆ higher resource costs for generation supplies.

Analysis Tools - PSM

- The Portfolio Screening Model (PSM) is a proprietary model built for PSE and designed to simulate 20-year dispatch and the resulting levelized and portfolio costs. PSM was the primary analysis tool in the RFP.



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Phase I Process

- Every project submitted through the RFP was individually entered into a “Current Trends” scenario in PSM.
- The quantitative screen applies three economic evaluation metrics to the proposals:
 - ♦ Portfolio Benefit Ratio- *The present value of portfolio benefits divided by the present value of project revenue requirements*
 - ♦ Portfolio Benefit - *The 20-year present value of all portfolio benefits derived from each project in comparison to the 2005 LCP generic portfolio*
 - ♦ Levelized Cost - *The average annual cost per MWh produced during a 20-year period for each project*

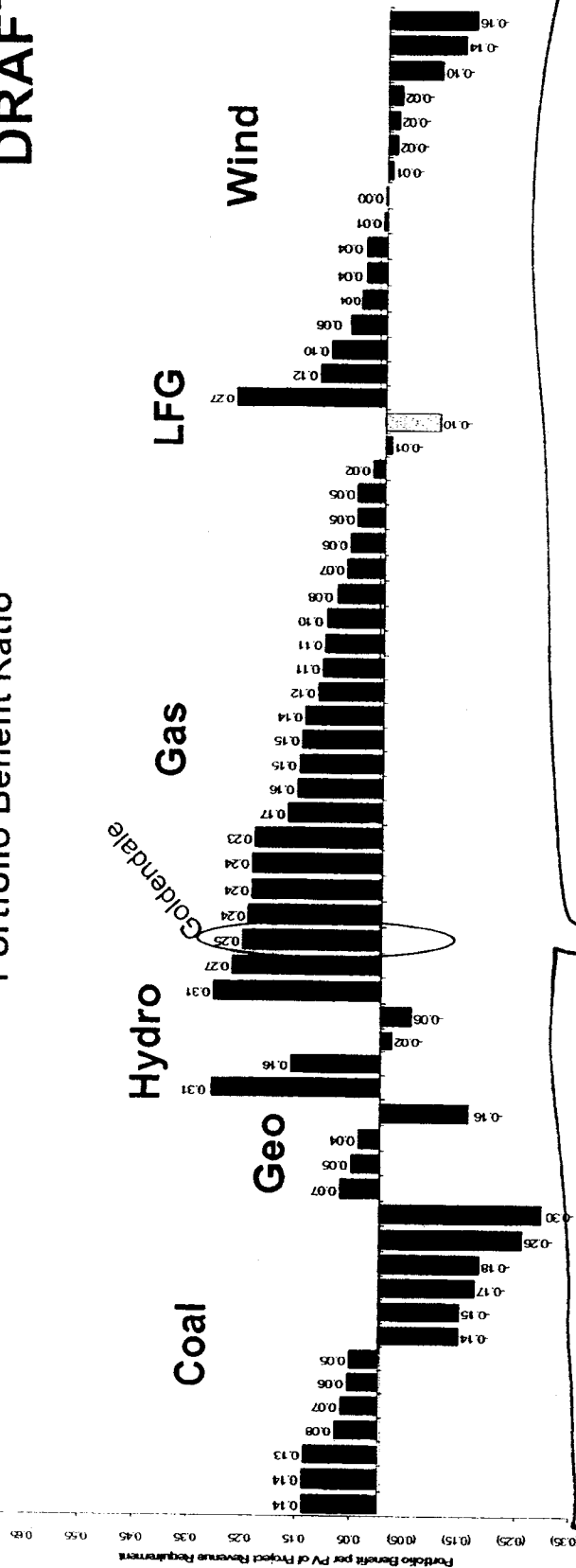
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- Phase I Summary
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- Phase III Summary
- Phase IV Summary

Phase I shows Goldendale as favorable

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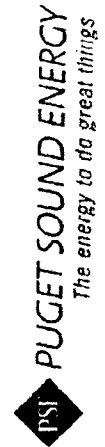
Portfolio Benefit Ratio



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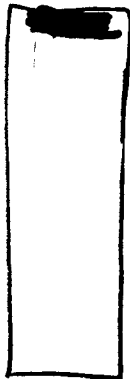
Exhibit No. (EMM-5HC)
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RFP Phase I results, April 25, 2006

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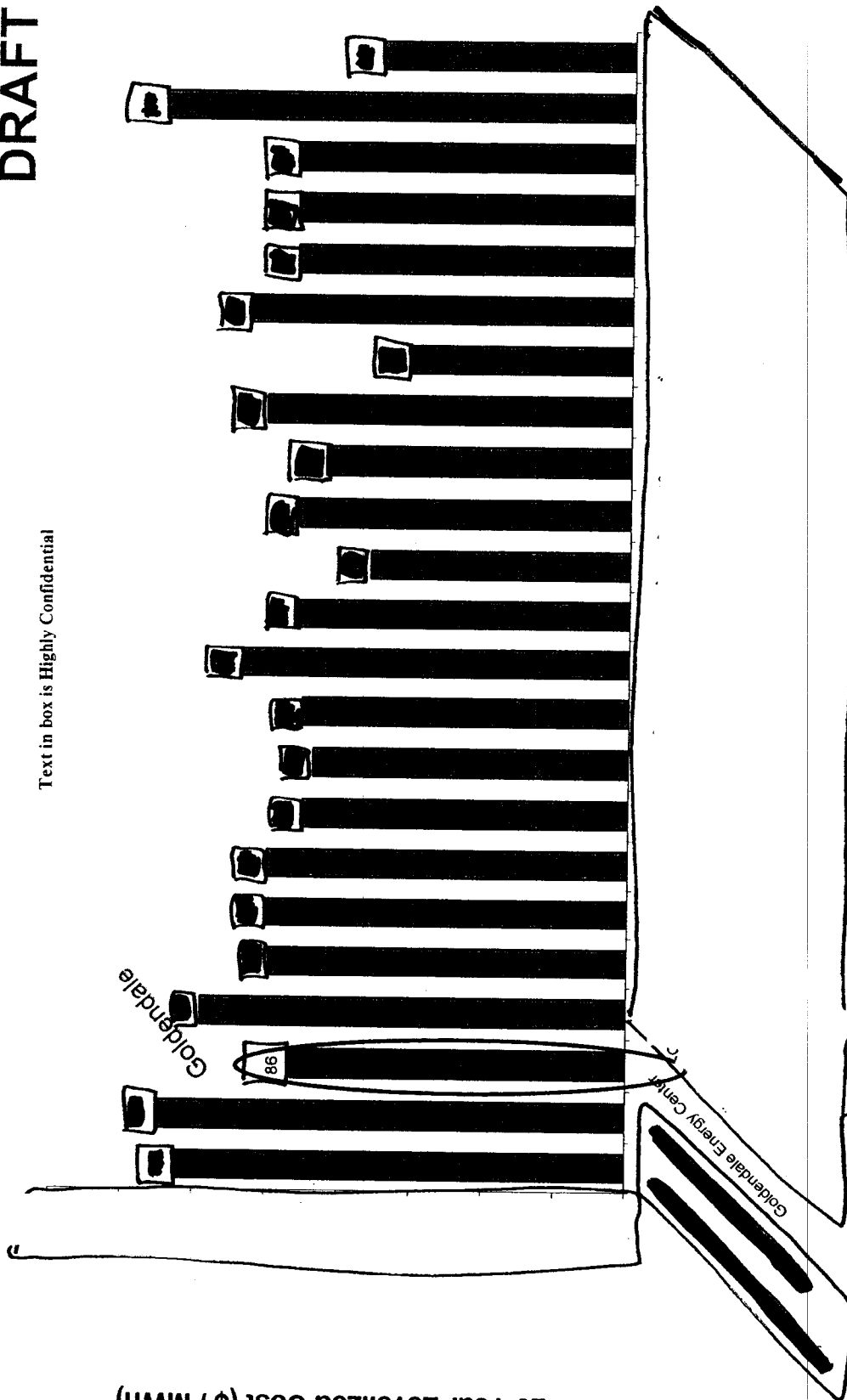
...reasonable levelized cost -



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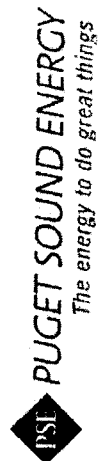
20 Year Levelized Cost (\$ / MWh)



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RFP Phase I results, April 25, 2006

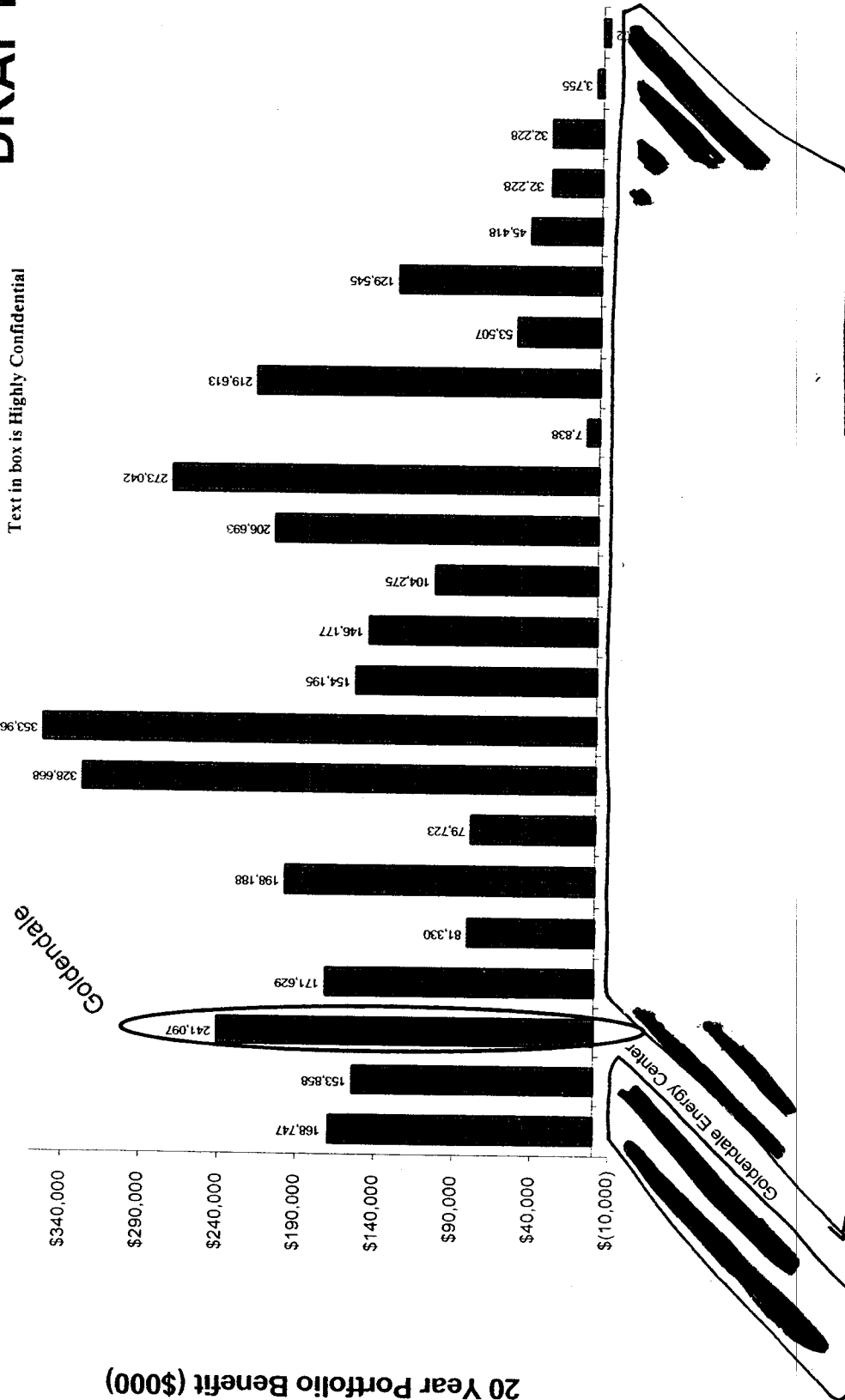
PSE Board of Directors, Exhibit 6 / November 3, 2006



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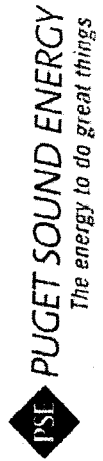
...high portfolio benefit (Absolute)

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RFP Phase I results, April 25, 2006

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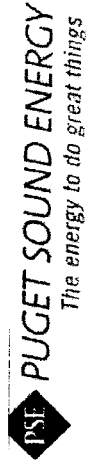
Identification of Candidate Short List

Fuel	Project/Other	Owner/Developer	MW	Status	CD Term
Natural Gas	Goldendale (ownership)	Calpine	277	Operating	Mar-07

REDACTED

RFP Phase I results, April 25, 2006

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- Phase II Quantitative Analysis Process
- Phase I Results Table (by price scenario)
- Phase I Results Summary (Phase I Data)

Phase II Process

- Information requests and more in-depth analysis was performed on the Candidate Short List of projects.
- Projects were run in four different PSM scenarios.
- 7 portfolios of projects were run in PSM to analyze their potential effect on each other.
- Monte Carlo analysis is used to evaluate risk by adjusting variables within PSM, including hydro and wind conditions.
- ♦ Risk was evaluated as an average of the 10 worst trials from the 100 trials run.

Phase II Process Continued

Candidate Short List Identified

- Projects
- Contracts
- Emergent Opportunities

- Portfolios, Existing Plant plus
- All Generic
 - Individual resource
 - Combination of candidates

Portfolios Tested Against Different Risk Scenarios

PSE Current Trends Scenario

- Expected resource additions to WECC over next 20 year horizon

- ## PSE Green World Scenario
- Expected resource additions over next 20 year horizon if all policy directives continue to favor renewables and penalize coal

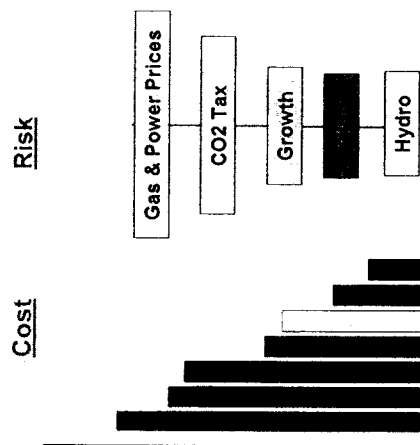
PSE Low Gas Price Scenario

- Expected resource additions over next 20 year horizon if low gas prices emerge

PSE Reserve Price Scenario

- Expected resource additions are 10% greater than Current Trends in 2025.

Monte Carlo Simulation Evaluates Cost and Risk of Each Candidate and Several Combinations



Risk

Cost

Candidates by Scenario

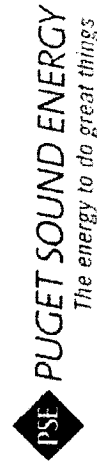
- Portfolio Benefit
- Benefit Ratio
- Levelized Cost

Short-Listed Respondents Will Be Thoroughly Evaluated

Detailed Qualitative Review

Four Scenarios - Descriptions

Scenario	Reference Current Trends	Reserve/Overbuild	High Price/ Green World	Low Gas Price	Notes
WECC Demand (AURORA)	Reference (from EPIS) WECC Average Growth Rate 1.8%	Reference (from EPIS) WECC Average Growth Rate 1.8%	Low WECC Average Growth Rate 1.1%	Reference WECC Average Growth Rate 1.8%	Low Growth Rate is 60% of Reference Growth Rate for each area
Gas Price (Nominal \$ Levelized for 2007-2026)	Global Insight Reference; Levelized, plus Kiodex forwards 2007-2010 \$ [REDACTED] MMBTU \$ [REDACTED] - PRB \$ [REDACTED] - Rockies \$ [REDACTED] - NW \$ [REDACTED] - SW	Global Insight Reference; Levelized, plus Kiodex forwards 2007-2010 \$ [REDACTED] MMBTU \$ [REDACTED] - PRB \$ [REDACTED] - Rockies \$ [REDACTED] - NW \$ [REDACTED] - SW	Global Insight High Price; Levelized, plus Kiodex forwards 2007 - 2010 \$ [REDACTED] MMBTU Reference	Global Insight Low Economic Growth; Levelized; Kiodex forwards 2007 - 2008 \$ [REDACTED] MMBTU Reference	Global Insight (12/05) and Kiodex forwards (2007-2010) as of 12/19/2005 Source: Platts 2004 Coal Market Research and M. Jones. Price increases 0.75% real per year.
Coal Price (\$2004/mmBtu)					
PSE Demand (PSM)	Reference	Reference	Low	Reference	Most recent PSE load forecast.
Carbon Costs (AURORA)	NCEP Nominal \$/ton by year: 2010: \$5.00 2015: \$6.38 2020: \$8.14	NCEP Nominal \$/ton by year: 2010: \$5.00 2015: \$6.38 2020: \$8.14	Clean Power (Jeffords) Nominal \$/ton by year: 2010: \$21.00 2015: \$31.17 2020: \$45.35	NCEP Nominal \$/ton by year: 2010: \$5.00 2015: \$6.38 2020: \$8.14	NCEP increases 2.5% real per year. Clean Power increases about 4% per year real over 20 years.



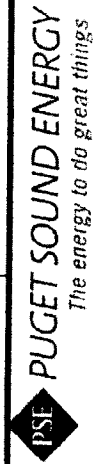
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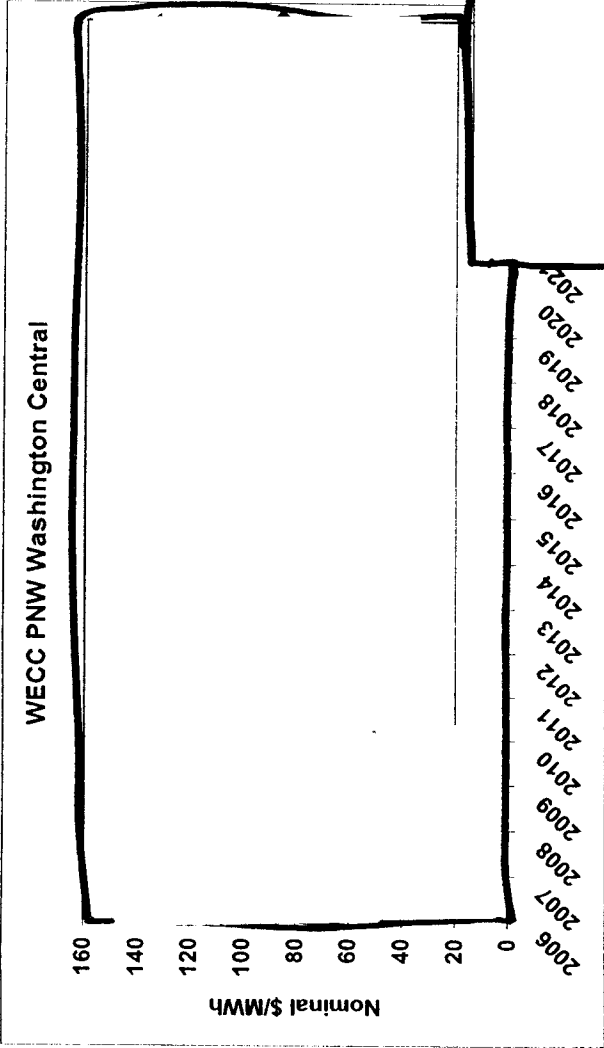
Four Scenarios - Descriptions

Scenario	Reference Current Trends	Reserve/ Overbuild	High Price/ Green World	Low Gas Price	Notes
SO2 (PSM)	Clear Skies Nominal \$/ton by year: 2010: \$978 2015: \$1435 2020: \$2105	Clear Skies Nominal \$/ton by year: 2010: \$978 2015: \$1435 2020: \$2105	Clean Air (Carper) Nominal \$/ton by year: 2010: \$1481 2015: \$2175 2020: \$3191	Clear Skies Nominal \$/ton by year: 2010: \$978 2015: \$1435 2020: \$2105	
NOX (PSM)	Clear Skies Nominal \$/ton by year: 2010: \$297 2015: \$436 2020: \$640	Clear Skies Nominal \$/ton by year: 2010: \$297 2015: \$436 2020: \$640	Clean Air (Carper) Nominal \$/ton by year: 2010: \$5742 2015: \$2012 2020: \$1522	Clear Skies Nominal \$/ton by year: 2010: \$297 2015: \$436 2020: \$640	
RPS	Meet all WECC RPS by 2026. Wind 20,901 MW Solar 500 MW Geo 1,014 MW Bio 375 MW Mkt. Builds Wind 2,200 MW	Meet all WECC RPS by 2026. Wind 20,901 MW Solar 500 MW Geo 1,014 MW Bio 375 MW Mkt. Builds Wind 2,200 MW	Meet all non-wind RPS by 2026. Solar 500 MW Geo 1,014 MW Bio 375 MW Mkt. Builds Wind 28,800 MW	Meet all RPS through 2011. Wind 7,615 MW Solar 241 MW Geo 558 MW Bio 263 MW Mkt Builds No More	Only Wind renewables in builds.
PTC for Wind	2007-2009: \$19 2010-2011: \$10 2012-2026: \$0	2007-2009: \$19 2010-2011: \$10 2012-2026: \$0	2007-2009: \$19 2010-2011: \$10 2012-2026: \$0	2007-2009: \$19 2010-2011: \$10 2012-2026: \$0	Credit in nominal \$/MWh.
Overbuild	No	Yes; Net Additions are approx. 30% greater in 2015 and 10% greater in 2025	No	No	



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Four Scenarios - Power and Gas Prices



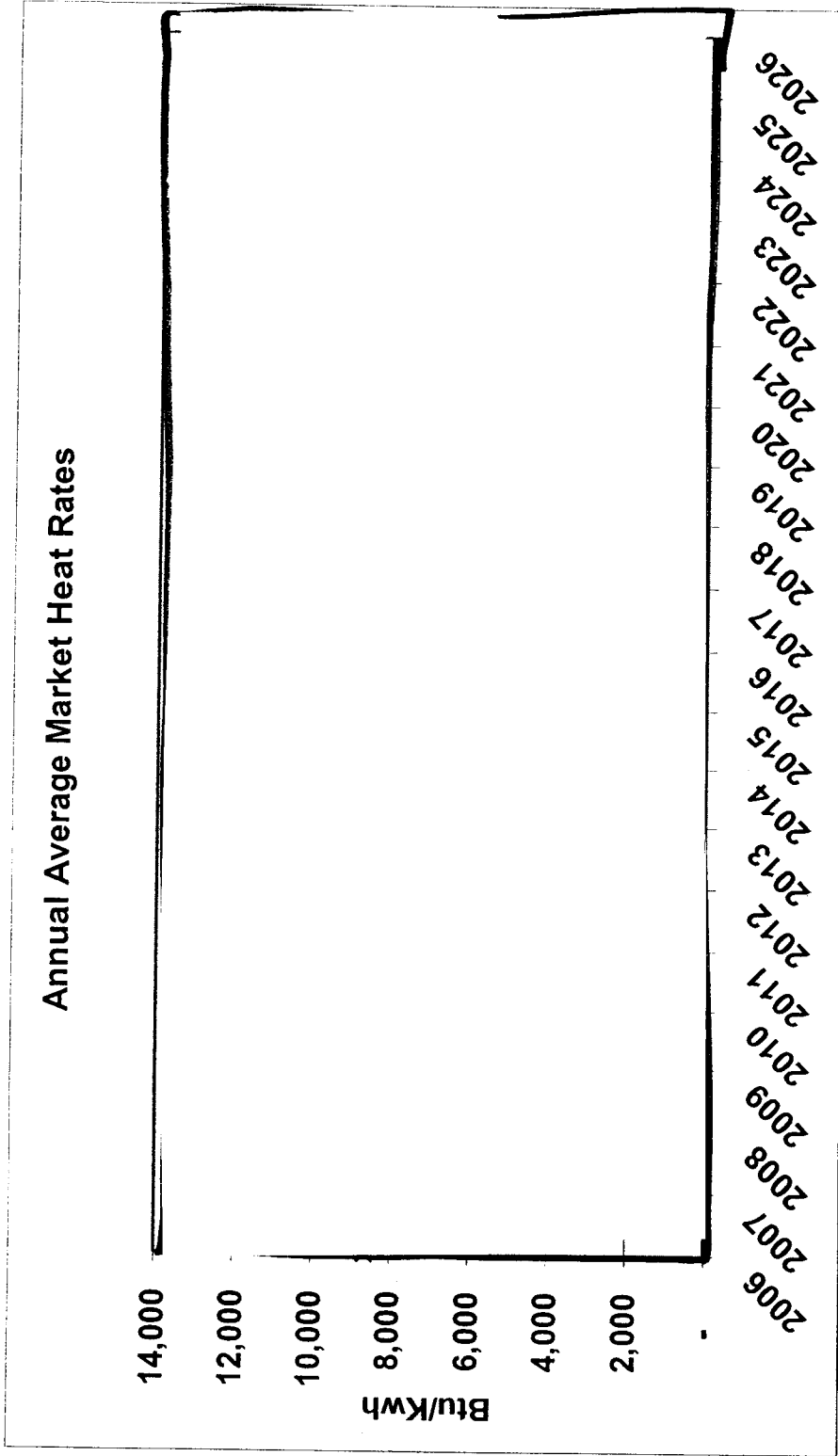
AURORA model power
prices forecasts

Global Insight's Gas (12/05):
Reference, High and Low for
2011 - 2026

Kiodex forwards 2007 – 2010,
except through 2008 for Low
Gas

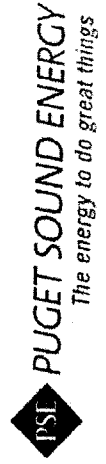
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Four Scenarios - Heat Rates



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Portfolio Design Criteria

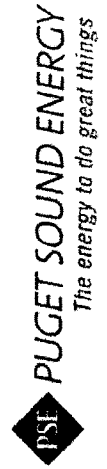
Portfolios will be designed to:

- Add resources to meet, or come close to meeting, B2 Standard for energy need. Because PSE will have another RFP at the end of 2007, filling need for future years not as critical.
- Meet Renewable Portfolio Standard as proposed by WA (Initiative 937). 9% 2016 15% 2020
- Test portfolio cost and risk of owning new gas plant(s) versus contracting via PPAs
- Test incremental benefit of short listed resources by adding and subtracting from portfolios.
- Test portfolio cost and risk of short list projects that most closely approximate the 10% wind plus approximately equal mix of coal and gas from the 2005 LCP.
- Test portfolio cost and risk of choosing long lead projects with bridge PPA.

7 portfolios evaluated in addition to the All Generic Portfolio

Port 1	[REDACTED]	Goldendale (OWN)
Port 2	Like Portfolio 1, with substitute of [REDACTED]	y for Goldendale, i.e., all PPA
Port 3	Like Portfolio 1, but without [REDACTED]	
Port 4	Like Portfolio 1 with substitute of [REDACTED]	
Port 5	Like Portfolio 1 with substitute of [REDACTED]	
Port 6	Long Lead Hydro and Coal with bridge PPA [REDACTED]	
Port 7	Similar to LCP strategy of 10% wind, 45% coal, 45% gas. [REDACTED]	

REDACTED



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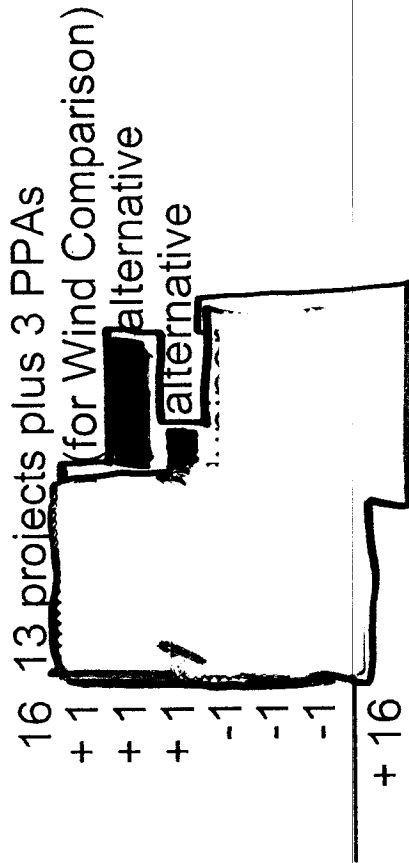
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- Phase I Results Dynamic (by price scenario)

Reconcile # of Projects Analyzed

- Early on in Phase II, PSE was notified by three separate project respondents that their project conditions had changed. One of the selected wind projects was being sold to another utility; a second wind proposal was withdrawn due to redeployment of turbines within the respondent's existing portfolio or development projects in the US and therefore no longer available for the proposed project. The third wind project indicated a delay until 2008 due to recent permitting challenges, imposing significant project, cost and PTC risk on the proposal. These changes in circumstance reduced the number of shortlisted projects to 13. Additionally, a portion of the proposed output of the geothermal plant was sold, reducing the overall offer to half of its original size.



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Phase II Projects Analyzed

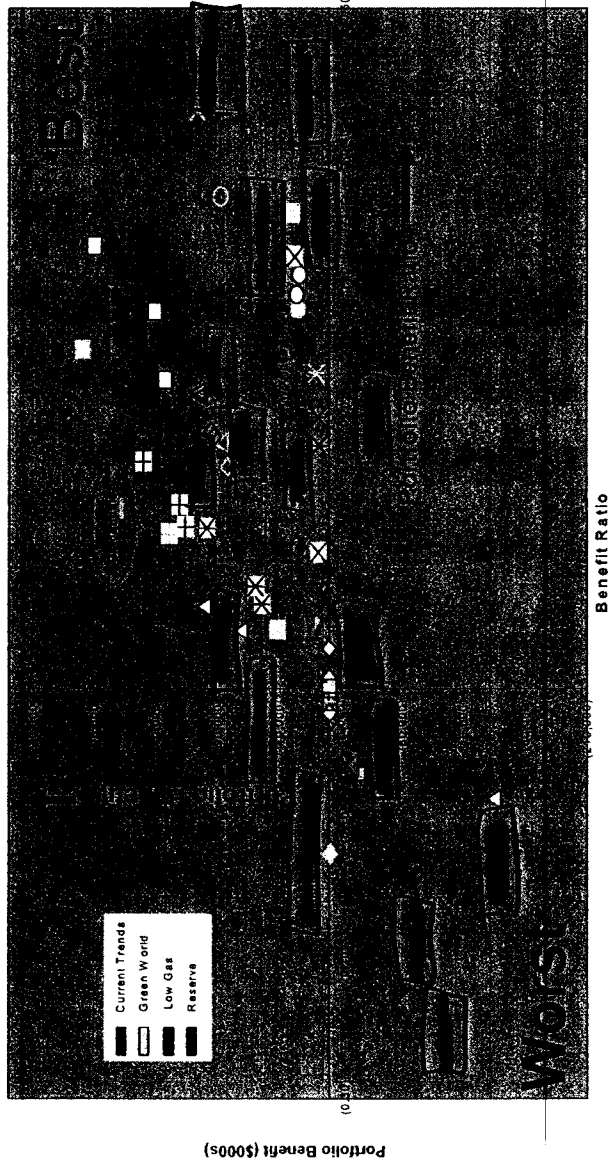
0	000	Generic Portfolio of Wind, PPA, Gas and Coal
1	501A2	PPA
2	504	Own
3	506A	Own
4	511C	PPA
5	516	Own
6	520C	PPA
7	522A	PPA
8	522B	PPA
9	525A	3-year PPA to Own
10	530A	Hybrid Financing
11	530B	PPA
12	539C	Own
13	547A	PPA
14	550	PPA
15	552	Goldendale
16	554A	PPA
		277 MW COCT

REDACTED

Phase II – Individual Resources

- The following chart reflects the portfolio benefit and the portfolio benefit ratio
 - ◆ Every project is indicated by a shape (e.g. Goldendale is a horizontal bar)
 - ◆ Every scenario is specific color (e.g. Low Gas is red)

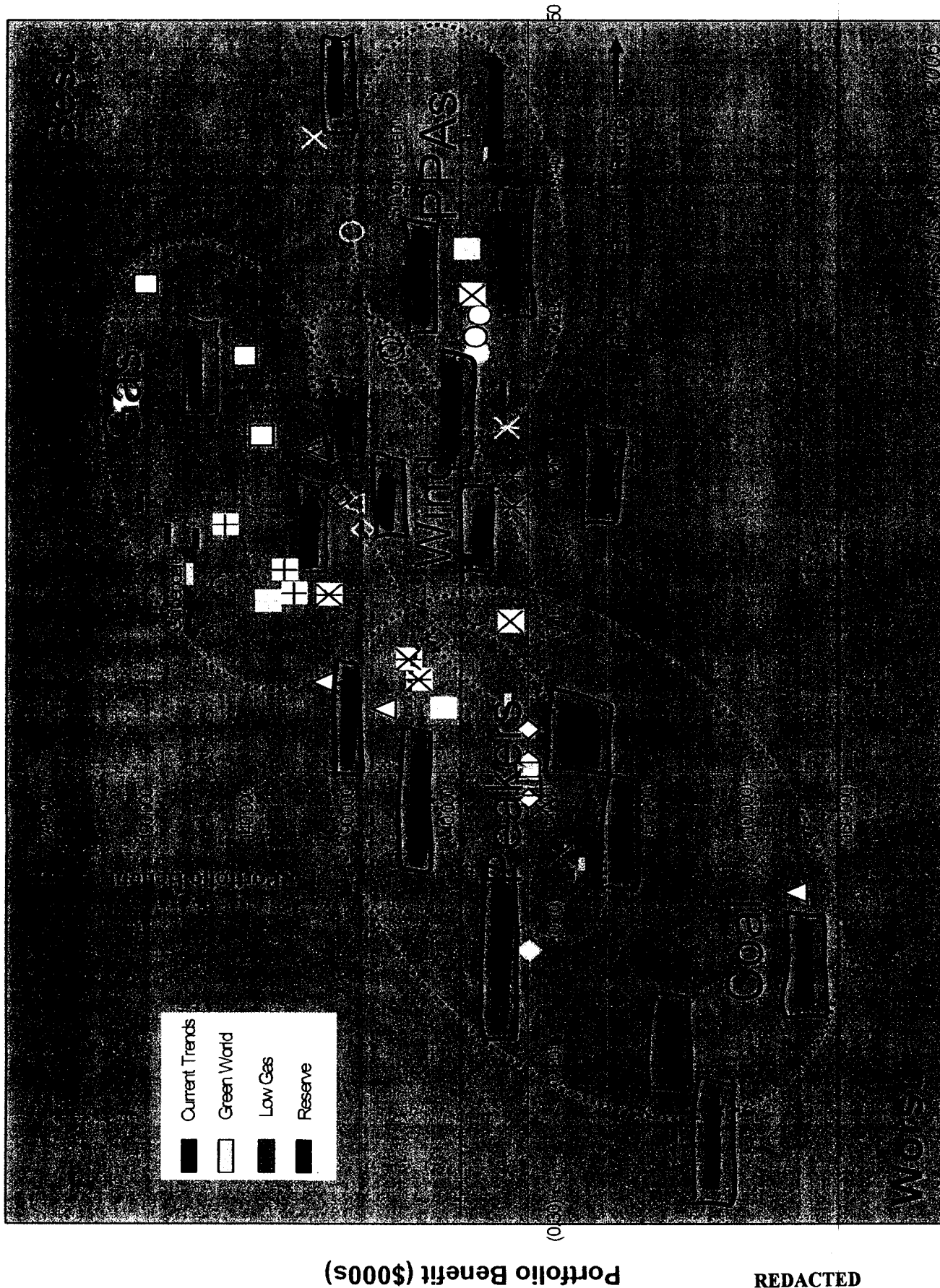
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RFP Phase II results, August 18, 2006

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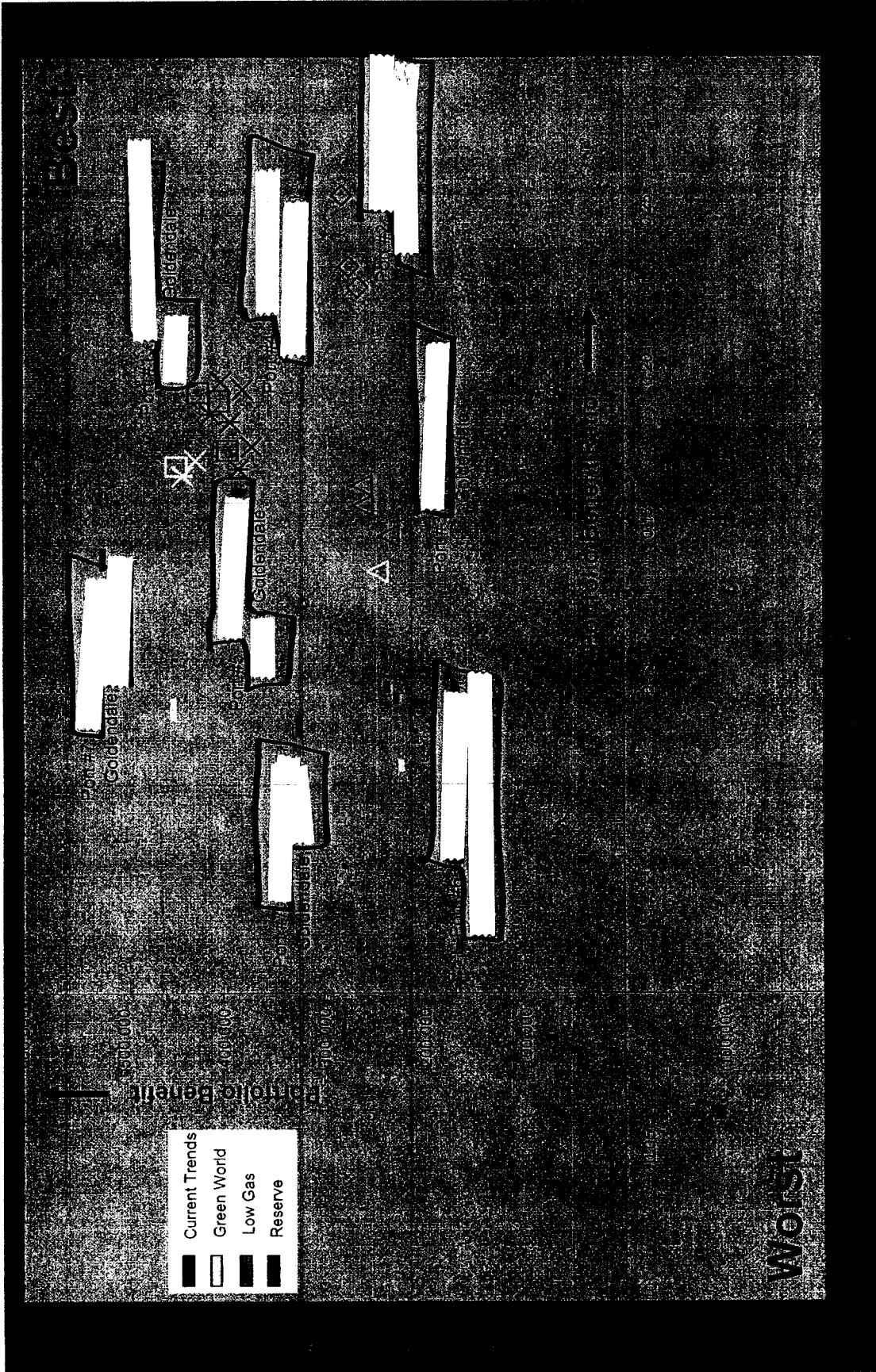




Phase II – Portfolios

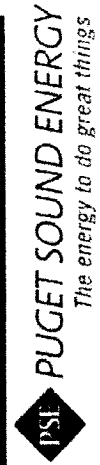
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Static Portfolios

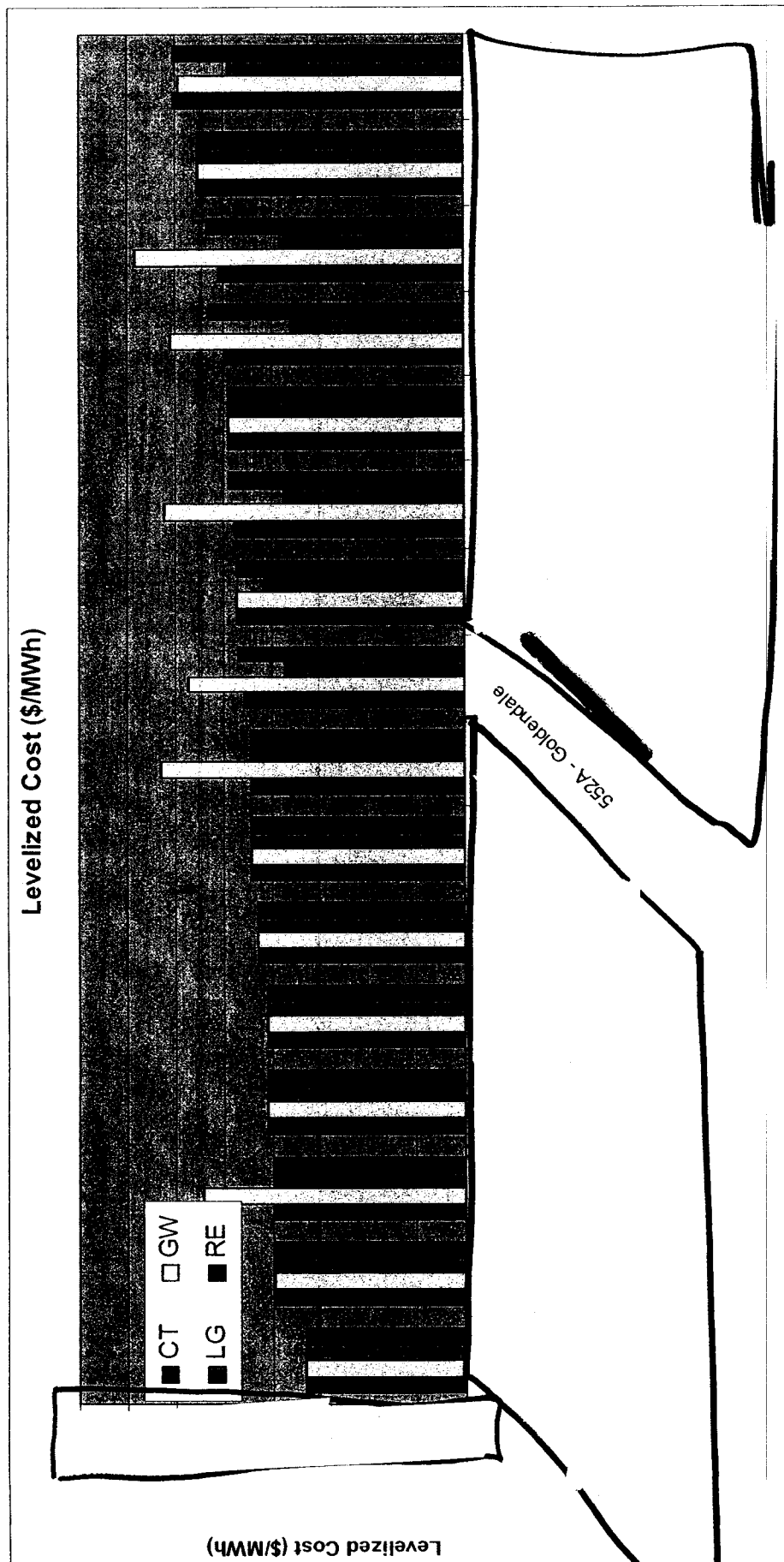


Phase II results, August 18, 2006

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Levelized Cost of Individual Resources



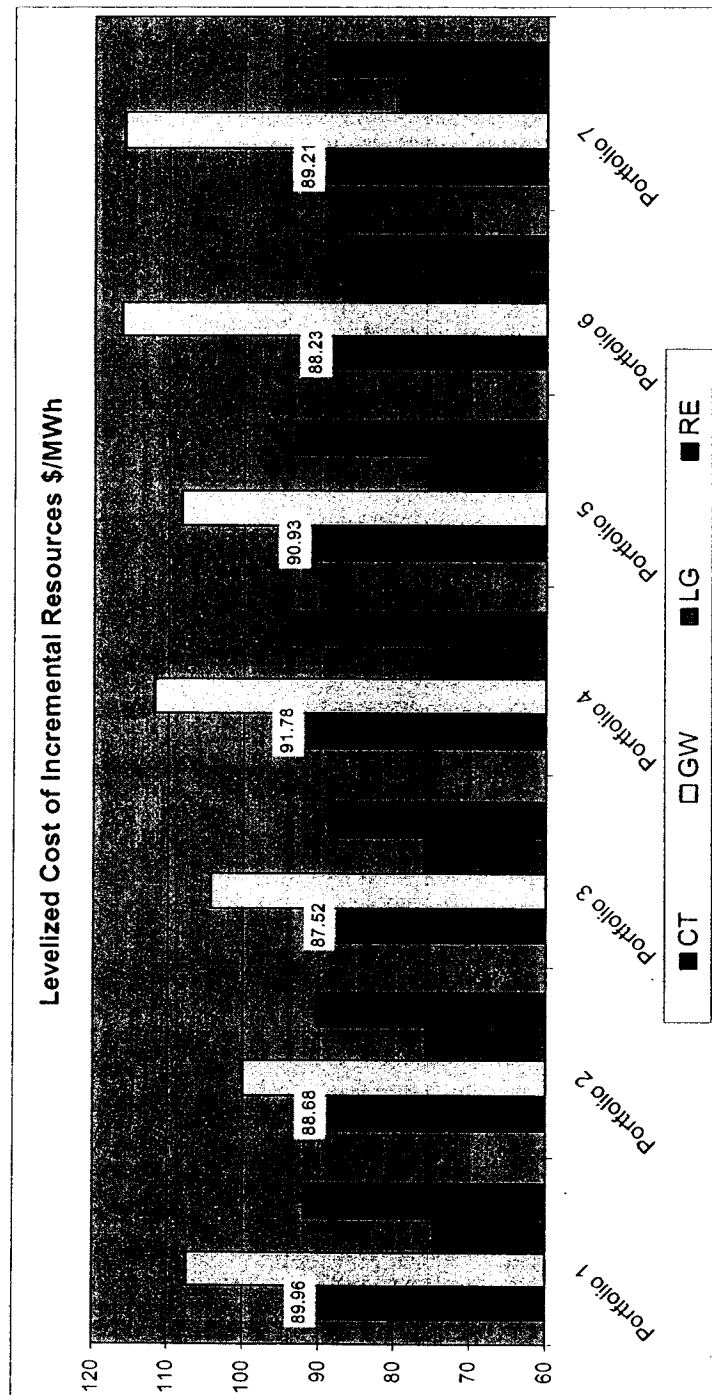
Phase II results, August 18, 2006

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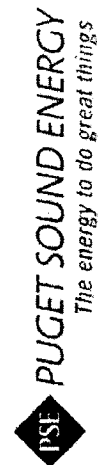
Levelized Cost of Portfolio Additions



Levelized cost (20 year)
of resource additions in
\$/MWh

	CT	GW	LG	RE
Portfolio 1	89.96	107.45	74.76	91.96
Portfolio 2	88.68	100.08	75.76	90.44
Portfolio 3	87.52	104.33	76.07	88.77
Portfolio 4	91.78	111.86	75.08	94.27
Portfolio 5	90.93	108.34	75.42	93.22
Portfolio 6	88.23	116.30	86.99	87.11
Portfolio 7	89.21	115.97	79.40	89.28

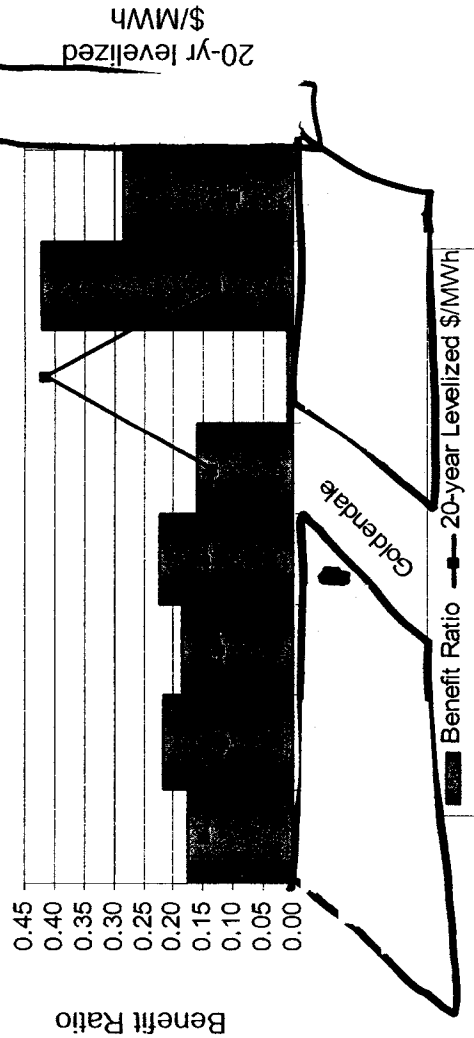
Phase II results, August 18, 2006



PSE Board of Directors, Exhibit 6 / November 3, 2006

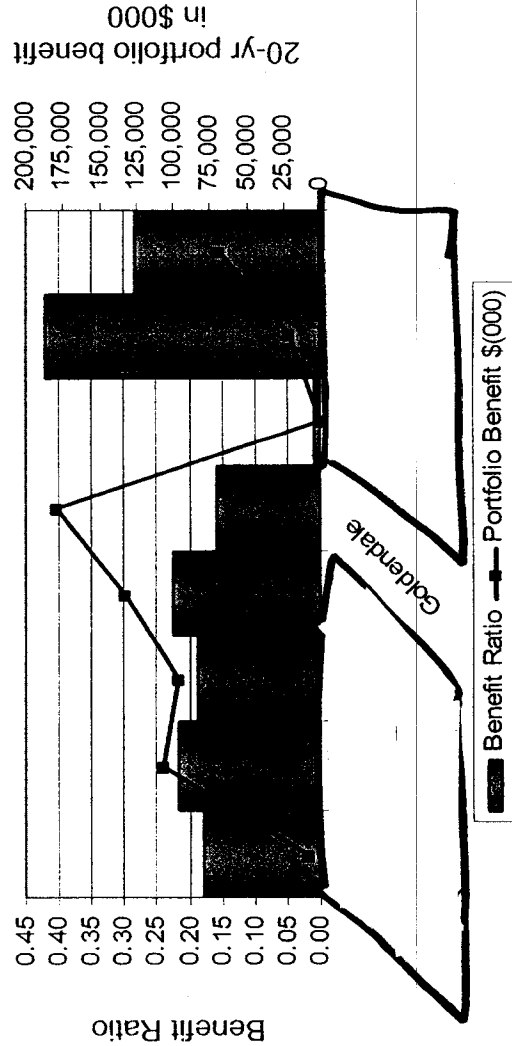
Portfolio benefit ratio is balanced with levelized cost and portfolio benefit

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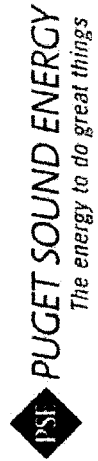
Levelized cost is the average annual cost per MWh produced during a 20-year period for each project.

Portfolio benefit is the 20-year present value of all portfolio benefits derived from each project in comparison to the 2005 LCP generic portfolio.



Portfolio benefit ratio is the present value of portfolio benefits divided by the present value of the project revenue requirements

PSE Board of Directors, Exhibit 6 / November 3, 2006



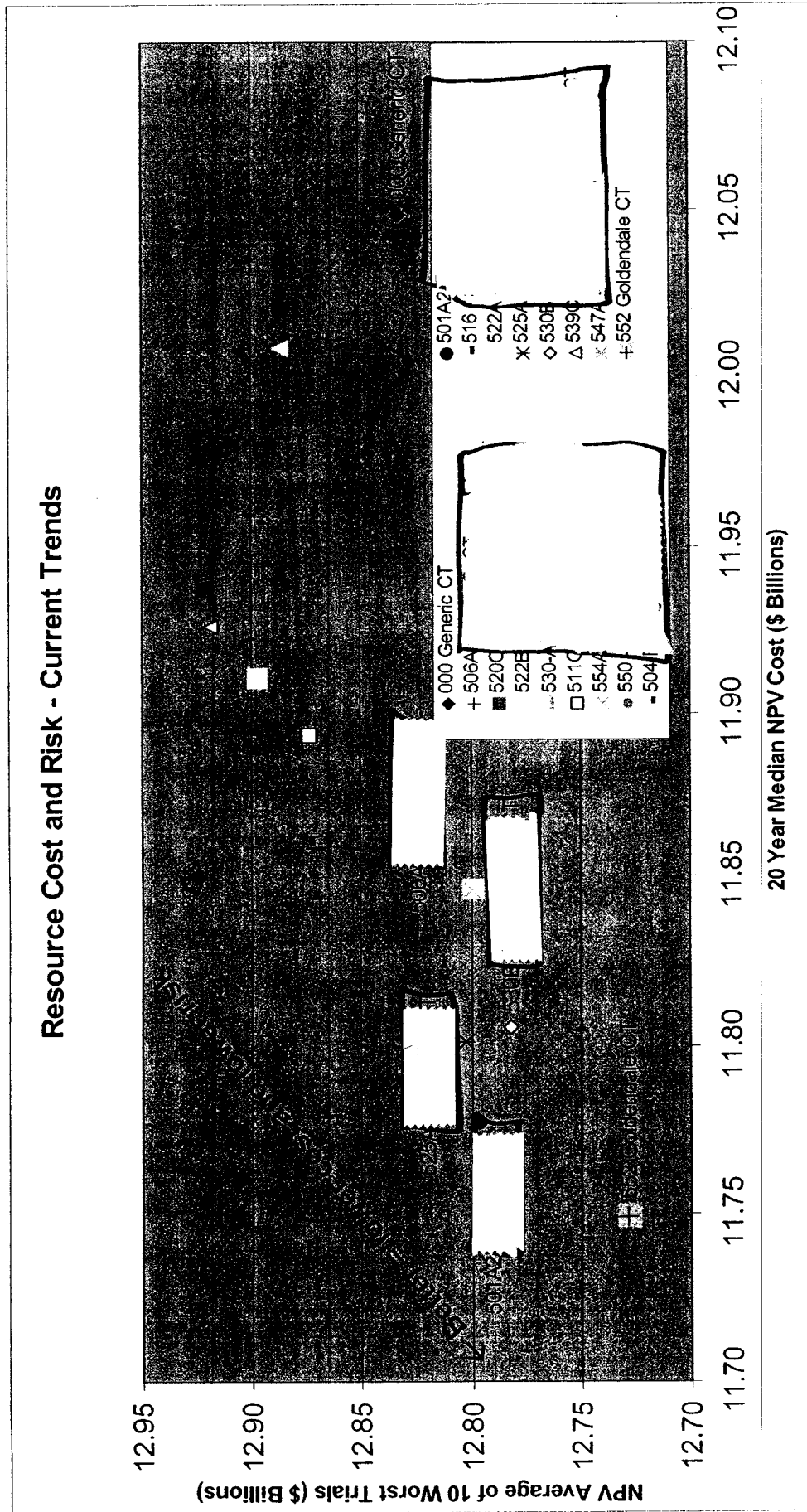
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- Phase I Analysis Process
- Phase I Results
- Phase II Analysis Process
- Phase II Results

➤ Phase II Results Dynamic (Monte Carlo)

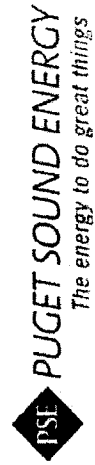
Goldendale shows lowest cost and risk in the Current Trends price scenario



Phase II results, August 18, 2006

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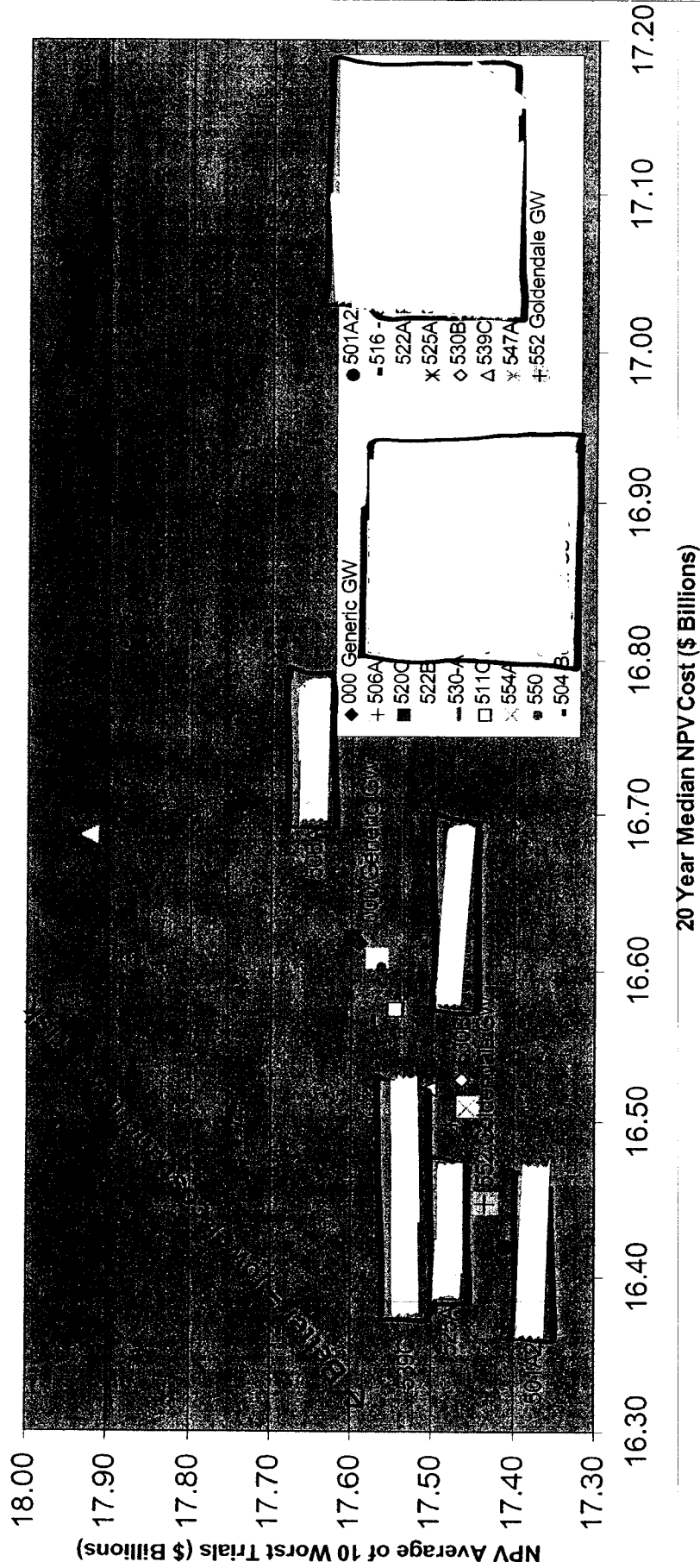
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PPA show lowest cost and risk in Green World Scenario

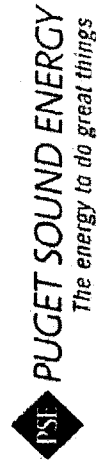
Resource Cost and Risk - Green World



Phase II results, August 18, 2006

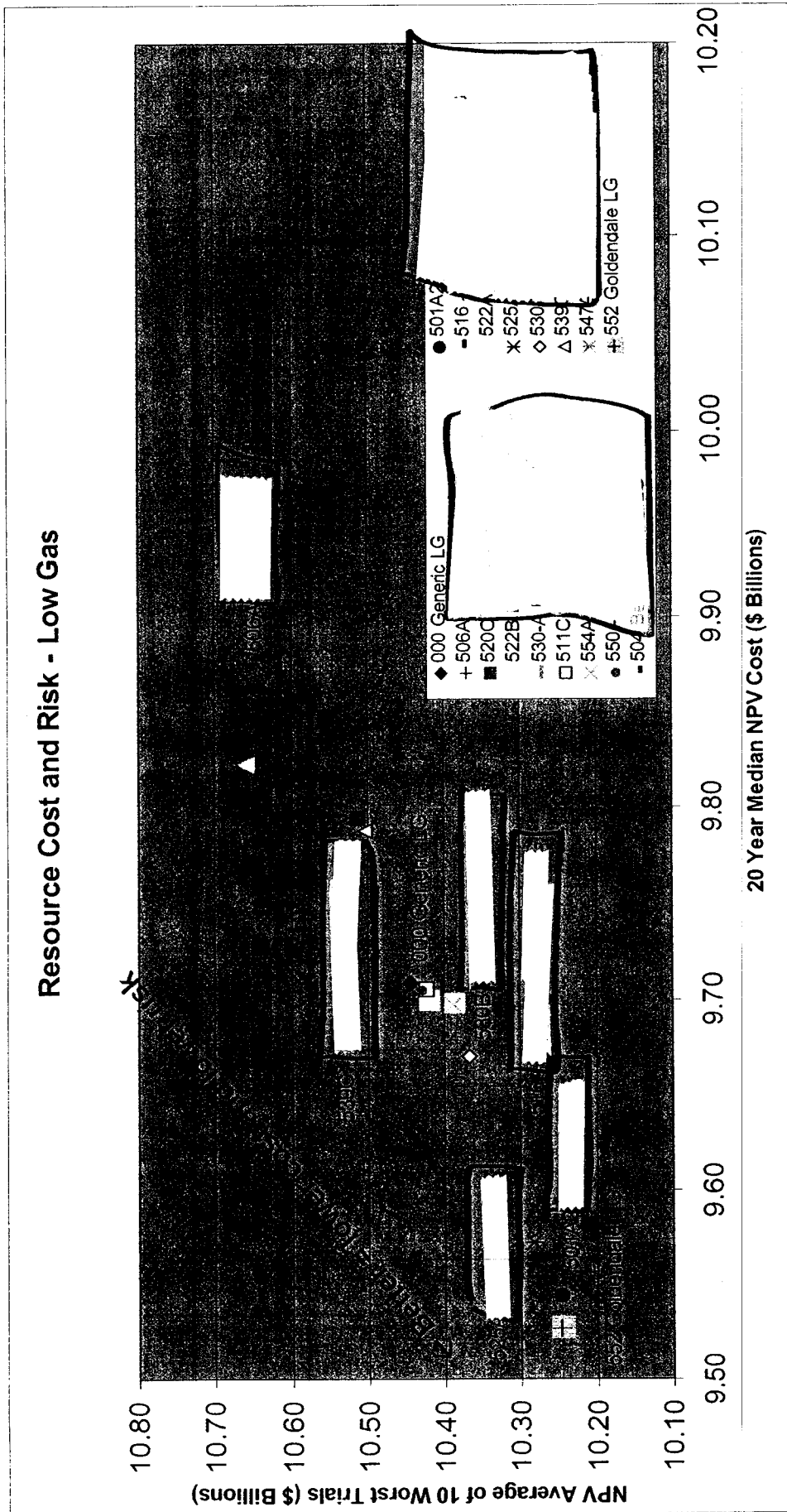
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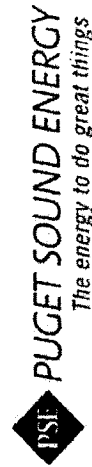
Gas Plants show lowest cost and risk in Low Gas Price Scenario



Phase II results, August 18, 2006

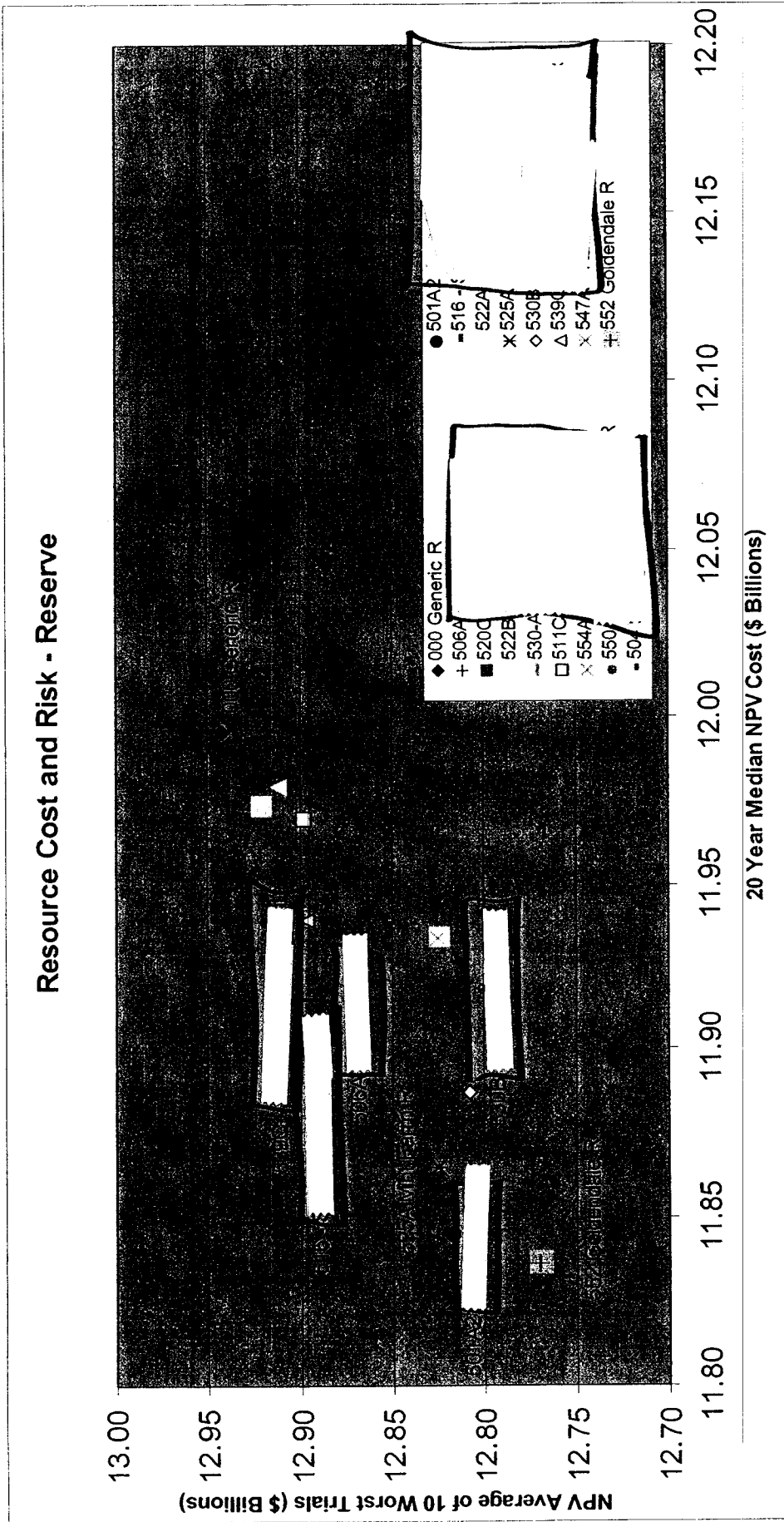
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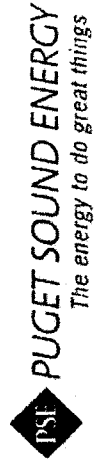
Cost and Risk in Reserve Price Scenario Similar to Current Trends Price Scenario



Phase II results, August 18, 2006

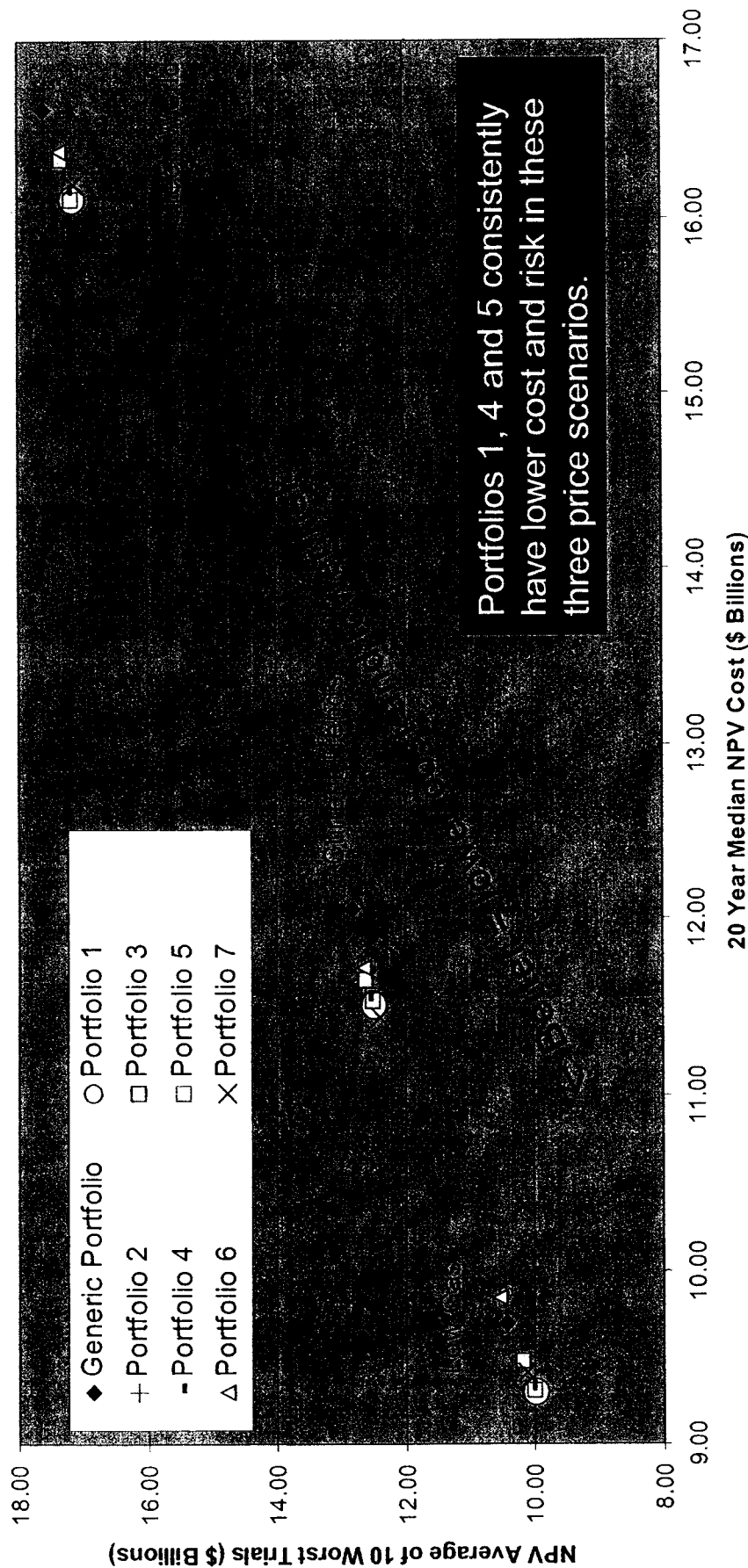
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Portfolio Cost & Risk

Portfolio Cost and Risk



Phase II results, August 18, 2006

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Exhibit 7
Analysis to Determine Maximum Bid

PSE Board of Directors
November 3, 2006Exhibit 7
*Analysis to Determine Maximum Bid***Maximum Bid Determination**

In the bankruptcy process, PSE's initial or "stalking horse" bid is subject to a "higher and better" bid in an auction, assuming there is one or more competing bidders. The "topping" amount for competing bids would start at \$103,600,000 with minimum bidding increments of at least \$500,000 thereafter. If there are no other bids, PSE will acquire the Facility pursuant to the filing of the Sale Order with the Bankruptcy Court. PSE must prepare for other competitive bidders in the bankruptcy auction process.

To determine the maximum amount or all-in capital cost that PSE would be willing to bid, PSE staff gathered public information on recent CCCT sales as an indication of "comparable" values. The attached exhibit ("Goldendales Comparables") reflects sales ranging from \$210/kW up to \$568/kW and \$900/kW for new construction or \$44 million up to \$475 million. Risk factors such as technology, vintage, project location, infrastructure, and completion risk influence the asset's value, making it difficult for a direct comparison to the GEC acquisition.

PSE's next best alternative from the RFP process was the [REDACTED] [REDACTED] project as the comparative resource¹. PSE conducted an analysis that varied the all-in cost of the Facility from \$112 million to [REDACTED] and compared that with [REDACTED] initial offer of a 3-year PPA with an ownership purchase in 2011. Transaction costs, taxes, and purchase of replacement spares are about \$12 million so the offers to Calpine would be \$12 million less than the all-in costs evaluated. A second option, an ownership purchase in 2008, was also evaluated to provide a more direct comparison with

¹ Construction of the 285 MW CCCT Mint Farm project was suspended in 2002 after Mirant filed for bankruptcy. The project was later acquired in 2005 through the bankruptcy process by Wayzata Investment Partners, Inc., a large hedge fund, and construction was reportedly remobilized in July 2006. The project is of similar technology and design to Goldendale.

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Exhibit 7
Maximum Bid Analysis

the Facility. The 2008 purchase was estimated by PSE staff (by discounting the 2011 ownership offer) and was not a firm offer from the owners of [REDACTED].

As compared with the initial [REDACTED] offer, in the expected gas price scenario, PSE could pay an all-in cost of [REDACTED] to receive the equivalent portfolio benefit of [REDACTED]; an all-in cost of [REDACTED] to receive the equivalent levelized cost; and an all-in cost of [REDACTED] to receive the same benefit ratio.

Under the 2008 purchase option for the [REDACTED] project, the all-in capital cost that PSE could pay to acquire the Facility is approximately [REDACTED]. [REDACTED] PSE could pay an all-in cost of [REDACTED] to receive the equivalent portfolio benefit of [REDACTED]; an all-in cost of [REDACTED] to receive the equivalent levelized cost; and an all-in cost of [REDACTED] to receive the same benefit ratio.

When the August 2006 updated gas price forecast is taken into account, PSE's all-in cost would range from [REDACTED] to provide equivalent portfolio metrics.

(Supporting analysis for the **Maximum All-In Capital Cost of Goldendale** follows this discussion.)

It should be noted that due diligence work on the [REDACTED] is far from complete. In particular, critical assessments about constructability, geo-technical risk, insurability and transmission access have not been completed. Such assessments, if completed, each hold the potential for significant increases in cost-to-complete estimates as well as possibly unacceptable risks.

Taking into consideration the recent CCCT sales, the [REDACTED] analysis and the cost of a new CCCT, it is reasonable to conclude that a price of [REDACTED] is a maximum bid limit for the acquisition of the Facility in the bankruptcy sales process.

Goldendale Comparables

Last Updated: 10/5/06

Project	Plant Technology	COB	Seller	Purchaser	Location	Size (MW)	Price (\$/MW)	Price (\$/kW)	Transaction Close
Russell City Project ¹	CCCT	2010	Calpine	GE Energy Financial Services	CA*	600/ 210	44.0	210	Sep-06
Goldendale	CCCT	2004	Calpine	Assuming PSE	WA	2	100.50	36.15-42	Q1-07
Ontelaunee Energy Center	CCCT	2002	Calpine	LS Power Equity Partners	PA	584	225.0	385	pending
Aires Power Plant ²	CCCT	1999	Calpine	Aquila, Inc.	MO	580	158.5	273	pending
Dighton	CCCT	1999	Calpine	BG America, plc	MA	170	90.2	531	Jul-06
Grays Ferry Power Plant ³	Cogen	1998	Calpine	Thermal North America, Inc.	PA	175/87.5	37.4	427	pending
Morris Power Plant	Cogen	1998	Calpine	Diamond Generating	IL	156	84.5	542	pending
LS Power's Gen Portfolio ⁴	various	various	LS Power	Dynegy	various	8184	4100.0	470	pending
Griffith	CCCT	2002	PPL Corporation	LS Power Equity Partners	AZ*	300	115.0	383	Jun-06
Arlington Valley	CCCT	2002	Duke Energy	LS Power Equity Partners	AZ*	570	1600.0	254	May-06
Moss Landing	CCCT	2002			CT	490			
Griffith Energy	CCCT	2002			AZ*	300			
Maine Independence	CCCT	2000			CA*	700			
Bridgeport Enegy	CCCT	1998			CA*	165			
South Bay	Steam	1960			ME	520			
Morro Bay	Steam	1950/60			CA*	1002			
Oakland Power Plant	CT	1950's			CA*	2511			
COB Energy Facility	CCCT	const.	Peoples Energy	J-Power USA Development	OR*	1150	580.0	568	pending
La Paloma	CCCT	2001	Hedge Funds	Complete Energy Holdings	CA*	1022			Aug-05
Silverhawk ⁵	CCCT	2004	Pinnacle West	Nevada Power Company	NV*	570/427.5	208.0	487	Jun-05
Coyote Springs 2 ⁶	CCCT	2003	Mirant	Avista Corp	OR*	230/80.6	62.5	446	Jan-05
New Construction	CCCT	2009				525	473.0	900	

Footnotes:

¹ Purchase of 35% equity interest in 600 MW facility; remaining interest retained by Calpine

² Trapped asset; limited market access, utility only real buyer

³ Purchase of 50% ownership interest (87.5MW); remaining interest retained by Calpine

⁴ Aggregate value of \$4.1B includes \$1.8B in assumed net debt from LS Power

⁵ Purchase of 75% ownership in 570 MW plant; remaining interest owned by Pinnacle West

⁶ Purchase of 50% ownership in Coyote 2(280 MW plant); remaining interest owned by Avista

⁷ Provided for comparison purposes; based on BP Cherry Point ownership offer from PSE's 2005 RFP

Note: The information gathered is from press releases or other print articles, as well as EIA *Electric Power Monthly*, Plants Sold and Transferred, and may not represent the final transaction information. This list represents projects predominately sold in the WECC region (*) that are CCCT projects 150 MW or greater, selected projects outside the WECC region, and all Calpine sales for 2005-2006.

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Maximum All-In Capital Cost of Goldendale

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10/24/2006

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Offer Price for Goldendale vs All In Cost

(approximate values for REET, spare parts, transaction costs and PCORC deferral)

Redacted

Redacted

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Exhibit 8
Key Due Diligence Findings

PSE Board of Directors
November 3, 2006

Exhibit 8
Key Due Diligence Findings

The Goldendale Energy Center ("Facility") is a 250 megawatt combined-cycle, natural gas-fired power facility with 25 MW of duct firing that commenced operation in September 2004. An underground pipeline routed from the south supplies natural gas to the Facility. The Facility was permitted through the Washington State Department of Ecology ("Ecology").

Buildings and equipment occupy approximately 5% of the total area of land. The Facility includes the generator, cooling towers, chemical feed buildings, water treatment building, multiuse maintenance/warehouse/administrative building, laboratory, and two water tanks.

A. Environmental Due Diligence

The environmental due diligence review consisted of a site visit, interviews with Facility employees, review of all available environmental documentation (including environmental agency correspondence, permit applications, final permits, environmental plans and policies, etc.) at the plant, review of Department of Ecology files pertaining to the Facility and interviews with an Ecology representative and a Goldendale Fire Department representative by PSE staff and/or its agents.

Executive Summary

No significant environmental issues were identified during the environmental due diligence. The Facility appears to be properly sited and constructed and in good condition. There are comprehensive programs in place to address air emissions, wastewater discharge, stormwater discharges, solid waste management, hazardous materials handling and hazardous waste management. Although no sampling was performed¹, there is no indication of any groundwater, surface water or noise issues associated with the Facility.

¹ Sampling was not deemed necessary by the Phase I environmental assessment conducted for PSE by CH2M Hill.

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Exhibit 8
Key Due Diligence Findings

For air emissions the Facility is currently operating under a Notice of Construction permit and an acid rain permit. It is still waiting issuance by Ecology of a final Title V permit. Goldendale Energy Center, LLC² ("GEC") submitted an application to Ecology for a Title V Air Operating permit in May 2005. Ecology issued a Notice of Completeness ("NOC") May 26, 2005. The purpose of this permit is to consolidate all federally-enforceable permit conditions. The potential for BACT to be revisited during the Title V issuance process is considered a low risk.

There was a NOx emission excursion in September 2006 and a wastewater pH exceedance in July 2006. Both instances were reported appropriately and followed up, and there has been no information on the likelihood of penalties. Both events appear to have been one time events caused by human error and corrective actions were put in place to make sure neither will reoccur.

Property Review Summary

The property was undeveloped prior to the initiation of construction of the Facility in 2000. Drinking water is supplied under a service agreement with the City of Goldendale. Makeup water for production purposes is also supplied by the City of Goldendale and is demineralized before storage and use as cooling tower makeup and Heat Recovery Steam Generator condensate makeup. The Facility's sanitary sewer is discharged to the City of Goldendale publicly owned treatment works under a service agreement.

The Facility property is in good condition; however, the adjacent vacant parcel had some trash and debris present, including two old cars and some wood debris.

² Goldendale Energy Center, LLC, the current owner of the Facility, is a wholly-owned, indirect subsidiary of the Calpine Corporation. Ownership and management of the Facility is GEC's sole business.

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Exhibit 8
Key Due Diligence Findings

Facility Siting Permits and Authorizations

State Environmental Policy Act ("SEPA")

A Mitigated Determination of Non-Significance ("MDNS") was published on October 26, 2000, and transferred to GEC in October 2003. The conclusion reached in the MDNS was that the lead agency (the City of Goldendale) determined that the proposal for the power generation facility, the gas pipeline lateral, and the transmission line did not have a probable significant impact on the environment.

Ecology commented on the MDNS on November 13, 2000 and provided additional measures. A letter from the City of Goldendale to GEC dated December 5, 2003, confirmed that GEC complied with all conditions in the SEPA MDNS.

Water Rights

The water rights for water use at the site are held by the City of Goldendale. The Water and Wastewater Utility Services Agreement between GEC and the City allows GEC to use the water.

Threatened and Endangered Species

A final Biological Evaluation was prepared and submitted to the U.S. Fish and Wildlife Service ("USFWS") and the National Marine Fisheries Service ("NMFS") for the following species that are listed under the federal Endangered Species Act ("ESA"): Ute ladies' tresses, bald eagle, Southwest Washington/Columbia River Evolutionarily Significant Unit ("ESU") Coastal Cutthroat Trout, Coastal Puget Sound Distinct Population Segment Bull Trout, and Middle Columbia ESU Steelhead Trout in February 2001. An informal Section 7 Endangered Species Act consultation was initiated with the USFWS and NMFS. The determination of "may affect, not likely to adversely affect" or "no effect" was made by the USFWS

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Exhibit 8
Key Due Diligence Findings

and NMFS. No formal Biological Opinion was published. This decision is documented in the Joint Aquatic Resource Permits Application ("JARPA").

Essential Fish Habitat Species

The determination of "may affect, not likely to adversely affect" or "no effect" resulting from the Endangered Species Act consultation with NMFS meets the requirements of the Magnuson-Stevens Act for the ESA-listed anadromous species (Middle Columbia ESU Steelhead Trout) and two anadromous fish not listed as threatened or endangered under the ESA (Klickitat River and Columbia River Hydrologic Unit Codes ("HUCs") Chinook Salmon and Columbia River HUC Coho Salmon).

Building Permit

A building permit was issued to NESCO³ in 2001, and an Occupancy Permit was issued to GEC by the City of Goldendale (Building Permit No. 3779).

Conditional Use Permit ("CUP")

A CUP and Variance were granted to GEC on November 2000 and were subsequently transferred from NESCO to GEC in October 2003. The CUP well determination was granted by Ecology (CRO Proposal Number CUP 2001-00012) on July 20, 2001. A letter from the City of Goldendale to GEC dated December 5, 2003 confirmed that GEC complied with all conditions in the CUP.

Right-of-Way ("ROW") Use Permits, Various Dates

The following ROW documents were reviewed: Amended Pipeline Easement, Easement for the Diversion Channel, Easement for Transmission Lines, and ROW easement to GEC for the following: access road to switchyard, overhead power lines, and overhead line to Columbus Avenue.

³ Calpine purchased the project from NESCO during the development phase. NESCO was the original developer of the Facility.

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Exhibit 8
Key Due Diligence Findings

Hydraulic Project Approval

A copy of the Hydraulic Project Approval ("HPA") issued by WDFW to Northwest Pipeline on November 28, 2000, was obtained. The HPA pertained to the construction of pipeline crossing at the Swale Creek, tributary to the Klickitat River. Carl Dugger with WDFW stated that an HPA was issued for the conduit crossing, but minimal fish concerns were associated with the project because the instream work occurred 15 miles from a fish-bearing stream.

Air Emissions

The GEC currently has two primary air permits governing operation of the Facility including a Notice of Construction and an acid rain permit. A Title V operating permit is pending (application was submitted in May 2005).

Notice of Construction ("NOC")

The Facility received a NOC from Ecology in February 2001. The NOC defined emission limits, operating conditions, and other regulatory requirements applicable to the Facility. Because the Facility accepted permit restrictions limiting emissions to less than 100 tons per year ("tpy") of any regulated pollutant, it did not trigger prevention of significant deterioration ("PSD") regulations, and was able to be permitted under the NOC program. Key conditions in the original NOC included:

- All pollutants limited to less than 100 tpy (the closest to the 100 tpy threshold that would trigger PSD was particulate matter smaller than 10 microns ("PM10"), with a limit of 98.9 tpy)
- Nitrogen oxides ("NOx") limit of 2 parts per million volume dry ("ppmvd"), 3-hour average
- Carbon monoxide ("CO") limit of 2 ppmvd, 1-hour average

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Key Due Diligence Findings

- Ammonia ("NH₃") slip limit of 5 ppmvd (1-hour average) for the first 12 months, and 3 ppmvd thereafter, with an explicit allowance in the permit for Ecology to potentially lower the limit based on actual operation data
- Production limit of less than 250 megawatts ("MW")⁴
- Facility start-ups limited to 50 per year

The NOC was revised in August 2003 to reflect the potential for natural gas with higher sulfur content than originally anticipated. The primary changes made in the second revision included:

- Changed best available control technology ("BACT") for sulfur dioxide (SO₂) and PM₁₀ to "exclusive use of natural gas", rather than the "exclusive use of pipeline quality natural gas" language in the original NOC
- SO₂ annual limit increased to 30 tpy, vs. 4.9 tpy in the original NOC
- SO₂ hourly limit increased to 22.2 pounds per hour ("lb/hr"), vs. 1.0 lb/hr in the original NOC

The NOC was revised most recently in January 2005. Revisions included:

- New language concerning generating capacity that loosens the limit on the lower capacity, i.e., the Facility can operate at the minimum level that demonstrates compliance with emission limits⁵
- Deletion of condition limiting to 50 startups per year, and addition of specific annual emission limit for the combined cycle unit that includes startups and shutdowns.
- Exemption of periods of shutdown from short-term emission limits
- Change in monitoring of stack flow rate and fuel nitrogen content

⁴ For clarification purposes, the Facility is limited to a 250 MW annual average or 2,190,000 MWhrs (250 MW x 8760 hours). At full capability (277 MW), the Facility would have to run at a 93% capacity factor to exceed this limit. The projected capacity factor of the Facility is approximately 40%.

⁵ The maximum capacity limit was unchanged (250 MW).

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Key Due Diligence Findings

Acid Rain Permit

Ecology issued the original acid rain permit in July 2002. The combination of the natural gas fired combustion turbine and auxiliary duct burners is considered an "affected unit", subject to the acid rain permit program. The acid rain permit imposes various monitoring and reporting requirements. Key provisions include:

- Requirement to hold allowances for SO₂ not less than the total annual emissions of SO₂ for the previous calendar year
- NO_x continuous emissions monitoring system ("CEMS")
- SO₂ emission monitoring
- Record keeping and reporting

The acid rain permit has been revised four times (most recently in November 2004) for administrative amendments, such as changes to designated representatives, date unit commenced operation, etc. The base requirements of the current acid rain permit are essentially what were detailed in the original permit.

Title V Operating Permit

GEC submitted an application to Ecology for a Title V Air Operating Permit in May 2005. Ecology issued a Notice of Completeness on May 26, 2005, but has not yet issued the Title V Air Operating Permit. The purpose of the permit is to consolidate all federally-enforceable permit conditions, including the acid rain permit. The potential for BACT to be revisited during the Title V issuance process is considered low risk because: (1) BACT has not been revisited in the two revisions to the NOC (other than a relaxation of the requirement to "natural gas" rather than "pipeline quality natural gas" in the first NOC revision), (2) the Facility is subject to current BACT levels (2.0 ppm for both NO_x and CO), and (3) the objective of Title V is to compile current requirements. New emission limits are generally not imposed during the Title V process; however, there may be operating permit specific administrative (e.g., reporting) requirements imposed.

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Ms. Lynette Haller, Ecology air permit manager with oversight responsibility for the Facility, was contacted recently regarding the Title V permit renewal process. She indicated that there has been no additional development due to Ecology's heavy workload. Ms. Haller indicated that the stringent ammonia slip emissions limit may be "open for discussion."

The Facility is now subject to a 3 ppmvd NH₃ slip limit, which is considerably more stringent than typical BACT limits of 10 ppmvd. Achieving the NH₃ limit will require a more robust catalyst maintenance program than other facilities. The catalyst may need to be replaced within the next four years (at six years catalyst life), at a cost of approximately \$1 million (note: GEC expects 7-10 years catalyst life). Actual required catalyst replacement date would be based on SCR performance data. The Facility does not have a vendor SCR performance guarantee and, thus, should not have to require a more frequent catalyst replacement (e.g., three-year changeout frequency) that is typically required as a condition of such guarantee.

Although the NH₃ limit is already more stringent than the typical BACT limit, it could be further ratcheted down in the future. NOC condition 3.2.2 allows Ecology to amend the ammonia emission limits "if lower ammonia emission limits are found to be achievable, based on actual operation of equipment as installed..." This provision has been in all three versions of the NOC, and Ecology has not yet revisited the T-BACT⁶ limit. Ammonia and nitrogen sources near the Columbia River Gorge have been receiving extensive press scrutiny within the last year, through articles in The Oregonian (Portland, Oregon) noting haze and acid deposition issues in the Gorge in winter, with likely sources being PGE's Boardman coal-fired plant and the Three Mile Canyon dairy farm. Revisiting the ammonia limit may receive public support, given the above and the extent of the comments in the first NOC revision concerning allowing increased

⁶ Toxic Best Available Control Technology

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Key Due Diligence Findings

sulfur dioxide emissions. A more stringent ammonia slip emissions limit would likely result in increased costs for the SCR catalyst maintenance program.

The Facility is not subject to carbon dioxide mitigation, since the Title V application was submitted prior to June 2004.

The CEMS for NO_x and CO were observed during the site visit and appeared to be in good order based solely on physical appearance.

Emergency generator and firewater pumps operate less than 50 hours per year. Duct burner operation has been less than 100 hours per year.

The oxidation catalyst has an expected lifetime of nine years. The first sampling of the media is not scheduled until approximately November 2006.

The operating report for July 2005 states that no compliance issues have occurred from opening up to July 31, 2005. Ecology performed an unannounced compliance inspection on July 21, 2005. The associated Ecology report dated October 7, 2005 notes no findings of non-compliance issues.

Air emission compliance tests were conducted by the Avogadro Group for 2004, 2005 and 2006. No significant issues were identified in the test results, but there is a minor issue with the sulfuric acid content calculation that should be corrected before the Title V permit is issued.⁷

GEC has committed to fund \$176,500 for providing ultra low sulfur diesel to the Goldendale area, to mitigate sulfur dioxide emissions from the Facility. The program was implemented in May 2005 after significant coordination with Ecology. GEC provided information that: "... it is Calpine's intent that such liability remain with GEC after the sale of GEC, and that PSE would indemnify

⁷ To calculate sulfuric acid air emissions Avogadro took the sulfur content of the pipeline gas and assumed that 100% converts to SO₂ and further assumed that 100% of the SO₂ converts to sulfuric acid. Under this assumption the Facility would be slightly out of compliance with its NOC permit, emitting 4.673 lbs./hr. which is above the 4.6 lbs./hr NOC permit limit. However, this 100% conversion calculation is extremely conservative and unrealistic because generally only 3% of SO₂ converts to sulfuric acid (and typically the highest conversion factor possible is 5%). So, either some direct testing of sulfuric acid emissions should be performed or a modification of the calculation method should be submitted to Ecology.

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Key Due Diligence Findings

Calpine for any continuing liability in respect thereof. The aggregate remaining liability is approximately \$150,000. Currently, that liability is pre-funded with a GEC bank account containing funds in the approximate amount of \$150,000. Any remaining funds in that account will be removed from GEC prior to closing the sale of GEC." PSE has included this cost in its pro forma.

In a memorandum to Ecology dated September 7, 2006, Calpine reported a period of excess NO_x emissions which occurred on August 14, 2006. The memorandum documented the magnitude of the emission or process parameter, the duration of the excess, the probable cause and the corrective actions taken. The exceedance appears to be a one time occurrence which was likely due to operator error. There is no indication yet on whether Ecology will issue a penalty for the exceedance.

Wastewater Management

The Facility discharges process wastewater under State Waste Discharge Permit No. ST-9236. The permit was issued by Ecology on December 5, 2006 and has an expiration date of December 31, 2010. The Facility is permitted to discharge neutralized wastewater to the City of Goldendale Industrial Park sewer system for eventual disposal at the City of Goldendale Publicly Owned Treatment Works ("POTW"). Wastewater includes non-oily wash water and cooling tower blowdown. Wastewater is neutralized, passed through an oil/water separator, and chilled to 75° F before it is discharged at a maximum daily discharge flow of 0.15 million gallons per day. Monitoring requirements include continuous monitoring of flow rate, temperature, pH; monthly measurement of oil and grease, copper, chromium, and zinc; and annual priority pollutant scan. Sanitary wastes are also discharged to the POTW.

In a memorandum to Ecology dated July 11, 2006, GEC reported a pH excursion incident that occurred on July 10 and 11, 2006. The pH level of the wastewater discharge stream exceeded the wastewater discharge permit conditions. The

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memo documented the magnitude of the excursion, cause of excursion, correction action taken at time of excursion, and the action taken to prevent re-occurrence. The excursion was caused by operator error.

Stormwater Management

GEC was granted stormwater discharge permission under the National Pollutant Discharge Elimination System ("NPDES") General Stormwater Permit for Industrial Activity (Permit Number SO3-004405) on September 25, 2001. This permit has since been revised by Ecology. A copy of the current Industrial Stormwater General Permit, dated August 21, 2002 and effective January 14, 2005, is on file at the Facility.

Correspondence from Ecology to GEC notes a "Non-Compliance Warning" dated January 26, 2004. The notice advised that Ecology did not receive quarterly Discharge Monitoring Reports ("DMRs") that were due August 14, 2003 and November 13, 2003. Subsequently, GEC submitted a DMR report in February 2004 for the second, third and fourth quarters of 2003 indicating that during these reporting periods, the pond level did not reach the overflow discharge pipe. Quarterly DMR submittals between the second quarter of 2003 and the second quarter of 2005 indicated there was no qualifying storm event during these reporting periods. Therefore no monitoring data were provided during this time for turbidity, pH, zinc, and oil and grease with the exception of one sample collected on January 30, 2004. Oil and Grease and TPH⁸ were not detected. Turbidity was reported at 27.0 NTU⁹ and the pH was 7.

There have been two stormwater discharges from the stormwater detention ponds, one in the fourth quarter 2005 and one in the first quarter 2006. Stormwater discharges were sampled and analyzed and the results were reported to Ecology.

⁸ Total Petroleum Hydrocarbons

⁹ Nephelometric Turbidity Unit, an optical measurement of water's ability to scatter and absorb light

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A Stormwater Pollution Prevention Plan ("SWPPP") and Storm Water Monitoring Program ("SWMP") was prepared December 23, 2003. This plan was updated August 8, 2006. The SWPPP has not yet been provided to Ecology.

According to the August 2006 SWPPP, the Facility is graded so that stormwater flows into vegetated drainage swales at the north and west of the site. The swales direct stormwater through an oil/water separator and into a detention and sedimentation pond. A secondary detention pond then receives the water before it is allowed to flow into Twin Buttes Diversion Canal, and ultimately to the Little Klickitat River.

As indicated by Facility staff, the stormwater detention ponds are being used in batch fashion; stormwater is allowed to accumulate and infiltrate, and discharge only when the capacity is needed. According to Facility personnel, there has been just one overflow from the second pond that resulted in a discharge to the creek since the Facility began operation.

Solid Waste Management

According to interviews with Facility personnel conducted on September 15, 2005, there is no landfill on the subject property. Non-hazardous refuse is picked up by the local vendor and ultimately disposed of at Roosevelt Landfill. Condition S7.C of the State Waste Discharge permit required GEC to submit a Solid Waste Control Plan no later than March 1, 2006.

Hazardous Material Handling and Storage and Hazardous Waste Management

The Facility's SWPPP reports that significant stored materials with the potential to spill include the following: a sulfuric acid tank, caustic tank, neutralization tank, oxygen scavenger tote, amine tote, chlorine inhibitor tote, corrosive inhibitor tote, biocide tote, aqueous ammonia tank, combustion turbine ("CT") lube storage tank, and steam turbine ("ST") lube storage tank. The storage location and methods of containment according to the SWPPP are described as follows:

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- Within the maintenance building is a hazardous materials storage area that includes closed lockers for flammable and other hazardous materials.
- Acids and caustics are used for water and wastewater treatment systems and are stored and used in the building and treatment areas and are contained by concrete vaults and berms.
- Boiler treatment chemicals are stored undercover with secondary concrete containment inside the boiler chemical feed building.
- The aqueous ammonia storage tank is located outdoors and has a concrete containment system with a volume of over 100% of the tank volume.
- One CT lubrication oil storage system with steel containment and one ST lubrication oil system with concrete vault containment are stored indoors.
- There are seven outdoor transformers that have concrete containments with rock blotters.

In addition, a total of 124 batteries are located throughout the Facility. In all approximately 400 gallons of electrolyte (acids) are stored within these batteries.

A Spill Prevention, Control and Countermeasure ("SPCC") plan dated June 1, 2004, was prepared for the Facility prior to the start of operation. The SPCC plan reported that there was no spill history since it was a new facility under construction. The containment structures to prevent spill oil from leaving the site include sumps, containment walls, and other secondary containment. A revised SPCC was prepared and certified by a Washington State Professional Engineer on February 6, 2006. The revised SPCC plan was prepared based on a model plan generated by GEC. According to the revised SPCC plan, the Facility has the capacity to store approximately 39,000 gallons of chemicals and petroleum products.

The Facility is classified as a Small Quantity Generator. Therefore, a hazardous waste contingency plan is not necessary. Hazardous material generated is handled by Safety-Kleen. Between June and September 2005, waste streams

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handled by Safety-Kleen included used oil and absorbent mixture, waste flammable liquid (Stoddard solvent), and waste sulfuric acid. The wastes were shipped to Safety-Kleen's Denton, Texas facility.

PSE's site inspection confirmed that hazardous waste and oil storage areas appeared clean and well-maintained with no evidence of spills.

Groundwater

Groundwater testing has not been undertaken by the Facility nor is it reportedly required. The Facility has no known or reported discharge to ground. A potential influence to local groundwater may be the Facility's unlined stormwater detention ponds.

Surface Water

The surface water features at the site include the stormwater retention ponds located near the northwest corner of the Facility and the Twin Buttes Diversion Canal located along the north boundary of the property. These are described in the stormwater section.

Noise

Noise monitoring is performed on a weekly basis, but was initially performed on a daily basis. Monitoring is done both at the residences and the property fence line.

B. Technical Due Diligence

The Facility is a conventional one-on-one combined cycle power plant currently owned and operated by Goldendale Energy Center, LLC, a wholly-owned subsidiary of the Calpine Corporation. The plant achieved commercial operation in September 2004 and is rated at approximately 252 MW base load and approximately 277 MW with duct firing. A General Electric ("GE") Frame 7FA+e Model 7241 combustion turbine ("CT") provides electrical power via a GE

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generator and exhaust heat to a Babcock-Hitachi heat recovery steam generator ("HRSG") which is used to generate high, intermediate, and low pressure steam. Steam generated by the HRSG drives a triple pressure Hitachi steam turbine ("ST"), similar in design to a GE AT10 steam turbine but with better vibration characteristics. A Siemens generator converts the mechanical energy from the steam turbine into electrical energy.

The overall conclusion of PSE's technical due diligence team is that the plant is clean, quiet, and well-designed. The plant has the latest emission controls that meet or exceed regulations. Operations and maintenance at the plant appear to have been carried out by conscientious and experienced personnel guided by good procedures.

The GE 7FA gas turbine is a mature, well-understood machine with hundreds of units installed around the world amassing more than 5 million operating hours. The availability of parts and service is considered to be excellent with both original equipment manufacturer ("OEM") and third party after-market support. The plant does not require fuel gas compression as gas is delivered at sufficient pressure for use in the CT.

Babcock-Hitachi provided the HRSG. Although supported by a smaller installed base, the Hitachi steam turbine and Siemens generator are recognized as reliable equipment.

Raw water supply is provided by the City of Goldendale. To reduce the consumption of water, the plant employs a condensing system that includes a conventional condenser and an air-cooled condenser operating in parallel. The manufacturer of this system has five other similar condenser cooling systems in operation around the world. The level of maintenance for the parallel condensing system is believed to be minimal.

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The electrical equipment on-site appears to originate from reputable manufacturers and be in good operating order. Klickitat County Public Utility District ("KPUD") owns and operates the substation on the Facility site. KPUD ownership begins at the high voltage side of the generator step-up transformer ("GSU").

The power plant is controlled by a system of local control panels, local instrumentation, and a central distributed control system ("DCS") supplied by ABB Bailey.

In general, the plant has a high level of equipment redundancy, (2 x 100% pumps, fans, etc.) so the number of spare parts required on site can be minimized.

GE 7FA Combustion Turbine

The GE 7FA combustion turbine and generator is a large frame, industrial-type machine with an axial flow, multi-stage compressor and power turbine on a common shaft. The gas turbine is directly coupled to an electric generator. The combustion turbine generator package includes the following systems and components:

- Inlet air filtration system
- Fuel system
- Dry low NOx combustion system
- On base piping for compressor online and offline water wash
- Hydraulic and lube oil systems
- Static starting system including Load-Commutating Inverter ("LCI") and low speed turning gear
- Turbine accessories compartment, generator auxiliary compartment, and package electrical control compartment designed for indoor installation

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- Fire detection and CO2 suppression system
- Hydrogen cooled generator
- Generator neutral grounding equipment
- Combustion turbine and generator temperature and bearing monitoring devices for temperature and vibration
- Generator static excitation system
- Mark V turbine control system.

The GE 7FA is a nominal 171 MW machine with an 18-stage compressor starting with rotor stage zero ("R0") and ending with rotor stage 17 ("R17"). Directly upstream of R0 are the inlet guide vanes ("IGVs"). Downstream of each rotor stage is a stator stage ("S0" through "S17") that directs airflow to the next rotor stage. The stators consist of individual freestanding airfoils. The tips of the airfoils serve as the sealing mechanism to the rotor. The stator vanes are held in the casing by axial (hook) grooves.

GE has reported incidents of distress, cracking, and liberation of the R0 and R1 compressor blades. These incidents are the result of thermal stresses at the root of the R0 and R1 compressor blades, caused by erosion from inlet fogging or online water wash. Liberation has also been known to occur as the result of a "p-cut" modification to the R0 blades that was an attempt to alleviate stresses induced by erosion from inlet air fogging or online water wash. The Facility's gas turbine does not have p-cut R0 blades and the Facility does not have an inlet fogger, nor has GEC ever performed an online water wash. The R0 and R1 blades were inspected per GE guidelines in May 2005 and no indication of cracking was found. This alleviates concerns related to the R0 and R1 blades.

Other technical issues exist with this engine and both the OEM and other third parties are actively working to resolve these problems. These problems include:

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- S17 guide vane vibration
- Transition piece cracking
- First stage turbine bucket cracking
- Second stage turbine shroud release

Some of these problems may exist for a significant portion of the engine's operating life requiring maintenance dollars to manage. A combustion inspection ("CI") is scheduled for Spring 2007 and will be the unit's first major maintenance.

Overall, the GE F-class turbines are robust, reliable engines with service and support available from both the OEM and third party suppliers. GE's F-class turbines dominate the F-class combustion turbine market, with the largest installed base of any manufacturer. Based on independent operating data, fleet average reliability is approximately 98% with availability of approximately 93%¹⁰.

Calpine owns a number of 7FA gas turbines. In order to reduce spare parts inventory value, spare parts are shared across the Calpine fleet. As a result of this business model, the Facility does not have significant CT spares on-site. As of August 29, 2006 the gas turbine had accumulated 8,445 operating hours and 170 starts. The hardware is 12,000-hour hardware which means the major maintenance is scheduled on 12,000-hour intervals. Earlier designs had 8,000 hour hardware, and it is understood that GE is developing 24,000 hour hardware that may be utilized in the future, increasing time between required maintenance.

Heat Recovery Steam Generator

Originally established in 1908 as a parts supplier for Babcock & Wilcox, Babcock-Hitachi K.K. now operates as a wholly owned subsidiary of the Hitachi Group. The group appears to focus efforts in Europe and Asia. As a result, few Hitachi HRSGs or boilers have been installed in North America. Service and spare parts

¹⁰ Reliability is equal to 100% minus the forced outage rate; availability is equal to 100% minus the sum of the planned outage rate (or percentage of time allocated for planned maintenance) and the forced outage rate.

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originate in either Japan or Europe. However, with the backing of Hitachi, the support and spare parts should be available for the life of the plant although more difficult to obtain than from a North American supplier.

The HRSG produces steam at three pressure levels. Heat absorption surfaces include the following:

- HP superheater and spray attemperator
- HP evaporator
- HP economizer
- Reheat superheater and spray attemperator
- IP superheater
- IP evaporator
- IP economizer
- LP superheater
- LP evaporator
- Feedwater preheater

The HRSG includes the following additional components:

- A free standing stack
- Two (2) 100% feedwater recirculation pumps and motors
- Continuous and intermittent blowdown system
- Safety relief valves (with silencers) and trim
- Start up vent valve with silencer
- A duct burner system to increase steam production
- A selective catalytic reduction ("SCR") system to reduce emissions of nitrous oxides ("NO_x")

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- A catalytic reduction system to reduce emissions of carbon monoxide ("CO")

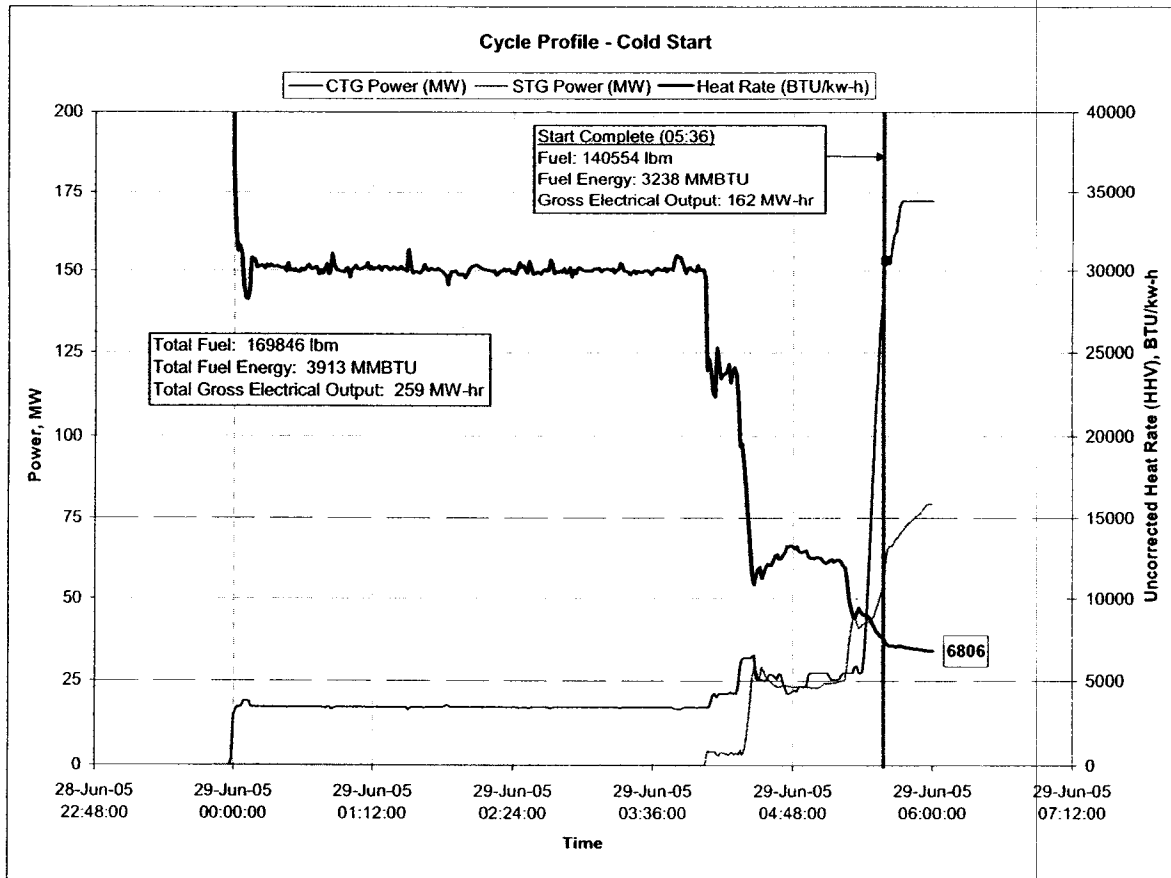
The most significant point to note regarding the HRSG is the welding and heat treatment for the high-pressure tubes and headers. In order to meet the design criteria imposed by the high temperature and pressure rating, Hitachi had to use steel that maintained strength even at high temperatures. The material in the high-pressure tubes and headers (P91/T91) must be post-weld heat treated to very tight specifications in order to avoid tube leaks. The documentation supplied by Hitachi indicates that the materials were heat treated to the minimum values required by the ASME code at the time of manufacture in 2001. However, experience with these materials in the field indicates that these minimum values may not provide enough time to thoroughly heat soak the materials and that tube leaks may occur frequently over the lifetime of the HRSG. This is common for HRSGs of this era, and is not expected to cause excessive maintenance or down time of the plant. Cyclic operation in itself will cause more frequent maintenance, as thermal stresses from temperature changes in the boiler can cause tube leaks.

As originally designed the plant was to supply base load power and experience few start-ups. To reduce the capital cost, bypass piping to allow a faster start was not included in the scope of supply of the HRSG. The realities of today's market have moved the default operating mode of the plant toward cycling and the absence of this bypass piping requires a cold start time of approximately 5-1/2 hours. Figure 1 shows a typical cold start regime for the plant. To reduce this amount of time, the HRSG would need to be modified to include bypass piping, which would allow HP steam into the reheat section of the HRSG, before cold reheat steam is available from the steam turbine. This means that the reheat section of the HRSG will be warm, and that the CT can ramp up much faster. It is estimated that the cold start time could be reduced by as much as two hours.

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PSE is currently evaluating whether the expected operation of the plant would justify such a modification.



**Figure 1 – Typical Cold Start
Selective Catalytic Reduction System**

Babcock-Hitachi also supplied the SCR system as part of the HRSG. The catalyst element consists of a coated active catalyst ingredient on a titanium dioxide base configured as a plate catalyst. Titanium dioxide as a base material has found widespread application.

The SCR system was designed to reduce emissions of NO_x formed in the combustion turbine and duct burner. The SCR uses aqueous ammonia to react with the NO_x, producing nitrogen and water. The reaction takes place in a catalyst bed incorporated into the HRSG. The catalyst bed is positioned in the

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HRSG to provide the optimum temperature range for the reaction to occur. The SCR system includes the following components:

- Aqueous ammonia storage tank
- Aqueous ammonia supply pumps
- Aqueous ammonia vaporizer
- Aqueous ammonia dilution blowers
- Distribution piping
- Injection nozzles
- Catalyst bed
- Catalyst housing

Steam Turbine and Generator

Steam generated by the HRSG flows to a 23-stage, tandem compound, triple pressure, reheat, condensing steam turbine manufactured by Hitachi. The Hitachi steam turbine couples to a 60-Hertz, 3-phase, 13.8kV Siemens generator. The ST train rotates at 3600 RPM and is rated at approximately 110 MW.

Hitachi has a substantial base of installed steam turbines and is recognized as a competent supplier of machinery. As is the case for the HRSG, service and spare parts originate in either Japan or Europe. However, with the backing of Hitachi, availability of support and spare parts should be good for the life of the plant though more difficult to obtain than from a North American supplier.

Siemens has provided equipment for the power generation business for decades. They have a reputation for providing quality equipment. Although headquartered in Europe, services and limited spare parts support can be provided from within the US. Availability of parts and service is considered to be good.

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The steam turbine and generator consist of the following systems and components:

- Turbine blading
- Turbine stop and control valves
- Gland seal system
- Turbine governing system with speed / load control adjusting devices
- Turbine bearings
- Hydraulic and lube oil systems
- Generator stator
- Generator rotor
- Generator barings
- Totally enclosed water to air cooled ("TEWAC") generator cooling system
- Excitation system
- Mark V control system

Condensate Recovery System

The condensate recovery system includes the hybrid (or parallel) air and water cooled condensers as well the condensate pumps, condenser hotwell, and deaerating system. During the initial due diligence effort, the hybrid condenser system was identified as one of the unknowns at the plant, however there has been no indication that the parallel condenser will be a high maintenance system. Neither portion of the system is in itself unusual; the cooling tower is a standard two cell, two speed evaporative cooling tower, and the air cooled condenser consists of 10 cells, with two speed fans.

The plant reported that the air cooled condenser has proven to be easy to operate and given few maintenance problems. The air and water cooled

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condenser are connected to a common duct at the exhaust end of the steam turbine. As a result of this design, both the wet condenser and air condenser experience the same vacuum. Changes in the amount of heat removed from either condenser changes the total system vacuum. As the steam turbine derives power from the difference between steam inlet temperature/pressure and steam outlet temperature/pressure, increases in vacuum result in lower steam turbine performance and vice-versa. On days when temperatures are high, the air condenser has a more difficult time dissipating heat to the atmosphere than the wet towers. As a result, either condenser vacuum must be allowed to increase or more water flowed to the cooling towers.

The control model for the hybrid condenser splits the load equally between the conventional wet condenser and the dry condenser. This is accomplished by varying the number and speed of the two motors in the wet tower and the ten motors on the dry tower. Once the fan speeds have been set, make-up water flow to the wet tower is adjusted to maintain basin level in the tower.

In order to continue operation in freezing weather, the wet tower must include air-side and water-side controls to avoid icing up. With two motors and two speed settings on each motor, adequate air-side control is provided for moderate freezing conditions. In cases of severe freezing, the fans need to be capable of reversing in order to bring the warm water into contact with the ice formations on the inlet. The tower does not appear to have this capability; therefore there is risk that in extreme freezing conditions, the wet tower would not operate. On the water side, a bypass line is included to allow the basin temperature to be maintained well above freezing in severe cold weather.

Water vapor condenses on both the wet and dry condenser and then drains back to the hotwell. Condensate from the hotwell drains to condensate pumps. The water flows from the condensate pumps through the HRSG low pressure preheater and from there to the HRSG high pressure/low pressure pumps. Both

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the condensate pumps and feedwater pumps have installed spares (2 x 100%) and have adequate valving and controls so that one pump could be removed from service for repairs while the other operates.

Distributed Control System ("DCS")

The DCS was manufactured by ABB Bailey. The DCS receives inputs and provides supervisory control of local control panels and the turbine control systems. The DCS consists of many individual components, each performing different functions, but all connected to create the system used to monitor and control plant equipment. ABB Bailey has been providing equipment to the utility industry for decades and lately has been expanding their market share through strategic acquisitions. There is strong support for their equipment in the US market.

Generator Step-Up Transformer ("GSU")

The GSU was manufactured by Hitachi. The GSU has two sets of low-side bushings: one set at 18kV for the CT and the other at 13.8kV for the ST. This is not unusual for a one-on-one combined cycle plant configuration without a bypass stack. The CT cannot operate separately in simple cycle mode, therefore only one GSU for the plant is needed. PSE has little in-house experience with this type of transformer and no spare parts. However, parts and support should be available for the life of the plant.

Fuel

The Facility is designed to run on natural gas only. No provisions exist at the plant for backup dual fuel operation.

Heat Rate

GEC has indicated that the Facility's heat rate is  (HHV) at 66.3°F and 13.838 PSIA.

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Over time, the performance of the plant and the gas turbine will deteriorate. Repair and replacement of worn components will partially restore the performance of the plant; however plant heat rate will not return to the new condition. In order to account for the degradation over the life of the plant, the nominal heat rate of the plant in its current condition would be expected to increase approximately 2%. Using this method, the lifetime heat rate of the plant can be estimated as:

$$\text{Heat Rate}_{\text{Degraded}} = (1.02)^* (\text{Heat Rate}_{\text{New}})$$

$$\text{HeatRate}_{\text{Degraded}} = (1.02)^* \left(\frac{\text{BTU}}{\text{KWh}} \right) = \frac{\text{BTU}}{\text{KWh}} \approx \frac{\text{BTU}}{\text{KWh}}$$

Potential Performance Upgrades

The following potential performance upgrades have been identified but costs have not been estimated:

- Inlet air cooling system - about 10 to 20 MW increased output in summer; however, inlet fogging or evaporative cooling could result in R0/R1 compressor blade issues
- Recalibrate inlet guide vane control - 10 to 20 MW increased output, but with a maintenance penalty
- CT steam augmentation for capacity or heat rate improvement, but with a maintenance penalty
- Install "Peak" firing temperature limits - about 10 MW increased output, but with a maintenance penalty
- HP steam re-circulation to the reheat section of the HRSG to speed plant startup

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C. Real Estate Due Diligence

Plant Property

Goldendale Energy Center, LLC ("GEC") owns four (4) parcels of contiguous property in Klickitat County, WA totaling 41.65 acres. Within the borders of, but exclusive of the 41.65 acre plant property, Klickitat County Public Utility District ("KPUD") owns and occupies a 4.04 acre site which is improved with an electrical switchyard. Easements for ingress and egress, overhead and underground electrical systems in favor of KPUD encumber the GEC 41.65 acre property. Additional easements granted to the City of Goldendale for a flood control channel and utility infrastructure, which includes Pacific Telephone and Telegraph for a telephone line and Northwest Pipeline for a 100 foot by 100 foot metering station and related gas delivery pipeline, occupy portions of the plant property.

The plant property is bordered on the north and east by industrial zoned lands. Property to the south is owned by Calpine Corporation and is General Rural residential zoned vacant land. West of the plant property is rural residential housing.

Adjacent Property

The property south and adjacent to the Plant Property is a 141.5 acre parcel owned by Calpine Corporation. The north border of the 141.5 acre parcel borders the south property line of the plant property as noted above as well as other industrial zoned lands. South, east and west of the 141.5 acre parcel is rural residential and agricultural property. While vacant of any formal structures, the 141.5 acre property is occupied with easements for telephone, natural gas pipelines and overhead and underground electric and transmission and distribution lines. PSE will acquire this adjacent property as part of the transaction.

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The 141.5 acre property is currently zoned General Rural (5 acre minimum) and is currently used for agricultural purposes under a farming lease. PSE would expect to continue this lease.

D. Insurance Due Diligence

The comments from PSE's property insurance engineer were generally good. All equipment and systems are fully commissioned and the installed fire protection systems are at industry standard or better. The plant management and operators are considered highly competent. The water supply for the existing fire protection systems is excellent.

There are four loss control recommendations requiring action, and any one of the identified exposures could result in a significant fire loss. The recommendations and estimated maximum implementation cost is [REDACTED] which has been included in the pro forma, and include the following.

- Extend CO2 protection to additional components of the gas turbine generator at an estimated cost of [REDACTED]
- Add fire protection, oil containment and drainage piping for the combustion turbine at an estimated cost of \$ [REDACTED]
- Upgrade the fire protection, oil containment, and drainage for the steam turbine at an estimated cost of [REDACTED]
- Confirm the generator building has a class 1 roof, or install fire sprinklers at an estimated cost of [REDACTED]. A class 1 roof is constructed of materials that will stop burning once the fire inside the building is extinguished. Without verification, PSE's insurer must assume the roof is class 2. GEC has been unable to provide the as-built drawings necessary to identify the roofing materials. PSE can confirm the classification by removing a small section of the roof and sending it to a testing lab. The

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estimated cost for testing, shipping, and removal and replacing the roofing material is 

The Facility includes one GE 7FA combustion turbine (CT). Recently, there have been compressor blade failures at other plants, resulting in significant damage to GE 7FA units. These blade failures have been linked to units that have been retrofitted with a p-cut design compressor blade. PSE's due diligence team has determined that the Facility's combustion turbine does not have the p-cut blades.

PSE's property insurer's current position is to provide unrestricted coverage for units without the p-cut blades, but requires compliance with GE Technical Information Letters ("TILs") 1509, 1389, and 1518. PSE's technology group has reported that TIL 1509 was completed in-house on May 25, 2005; TIL 1389 was never issued for this serial number CT, the plant does not have inlet fogging, and has never performed an online water wash; and TIL 1518 was never issued for this serial number CT.

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Exhibit 9
Risk Analysis

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Exhibit 9
Risk Analysis

The proposed acquisition of the Facility carries certain risks. PSE has identified these risks and developed plans to eliminate or mitigate them to the maximum extent that is commercially reasonable and practicable. This exhibit describes these identified risks and their proposed mitigation in the pre-closing and post-closing phases of this acquisition process.

Pre-Closing Phase

PSE is currently negotiating the Membership Interests Purchase Agreement ("MIPA") and its related exhibits. Upon execution, the Definitive Agreements would then be filed with the Bankruptcy Court pursuant to which PSE would act as a "stalking horse" bidder for the sale of the Facility. The pre-closing Phase covers the period until closing and focuses on satisfying the conditions precedent to closing and the risks inherent in the bankruptcy sale process. At closing, as is typically the case in most bankruptcy sales, PSE essentially would acquire the Facility's assets "as is" (as warranties and indemnities do not survive after the closing).

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Exhibit 9
Risk Analysis

Transition and Operating Phase

Certain risks exist after closing during the operating phase and these risks are discussed in the following table.

Risk	Possible Cause	Mitigation
Failure to obtain favorable rate treatment from WUTC of PSE's investment in the Facility	Acquisition deemed imprudent by WUTC	In the fall of 2005, PSE met with WUTC staff (Hank McIntosh) to discuss the potential acquisition of Goldendale, among other things. PSE has subsequently met with WUTC staff to continue to update them on the RFP selection process and the potential of an opportunistic purchase of the distressed asset. Further, contemporaneous analysis documentation of the energy resource acquisition process soundly supports that the Facility is a least cost resource in an environment of high resource costs and few, readily available alternatives. Given the significant rise in resource costs across all technologies, PSE's analysis of resource proposals has demonstrated that the Facility is a favorable addition to PSE's resource portfolio.

Risk	Possible Cause	Mitigation
Failure to obtain cost recovery of Facility depreciation and operating expenses prior to rate order	PSE does not receive an accounting order for deferral	PSE will seek rate recovery for the acquisition of the Facility in a rate filing to be made in early 2007. Prior to or coincidentally with the rate filing, PSE may file an accounting petition request for deferral of the Facility's depreciation and operating costs until resolution of the rate case. If a rate filing is made in early 2007 and closing of the acquisition occurs in March, there is a potential for unrecovered costs for depreciation and O&M expense of approximately \$11 million if rate approval is obtained by July 2007, and approximately \$22 million if rate approval is not obtained until December 2007.
Regulatory risk – loss of market rate	FERC 205	The acquisition of the Facility will require a change of status notification to FERC under Section 205 of the Federal Power Act. FERC may then request an updated power market analysis. Golden Energy Services has performed indicative studies for PSE and, overall, the results look very favorable.
Financial performance risk	High gas prices	PSE's power supply operations has an articulated plan to manage power and gas prices at the portfolio level by hedging portfolio power and positions up to two years forward. These hedges reduce exposure and help optimize the resource's performance

Risk		Mitigation
Deliverability of power from Facility to PSE load center	Transmission constraint costs	Calpine currently holds firm transmission contracts only to the Mid-C. Existing cross-Cascades transmission constraints limit the ability to move power to the PSE load center at certain times. PSE has mitigated this risk by buying 650 MW of additional firm cross-Cascades transmission capacity. BPA is currently in a public process to reassess and evaluate its transmission capability across its system. There has been preliminary indication from BPA that the Facility's Mid-C point of delivery may be redirected directly to PSE's load centers at Covington and Maple Valley. Obtaining such a redirect would provide both enhanced reliability and significant financial benefits to PSE customers of an estimated \$30 million net present value savings over 20 years or a \$5.35/MWh reduction on a levelized cost basis. Current economic analysis assumes no redirect. A decision by BPA is anticipated by the end of this year.

Risk	Possible Cause	Mitigation
Gas Transportation	Inability to secure transportation due to a competitive bid for capacity release	
Technology risk	GE 7FA compressor blade cracking	The Facility utilizes a GE 7FA combustion turbine. PSE recently received communication from its insurer regarding failures occurring with GE's P-cut compressor blades on their 7FA and 9FA units. PSE has confirmed with Calpine that its Goldendale plant does not have the P-cut blades. At the request of PSE's underwriter, PSE inspected the Facility on August 29, 2006 to confirm Calpine's information and to ensure that the Facility was in compliance with all of GE's Technical Information Letters ("TILs"). PSE has confirmed the absence of P-cut blades and compliance with the TILs. PSE's insurer has been satisfied.

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E9 - 9

Risk	Description	Mitigation
ERISA liability	Utilization of drop-down acquisition structure	For a short period prior to its acquisition by PSE, New LLC will be a member of Calpine's controlled group of companies. As a result, there is a slight potential for certain potential ERISA related liabilities of the Calpine group of companies to be assessed to New LLC, which liabilities would carry over to PSE via its acquisition and dissolution of New LLC. To mitigate these risks, New LLC will be formed immediately prior to the Closing so as to restrict, to the greatest extent possible, the actions of Calpine (such as the termination of an existing defined benefit plan) that could arguably be considered to have occurred while New LLC was in existence and owned by Calpine. In addition, PSE is undertaking further due diligence to confirm previous findings on the funding status of any multi-employer union plans to which Calpine contributes so as to confirm the absence of such plans or any such underfundings. Calpine also will make certain representations to PSE in the MIPA with respect to the absence of these types of ERISA and multi-employer plan liabilities, which will also offer some protections (and rights and remedies) to PSE pre-closing.

Risk		Probability/Impact	Mitigation
Insurability	Fire safety risk		As part of PSE's due diligence conducted in the fall of 2005, the roof housing the gas and steam turbines could not be determined to be a Class 1 roof without removing a roof section and sending it for analysis. PSE has allocated [REDACTED] in the proforma for roof and other insurance-related improvements.
Operating risk	Higher maintenance costs than forecasted		PSE's thermal asset manager has developed an plan to manage the O&M of the Facility This plan has been informed by PSE's experience as a half owner at Frederickson 1, which has virtually the same GE 7FA technology, and by outside advice from GE and from North American Energy Services, a nationally known leader in O&M services.
	Transition of operations and maintenance from Calpine to PSE		PSE's thermal asset manager, working across company departments, has developed a plan to manage the ownership transition. The plan, as set forth, in Exhibit 10 to this memo, envisions that the Facility will be operated by PSE employees, to the largest extent possible immediately after closing.

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Exhibit 10
Asset Management Plan

PSE Board of Directors
November 3, 2006

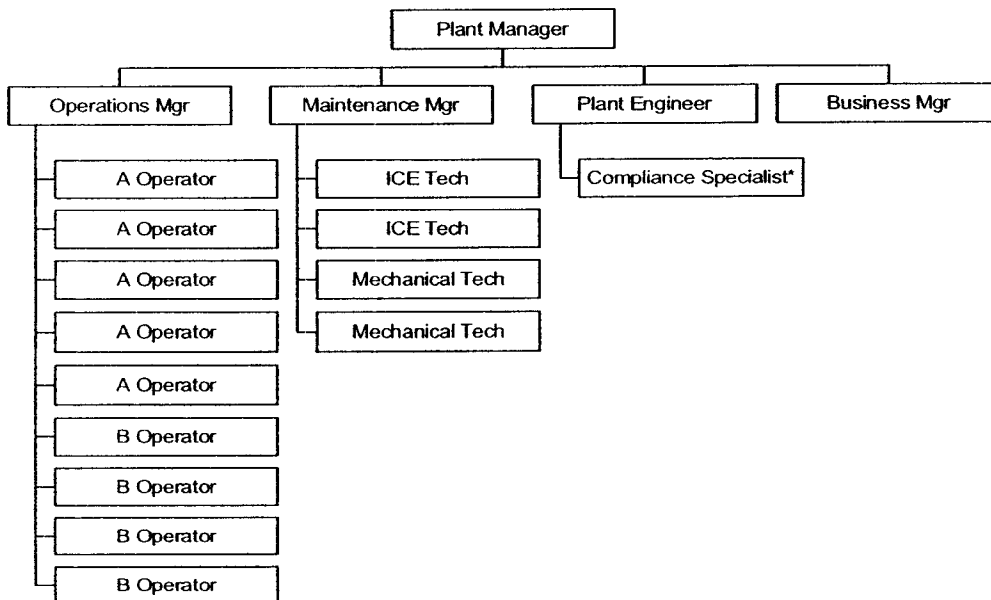
Exhibit 10
Asset Management Plan

Staffing Plan

Current Staffing

An Operations and Maintenance Agreement is currently in effect between Goldendale Energy Center ("GEC", "Facility") and Calpine Operating Services Company, Inc. ("COSCI"), a subsidiary of Calpine Corporation. The current staff consists of five (5) management positions, a shared Compliance Specialist (with Calpine's Hermiston plant), nine (9) plant operators, two (2) mechanical technicians and two (2) instrumentation and controls electrical technicians. The labor force at GEC is presently non-union.

GEC Current Staffing
(Does not include Calpine Corporate support for plant)



PSE Board of Directors
November 3, 2006

Exhibit 10
Asset Management Plan

Management (3) – PSE plans to operate the project with a Plant Manager, an Operations Supervisor and an Assistant Manager. Current management will be interviewed and qualifying employees will be transitioned to PSE at closing.

Craft personnel (14) – Presently the plant operates on a 12-hour rotating shift schedule similar to the DuPont schedule. PSE plans to interview and transition desired employees into the union pursuant to labor relations protocol. The preferred staffing level will maintain 12 CT Servicemen VI and 2 CT Technicians IV on a similar 12-hour rotating shift.

PSE will perform interviews with current staff. Upon completion of these interviews, PSE will extend contingent offers to successful candidates. At closing, GEC employees who have accepted the contingent offers will become PSE employees. To provide for the likelihood that not all of the current GEC employees will transition to PSE or that additional employees may be required, PSE has identified companies that provide temporary staffing services to fill this short-term need.

Additional Support

Thermal Assets (3) – EP's staffing plan identifies the need to incorporate a Program Manager to be part of the Thermal Asset group to provide the primary training for GEC as well as all of PSE's thermal assets. A shared Operating Clerk and Maintenance Analyst for GEC will be located in Bellevue to provide additional thermal asset support.

Plant Technical Services (2) – Furthermore, the plan includes an additional FTE within the Plant Technical Services ("PTS") group of EP. This position is designated to provide technical engineering support to GEC. Within PTS, a 4-year Engineering Aide position will be created to provide transitional support to aid in the transfer all technical drawings and documents from GEC to PSE.

PSE Board of Directors
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Exhibit 10
Asset Management Plan

Compliance and Resource Sciences (1) – Within EP, an Environmental Scientist will be hired to maintain compliance with all regulations applicable to the Facility.

Information Technology – SAP Support (1) – GEC's centralized Computerized Maintenance Management System ("CMMS") is supported by COSCI's IT technical support staff; both the server and staff are located outside of Washington state. PSE will need to transition the Facility to its own CMMS system. Plans to implement an independent CMMS module that will be operated in concert with PSE's current SAP system are underway. To achieve this, PSE will acquire an additional IT Consultant to design and maintain the new SAP CMMS with support from the new EP Maintenance Analyst. Implementation of the CMMS will be migrated to all of PSE's generation assets, once GEC's transition has been successfully implemented.

Materials Management (1) – A store clerk will be added to the Materials Management department to maintain proper tracking of plant inventory.

Transition Plan for Computer Services

Computerized Maintenance Management System (CMMS) – Internal development of the transition plan is in progress and may take several months to implement after closing. PSE will eventually transition all of its generating facilities to SAP for maintenance management. Until the SAP system is in place, PSE will maintain the maintenance schedules and inventory at the Facility by manually inputting data into current PSE-licensed software, or obtaining an interim maintenance management system. PSE's transition team is evaluating these options.

The Facility uses Maximo for the CMMS. PSE does not have a license for this software. If PSE determines that Maximo is the best option for continued maintenance planning until the final transition to SAP is implemented, PSE would purchase a license.

PSE Board of Directors
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Exhibit 10
Asset Management Plan

Historian software and communications – PI-design software is used at the plant as a data historian and planning tool. PSE holds multiple user licenses for PI. With some hardware additions at the plant and a new T1 line, data stored in the PI historian can be transferred relatively easily to PSE's East Side Operations.

Spare Parts Inventory Management

Spare parts – An extensive on-site evaluation of the current inventory of major component parts and Balance of Plant ("BOP") items was performed. The present value is estimated at \$2.5 million. This inventory is believed to be sufficient to support BOP maintenance, because the plant was designed with redundant systems for critical components (e.g., 2 x 100% fans or pumps).

The plant lacks a significant number of the components required to perform the first major maintenance, the combustion inspection ("CI") on the gas turbine. This CI is planned for the spring of 2007. PSE has allocated [REDACTED] million in the pro forma for new parts to be used in the CI. Discussions will be held with GE and other non-OEM vendors for the supply of the CI combustion components. The CI components will be capitalized as individual assets in accordance with FERC plant accounting practices. Once the CI has been completed, the parts currently installed in the turbine will be refurbished and stored at the plant at a depreciated value. This will increase the value of parts in inventory to approximately \$6.5 million.

Tools – The plant inventory includes plant maintenance tools, special maintenance tools, a boroscope, lifting equipment, computer hardware and other equipment used to maintain and operate the Facility.

Details of the spare parts inventory and maintenance costs are included in the pro forma, **Exhibit 5**.

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Risk	Possible Cause	Mitigation
Failure to reach closing	FERC 203 approval may require mitigation	Like the Frederickson I acquisition, PSE will be required to obtain FERC approval. Section 203 of the Federal Power Act requires FERC authorization for dispositions and acquisitions involving electric generation. To ensure that the transaction is in the public interest and does not result in the potential exercise of market power, the Commission staff applies market screen tests. PSE has engaged Golden Energy Services to perform analysis based on the Commission's methodology. This analysis indicates that PSE passes the screens that FERC weighs most; however, there are some areas of uncertainty. PSE recently met with FERC staff to obtain some indication as to how the addition of Goldendale may be viewed. It is possible that FERC may approve the acquisition contingent upon certain mitigating factors, as in the case of Oklahoma Gas & Electric, which required the utility to build additional transmission. PSE has inserted language in the MIPA that if substantial mitigation costs are required, PSE would have the option to not go forward with the acquisition.
	Hart-Scott-Rodino antitrust approval denied	Disapproval is considered to be a very low probability as the value of this transaction is relatively small in terms of PSE and the market in general. It is highly unlikely that this transaction would have any effect or potential effect on prices or lead to any market concentration from an antitrust perspective.

Risk	Possible Cause	Mitigation
	Environmental risk	A Draft Phase I Environmental Site Assessment was conducted by CH2M Hill in the fall of 2005. No evidence of recognized environmental conditions or other environmental concerns were revealed and no further investigative activities were deemed warranted. The Facility is a relatively recently-constructed greenfield site.
	Calpine breach of representations and warranties	The MIPA addresses a Calpine breach, whether intentional or otherwise. In the event of a breach that would be materially adverse to PSE, PSE would not be obligated to close unless and until Calpine had cured such breach. Although representations and warranties do not survive the closing, PSE's remedy in event of breach requires Calpine to carefully monitor the representations and warranties that it makes.
	Delay in satisfying any condition precedent to closing	The MIPA allows for a time period of 270 days after its execution for Closing to occur. This should be sufficient time to meet all conditions precedent necessary to close and PSE believes such conditions will be timely satisfied.
	Title questions regarding property, title, easements	The purchase of the adjacent parcel on the Facility's southern boundary has been negotiated as part of the transaction and is included in the proposed purchase price. PSE is currently performing due diligence to ensure that there are no additional risks that would render the purchase inadvisable. An extended title policy for full value of the acquisition will be secured.

	Inability to secure option to purchase firm natural gas transportation	
Bankruptcy process risk – inability to control outcome	Public auction could result in an increased purchase price or topping bid	If there are no other competing bidders, the bankruptcy court will order the sale of the Facility to PSE. If there are other competing bidders, then a bankruptcy auction will occur. During that auction, there is the potential risk of a “topping” bid. If unsuccessful in the auction, PSE will receive a breakup fee of 2.5% of the purchase price and its deposit would be refunded.
	Bankruptcy schedule could be delayed, which could delay closing	The anticipated closing schedule assumes the MIPA is executed at the end of October or early November. The motion for an order approving the bidding procedures would be filed within ten business days thereafter. Approximately, simultaneous with the filing of the motion for the bidding procedures order, PSE would make its FERC 203 filing and its Hart-Scott-Rodino filing. If there are other competing bidders, the anticipated schedule assumes that a public auction would be held in January or February and the final sale order submitted to the court shortly thereafter. The sale would close after receipt of regulatory approvals and Court orders. The MIPA requires that closing occur within 270 days of execution or the MIPA terminates.

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Exhibit 11
Gas Transportation Plan

Text in box is **Highly Confidential**

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November 3, 2006

Exhibit 11
Gas Transportation Plan

Natural Gas Transportation Service

The Facility is interconnected to the Northwest Pipeline ("NWPL") system by a 5.1-mile lateral that was constructed and paid for by the Facility, but is owned and operated by NWPL. GEC does not hold any long-term firm gas transportation on NWPL's mainline system and has, instead, relied on the short-term capacity release market.

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E11 - 1

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PSE Board of Directors
November 3, 2006

Exhibit 11
Gas Transportation Plan

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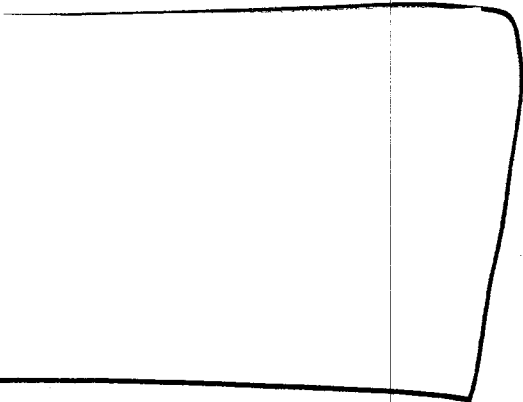
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Per WAC 480-07-160

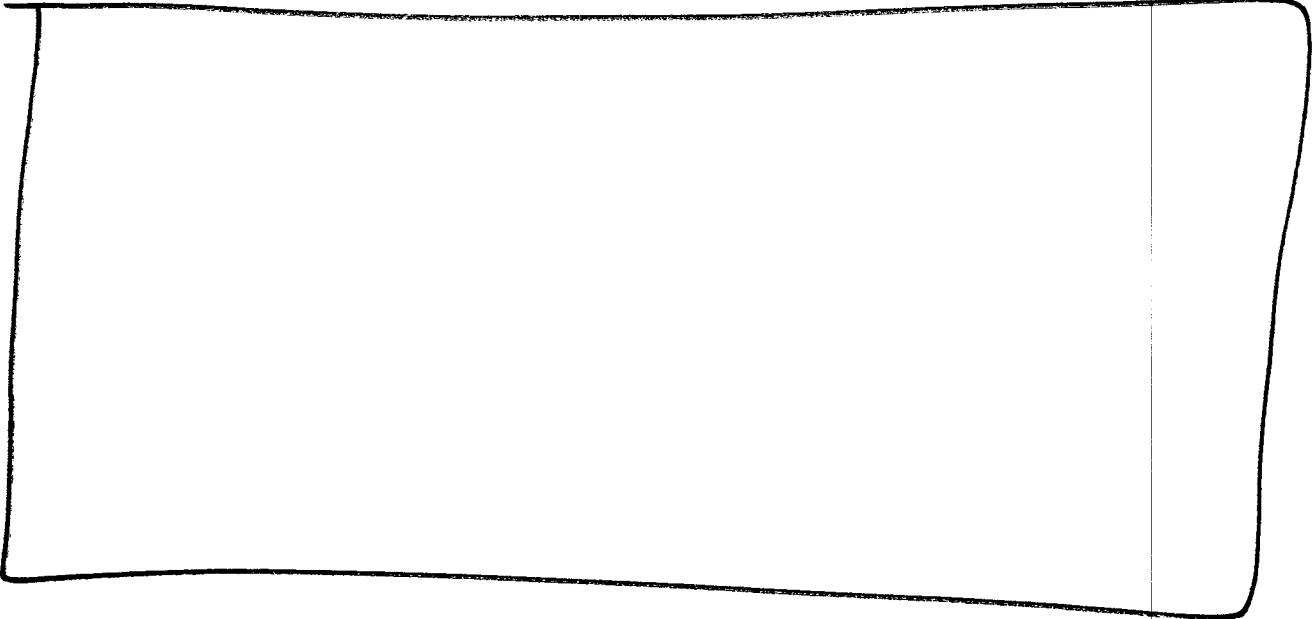
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PSE Board of Directors
November 3, 2006

Exhibit 11
Gas Transportation Plan



Variable charge	\$0.005 to \$0.03/Dth (pending outcome of NWPL rate case)
In-kind fuel reimbursement	2.3% of volumes received by NWPL
Exchange fee between GSO and PSO	\$250,000 annual
Maintenance fee for lateral to the Facility	\$12,000 annual



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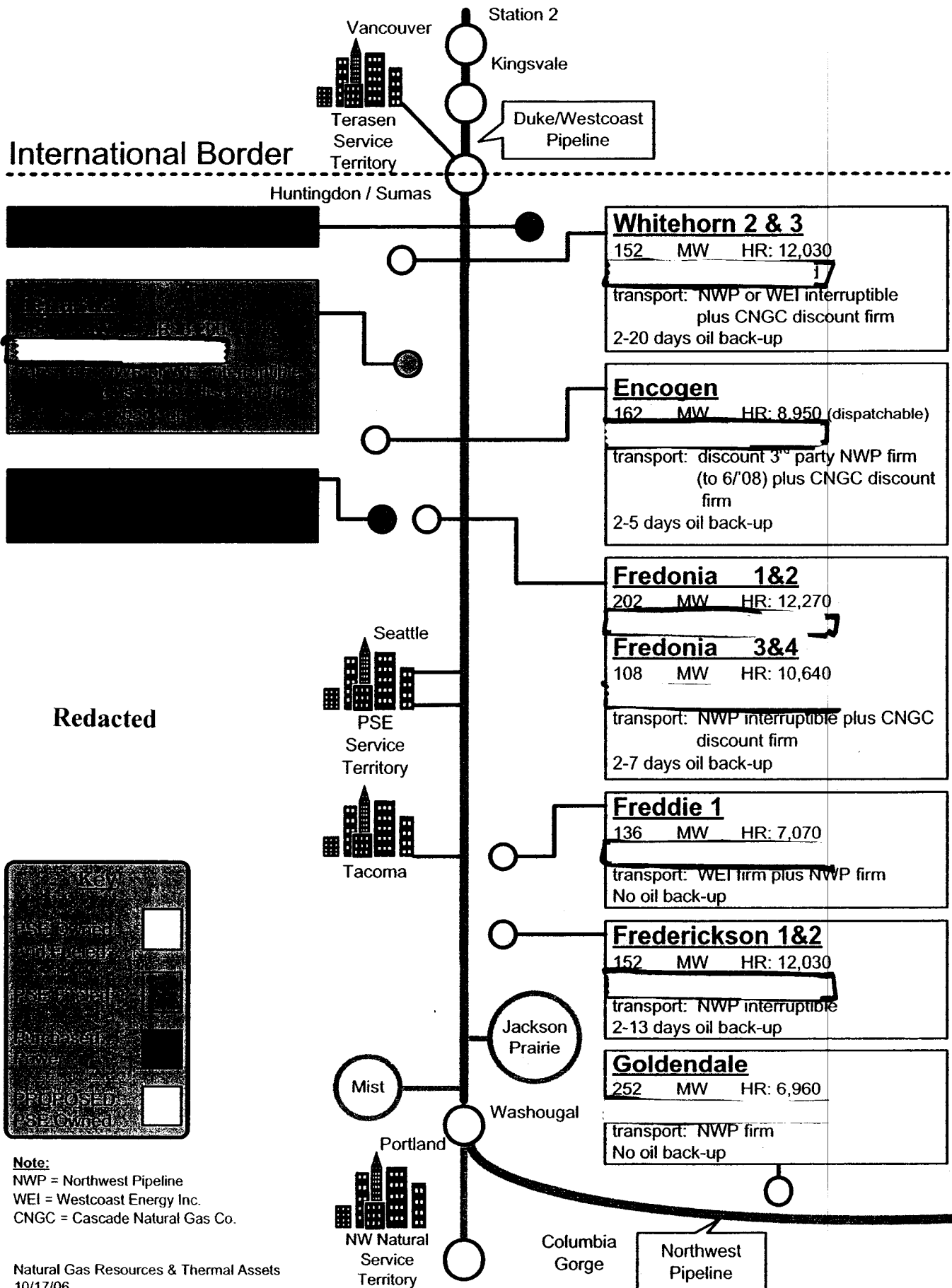
PSE GAS FIRED GENERATION

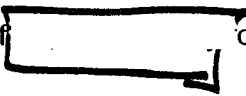
Exhibit 12
Gas Supply Hedging Strategy

PSE Board of Directors
November 3, 2006

Exhibit 12
Gas Supply Hedging Strategy

Gas Supply Strategy

The Facility will be served by firm natural gas pipeline capacity originating from British Columbia, specifically the Sumas trading point that interconnects the Duke/West Coast pipeline with Northwest Pipeline ("NWPL"). Therefore, PSE's natural gas price exposure will be tied to contracts forwardly traded at this delivery point. The heat rate optionality inherent in this power plant, and thus its dispatch protocol, will depend on the relationship between natural gas prices at Sumas and power prices at the Mid-Columbia trading hub.

The plant's heat rate driven dispatch characteristics will be added to PSE's existing portfolio, which is currently modeled in the KWI Risk System. Based on forward market heat rates, the model would assign monthly probabilistic run rates and gas supply requirements for the plant ranging from near zero to close to the maximum capacity of  or two years forward.

Fixed Financial Gas vs. Fixed Financial with Underlying Commodity

Although Sumas is not a liquid trading point, there is enough liquidity to effectively trade fixed financial natural gas contracts for the next two to three years forward, based on the probabilistic run assumptions. Since the Facility is an efficient power generator with a low heat rate vis-à-vis other power plants in the region, the plant is likely to be dispatched predominately from July through February annually when market heat rates tend to be highest. PSE would expect to see an increase in its natural gas short position in these months that will be managed through a combination of financial and physical gas purchases. However, with the volatility of market heat rates, a flexible gas management strategy is required to manage the cross commodity risk. In the case where heat rates rise, PSE will keep and exercise the financial and physical hedges. In the case where heat rates fall, rendering the Facility uneconomic, PSE would sell the financial gas contract and purchase power at Mid-C.

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E12-1

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November 3, 2006

Exhibit 12
Gas Supply Hedging Strategy

These hedges reduce the uncertainty of both the financial cost and physical supply. Purchasing the financial gas hedge and the underlying physical natural gas supply at an index (floating) price may force PSE to not only sell off the financial gas hedge, when heat rates collapse, but also the physical supply. This adds operational risk, particularly if heat rates are highly volatile in a particular month and the financial hedge is taken on and off numerous times.

This approach of purchasing financial gas hedges is consistent with current PSE portfolio management practices.

Exhibit 13
Transmission Plan

PSE Board of Directors
November 3, 2006

Exhibit 13 Transmission Plan

Current Transmission Arrangement

The Goldendale Energy Center ("Facility") is a 252-megawatt ("MW") combined cycle combustion turbine ("CCCT") generating facility with 25 MW of duct firing capability. It is interconnected to the Klickitat County Public Utility District's ("KPUD") E.E. Clouse Substation near Goldendale, Washington. From the E.E. Clouse Substation, the energy is wheeled over 9.8 miles of KPUD's 230 kV transmission line to where it interconnects with BPA's 230 kV Harvalum Substation, which is close to the Big Eddy 500 kV bus. From the Harvalum Substation, BPA then delivers the energy to the Northwest Market Hub ("Mid-C").

The location of Goldendale in relation to the Pacific Northwest's key 500 kV transmission lines is shown in Figure 1.

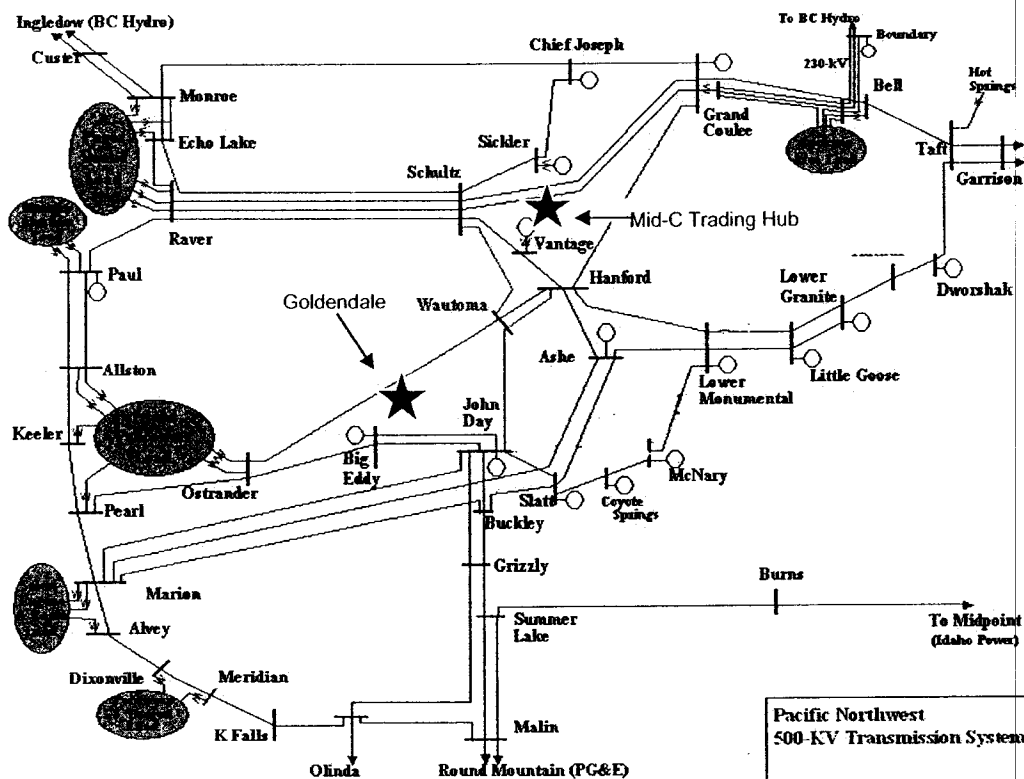


Figure 1

PSE Board of Directors
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Exhibit 13
Transmission Plan

Long Term Transmission Contracts

The Facility holds long-term, firm, point-to-point transmission service contracts with KPUD and BPA. The KPUD Transmission Agreement is a 30-year agreement that expires June 30, 2032. The maximum amount of reserved capacity and energy is 315 MW for the term of the agreement. The point of receipt (or interconnection) is the E.E. Clouse Substation and the point of delivery is BPA's Harvalum Substation. Although there is no provision for rollover rights in the contract, it is reasonable to assume that the agreement could be extended since the transmission line was constructed to connect the Facility to KPUD and, ultimately, to BPA.

The BPA Service Agreement is a 20-year agreement that expires January 1, 2024. The reserved transmission capacity is 250 megawatts and was acquired in two separate tranches. The initial point-to-point transmission capacity of 115 MW was awarded January 1, 2004. Once the line upgrades were completed at the BPA Harvalum Substation, the Facility received the remaining 135 MW on July 1, 2004. The point of receipt for the contracts is BPA's Harvalum Substation and the point of delivery is the Mid-C. The termination dates of the contracts are coincident and there is provision for rollover rights. The total contract quantity is less than the Facility's full capability of 277 MW with duct fire.

PSE will assume these transmission rights from GEC when it purchases the Facility.

PSE's Transmission Plan

The transmission plan has two components. First, because the BPA contract is insufficient to deliver the project at full capacity when duct firing, PSE's current plan is to use short-term firm and non-firm transmission for additional quantities above the 250 MW. BPA is reviewing its processes for offering short-term and

PSE Board of Directors
November 3, 2006

Exhibit 13
Transmission Plan

long-term transmission. PSE will closely monitor this process and adjust this plan as necessary.

The Facility's point of delivery is currently the Mid-C Trading Hub, which lies east of the Cascades. Transmitting power across the Cascades to PSE's load center has been increasingly challenging. As PSE's loads have continued to grow, PSE has relied on the short-term market for cross-Cascades transmission purchases to bring energy to its service territory. In December 2005, PSE made a transmission request to BPA for 650 MW of transmission capacity from Mid-C to its system. BPA awarded PSE 400 MW of its 650 MW request in September 2006 and the remaining 250 MW in October 2006. The awarded capacity ensures PSE greater transmission reliability not only from the Facility, but also from other resource purchases at Mid-C to meet winter peaking loads.

BPA is modifying its methodology for evaluating available network transmission capacity for existing resources. Through BPA's public process, the new methodology will be presented to interested stakeholders for comment. BPA estimates that a decision could be made by the end of 2006. Under an optimum and highly possible scenario, BPA would allow PSE to redirect the Facility's existing transmission rights so that the point of delivery could be moved from the Mid-C to PSE's service territory, allowing PSE to use all of its Cross-Cascades transmission capacity for other resources. Delivery of the Facility's energy to PSE's system via one BPA wheel provides greater reliability and reduces transmission costs. The impact is estimated to be a savings of \$5.35/MWh or approximately \$30 million of portfolio benefit. At this time, the pro forma does not include the redirect.

Refer to the pro forma in **Exhibit 5** for transmission pricing.

Exhibit 14
Regulatory and Accounting Issues

PSE Board of Directors
November 3, 2006

Exhibit 14
Regulatory and Accounting Issues

This exhibit addresses the following topics:

- Rate Recovery
- Income Statement Effects
- Other Miscellaneous Accounting

Rate Recovery

PSE will seek rate recovery for the Goldendale ("Facility") acquisition in filing made in early 2007 with the Washington Utilities and Transportation Commission ("WUTC"). The filing will be a Power Cost Only Rate Case ("PCORC") or a General Rate Case ("GRC"), and the type of filing will be determined by PSE's needs. State regulatory approval of the rates is anticipated five to eleven months thereafter, depending on the filing. The transaction closing date is estimated to be March 1, 2007. The filing may occur before the transaction is closed, and costs subsequently updated in the filing.

Concurrent with the rate filing, PSE may also file an accounting petition with the WUTC to request a cost deferral mechanism. Cost deferral is needed because the existing Power Cost Adjustment ("PCA") tracker limits the allowed cost of new resources to the lesser of the actual variable costs or the PCA baseline rate. The baseline rate effective July 1, 2006, is \$56.90/MWh. The variable operating cost of the Facility will likely be in excess of the baseline rate, assuming natural gas costs of \$8 per MMBtu. To prevent the charging of fixed operating costs, A&G, and borrowing costs without offsetting revenues, an accounting order is needed. Such an accounting petition would seek permission from the WUTC to defer costs of the Facility for recovery that would begin once the rate case order is issued. Costs to be deferred include the following: debt interest, depreciation, equity return, fuel, gas transportation, electric transmission and losses, fixed and variable operations and maintenance ("O&M"), other expenses such as property taxes and insurance, and the benefits related to energy generation. The energy generated by the Facility will reduce the need for spot purchases or increase the

PSE Board of Directors
November 3, 2006

Exhibit 14
Regulatory and Accounting Issues

level of spot sales depending upon PSE's loads. The energy benefits could be valued at market index prices and credited against the expenses in the cost deferral mechanism.

The PCORC would seek prudence determination for the acquisition of the Facility as well as other potential resource acquisitions or contract restructurings.

Income Statement Effects

Provided the WUTC approves accounting and rate treatments proposed with respect to the Facility and as described above, the Company expects to recognize income for financial reporting purposes substantially as described in the Stand-Alone Project Financial Pro Forma (see **Exhibit 5**). Absent WUTC approval for cost deferral, PSE will incur unrecovered costs. The amount of these costs depends upon when rates go into effect, but range from an estimated pre-tax of approximately \$11 million if rates are effective beginning July 2007 and approximately \$22 million if rates are effective beginning January 2008.

Other Miscellaneous Accounting

Property Accounting. PSE will capitalize its investment in the Facility as an electric utility plant fixed asset and depreciate the capitalized amount over its useful life beginning with the closing date. PSE will unitize the capital asset within a year of placing the unit in-service, segregating its original cost into appropriate retirement units of property categories.

Useful Life. For depreciation forecast purposes at this time, PSE is using an estimate of the useful life of 30 years for the turbines and generators. FERC permits utilities to redefine units of property coincidently with a new acquisition, and with the introduction of this new combined cycle technology into its fleet, PSE has determined it would be appropriate to redefine units of property for this Facility. These newly defined units of property and their appropriate depreciable life will be part of the regulatory filing.

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Exhibit 14
Regulatory and Accounting Issues

Spare Parts. Purchase of spare parts, whether related to this specific transaction or from other parts suppliers, will be recorded in inventory and expensed or capitalized, if units of property, as they are installed and used per PSE accounting guidelines. The purchase of spare parts will be recorded at the lower of cost or market value. For spare parts that can be refurbished and reused, the inventory value will be the lower of cost, less depreciated value or market value. The cost to refurbish a spare part will be expensed when incurred and the value of the refurbished spare part will be credited to the income statement when placed into inventory.

Land Purchase. The property will be capitalized and recovered consistent with the applicable accounting and FERC guidelines.

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Impact of Goldendale without Rate Recovery
\$000

Line		Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Mar-Jun	Mar-Sep	Mar-Dec
1	PCA "Fixed" Costs \$000															
12	No true-up O&M Costs			649	507	599	627	733	785	758	727	806	642	2,381	4,657	6,832
13				353	353	353	353	353	353	353	353	353	353	1,413	2,473	3,533
14	Depreciation (1)															
15				112,255												
16	Capital (1)			561	561	561	561	561	561	561	561	561	561	2,245	3,929	5,613
17	Interest Return	6%														
18																
19	Total Non-PCA Costs lines 12, 14, 17	\$ 1,563	\$ 1,422	\$ 1,513	\$ 1,541	\$ 1,632	\$ 1,659	\$ 1,654	\$ 1,648	\$ 1,689	\$ 1,672	\$ 1,642	\$ 1,557	\$ 6,039	\$ 11,059	\$ 15,978
20																
21																
22	PCA "Variable" Costs \$000															
23	Fixed Gas Transport															
24	Fixed Transmission															
25	Variable Gas Transport															
26	Variable Transmission															
27	Fuel Cost															
28	Subtotal Sch. G Variable Fuel and Trans.															
29																
30	Market Secondary (Sales) (2)															
31																
32	Net Variable Costs and Secondary Sales	\$ 455	\$ 1,124	\$ 1,632	\$ 1,659	\$ 1,654	\$ 1,654	\$ 1,654	\$ 1,644	\$ 1,656	\$ 1,656	\$ 1,656	\$ 1,656	\$ 4,871	\$ 5,365	\$ 6,475
33																
34	Pre-Tax Net Cost (Benefit)	2,019	2,546	3,145	3,200	2,301	2,301	2,301	1,556	1,556	2,500	974	2,556	\$ 10,910	\$ 16,424	\$ 22,453
35																
36																
37	If PCA deferral is within the deadband, then all costs would be a pre-tax hit to earnings															
38	A portion of the variable costs would not be allowed in the PCA deferral															
39	Exhibit G PCA Variable Costs Adjustment \$000															
40																
41	Subtotal Sch. G Variable Fuel and Trans.															
42	MWh Generation															
43	Unit Cost															
44	Lesser of PCA Baseline or Unit Cost															
45	Adjustment \$/MWh															
46	PCA Exhibit B #24 Adjust. Lines 42 - 45	(3,559)	(667)	(2,545)	(3,115)	(5,251)	(5,251)	(5,251)	(6,291)	(5,750)	(5,130)	(6,716)	(3,422)	(9,886)	(27,178)	(42,446)

Pre-tax impact \$000 to PSE earnings if Goldendale purchased and operated without cost deferral or recovery until date specified.

Exhibit G adjustment would effectively increase the downside PCA range that is met before cost sharing with customers.

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