

Exhibit ___ (KLE-11)
Docket U-072375
Witness: Kenneth L. Elgin

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of

DOCKET U-072375

**PUGET HOLDINGS LLC AND PUGET
SOUND ENERGY, INC.,**

**For an Order Authorizing Proposed
Transaction**

EXHIBIT TO TESTIMONY OF

Kenneth L. Elgin

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

***PSE Response to WUTC Staff Data Request 1043,
ICNU Data Request 3.56, and
Public Counsel Data Request 3022***

June 18, 2008

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket No. U-072375

**Puget Holdings LLC and Puget Sound Energy, Inc.
Joint Application for an Order Authorizing Proposed Transaction**

WUTC STAFF DATA REQUEST NO. 1043

WUTC STAFF DATA REQUEST NO. 1043:

RE: Testimony of Christopher J. Leslie

Referring to the direct testimony of Christopher J. Leslie, Exhibit ____ (CJL-1T) page 4, lines 20-21, please provide all studies, reports, and analyses he relied upon to reach the conclusion that PSE's capital requirements necessary expose PSE to volatility of capital market conditions.

Response:

Each of the Joint Applicants objects to WUTC Staff Data Request No. 1043 on the grounds that it is overbroad and burdensome and not reasonably tailored to WUTC Staff's legitimate discovery needs. Without waiving this objection, the Joint Applicants provide the following answer.

At pages 7 through 11 of the Prefiled Direct Testimony of Mr. Eric M. Markell, Exhibit No. ____ (EMM-1T), Mr. Markell testifies that Puget Sound Energy, Inc. ("PSE") has capital requirements for 2008-2013 of \$5.7 billion and will require external financing of \$3.4 billion. The terms and cost of such financing would be determined based on financial market conditions, which change over time. Accordingly, it is self-evident that PSE is exposed to the volatility of, or changes in, financial market conditions during the planning period and no studies, reports, and analyses are necessary to support this opinion.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket No. U-072375
Puget Holdings LLC and Puget Sound Energy, Inc.
Joint Application for an Order Authorizing Proposed Transaction**

ICNU DATA REQUEST NO. 03.56

ICNU DATA REQUEST NO. 03.56:

Provide all documents that discuss or analyze whether the costs of capital for PSE and/or Puget Holdings will be lower as a result of approval of the acquisition.

Response:

Neither Puget Holdings LLC ("Puget Holdings") nor Puget Sound Energy, Inc. ("PSE") conducted any analysis to determine whether the costs of capital for Puget Holdings or PSE will be lower as a result of approval of the proposed transaction.

Please also see Joint Applicants' Response to ICNU Data Request No. 02.01(c).

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket No. U-072375
Puget Holdings LLC and Puget Sound Energy, Inc.
Joint Application for an Order Authorizing Proposed Transaction**

PUBLIC COUNSEL DATA REQUEST NO. 3022

PUBLIC COUNSEL DATA REQUEST NO. 3022:

RE: THE JOINT APPLICATION (JA) [JA p. 14, II. 1-5]

Please explain why Macquarie and its infrastructure investors would be able to supply capital for Puget's pending rate base investments more cost-effectively than the capital markets generally, and provide any available support which demonstrates that cost-effectiveness.

Response:

The Joint Application does not state that the Macquarie Group and other members of the Investor Consortium would be able to supply capital to Puget Sound Energy, Inc. ("PSE") more cost-effectively than the capital markets generally.

The indirect ownership of Puget Energy, Inc. ("Puget Energy") and PSE by the Investor Consortium provides PSE with more flexibility as to how and when it finances the capital improvement program outlined in the 2007 Business Plan Update and Review than the financing currently available to Puget Energy as a publicly-traded company. This additional financial flexibility reduces the risk that (i) capital projects would be delayed or (ii) PSE is forced to incur high cost financing or less advantageous terms due to adverse market conditions.

Please see pages 7 through 11 of the Prefiled Direct Testimony of Mr. Eric M. Markell, Exhibit No. ___ (EMM-1T), in which Mr. Markell testifies that PSE must invest \$5.7 billion in utility plant between 2008 and 2013 to support the needs of its service territory. That capital expenditure program will require external funding of \$3.4 billion over that period (Exhibit No. ___ (EMM-1T) at page 9).

Not only are the aggregate capital program and external financing requirements very large in comparison to PSE's current capitalization of approximately \$6.6 billion (Exhibit No. ___ (EMM-4)), but once the individual contracts are commenced, they need to be funded to completion. Therefore, PSE has limited flexibility as to the rate of its capital

spending going forward. The fact that PSE's external funding needs are large and fixed puts PSE at risk of external financial market conditions.

Indirect ownership of PSE by the Investor Consortium reduces this external financing risk in the following ways:

1. **Amount and timing of common stock dividends** - Publicly listed utilities typically pay common stock dividends to satisfy investors' preference for current income. During periods of capital investment, such utilities issue common stock to fund investment and maintain proper capital structures, even though they are paying common dividends at the same time. Accordingly, while dividends support a utility's ability to raise equity, dividends also exacerbate the utility's external financing needs. Furthermore, common stock dividends are essentially fixed because, even though not legally required, decreasing common stock dividends to reallocate cash, even temporarily, can surprise investors and can adversely affect market price, which makes subsequent equity financings (necessary to maintain capital structure and access to debt) difficult. The members of the Investor Consortium understand that dividends may need to be deferred or reduced during periods of heavy capital spending.
2. **Reduced risk of short term swings in earnings and cash flow on financing availability, cost and terms** - Quarterly changes in earnings per share and cash flow affect the market price of utility equity and therefore the cost of such financing even though such short term swings may be caused by weather or other factors not fundamental to the long term value of the business. Long term investors, such as the members of the Investor Consortium, are more focused on longer term trends. Accordingly, indirect ownership of PSE by the Investor Consortium reduces the risk that that short term market factors will impede PSE's access to equity capital.
3. **Committed access to debt capital** - PSE has issued debt in the public markets and used various short term facilities on an interim basis. The short term facilities serve as a buffer in the event of adverse financing conditions in the public market. The Investor Consortium has already arranged debt capital commitments of \$3.55 billion, of which \$1.4 billion will be available to fund capital needs of PSE subsequent to the closing. Further, Macquarie's experience and relationships with lenders in the global infrastructure sector increases the depth and breadth of debt capital available to PSE. Accordingly, the size of the buffer, together with access to lenders familiar with the infrastructure sector, are substantially enhanced by the indirect ownership by the Investor Consortium, thereby reducing external financing risk.

Please see Attachment A to Joint Applicants' Response to Public Counsel Data Request No. 3069 for a copy of the 2007 Business Plan Update and Review.