EXHIBIT NO. ___(RG-13)
DOCKET NO. UE-06___/UG-06__
2006 PSE GENERAL RATE CASE
WITNESS: ROGER GARRATT

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	
Complainant,	
v.	Docket No. UE-06 Docket No. UG-06
PUGET SOUND ENERGY, INC.,	
Respondent.	

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

Risk & Credit

Vice President Finance & Treasurer Don Gaines

Credit Impacts of Resource Acquisitions Risk & Credit

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Owned Generation

- Plant financed with debt & equity
- Fuel volatility

Purchased Power Agreements

- Credit
- Imputed Debt

Risk & Credit Sources of Credit

Liquidity Facilities (# of Counterparties)

\$ 75 (a)

\$425

Receivables Securitization

\$350

Credit Agreement

(17)

Trading Counterparty Credit

\$109 (58) (73)

\$285

\$103

6)

Financial

Power

Gas

Total Sources

\$710

(a) Due to seasonal fluctuations in receivables balances, the minimum available is

\$75 million, the maximum is \$150 million.



Risk & Credit Uses of Credit

- **Liquidity Facilities**
- Sized to meet working capital needs
- Fluctuations in working capital needs
- Trading Counterparty Credit
- Hedging of gas & power positions
- Reduce volatility

Risk & Credit Imputed Debt

- imputed debt and interest cost to utilities with long term Standard & Poor's and Moody's Rating Agencies add power purchase agreements.
- Purpose is to make a fair comparison between utilities who buy power and utilities that own their resources.
- capital ratio and interest coverage ratio for companies The impact of imputed debt is a less favorable debt to with PPAs, and possible rating downgrade.

Risk & Credit Need for Stronger Balance Sheet

- PSE is presently rated "BBB-" / "Baa3"
- Striving for "BBB+" rating
- General Rate Case
- 45% equity ratio leverage
- 11.75% return on equity coverage ratios
- Increased credit quality

Risk & Credit

Benefits of a Stronger Balance Sheet

- Attract equity capital for owned resources
- Lower cost of debt capital
- Additional trading counterparty credit
- Offset impacts of imputed debt
- Increased credit quality
- Increased financial flexibility



Acquisition Analysis

Exhibit No.____Page 9 of 16___

Jim Elsea Financial Analysis Manager

Overview – Analysis Process **Acquisition Analysis**

Develop Acquisition Screening Model, ASM with 2005 start date **Jan 2004** Original PSM Wind Stage 1

Develop ASM logic for inter-annual wind variability

Wind Stage 2

Update gas forecast, CERA "rear view mirror"

All Source Stage 1

All Source Stage 2

S&P Risk factor 30%

Use bid information to update Aurora and PSM

- Re-optimized Aurora with CERA "rear view mirror" gas - Revisited LCP portfolios updated with generic costs based upon experience gained from RFP bids.

Updated annual volatility inputs to PSM

PSM6-3

July 2004

Consider 4 Scenarios →

price cap Base no

> **PSM6-3** Base

Low Gas

Reserve Margin RS PUGET SOUND ENERGY

Acquisition Analysis Imputed Debt

...included in LCP & Resource Acquisition Modeling

- S&P Methodology
- Demand charge or 50% of contract payment
- Discount at 10% to PV
- Multiply by 30% risk factor
- Calculate equity offset
- = equity ratio * (imputed debt / (debt ratio))
- Cost penalty
- = equity offset * pre-tax ROE
- Declines each year of forecast as current year of contract payment rolls off



Acquisition Analysis Credit Support

PPAs & Gas Supply

- New World of Contracting post 2001 both sides concerned with the other side's credit
- Existing PSE credit facilities not enough to cover credit requirements for new long-term power or fuel contracts
- (bonds) that will need an equity offset to maintain credit ratings. Purchasing Letters of Credit may require issuance of securities
- Off Balance Sheet Financing rating agencies may impute debt on the possibility that cash collateral will have to be posted.
- Other Costs: Letter of Credit fees



Acquisition Analysis Credit Costs - 10-year PPA

Preliminary Analysis

		Nominal	XNPV	Levelized
		000\$	8000	\$/MWh
А	A Contract Payments (no transmission)	633,446	414,510	43.50
В	Transmission	11,348	7,353	0.77
ပ		41,831	32,276	\$3.39
	SUBTOTAL		LE LA LAMBOUR LEVIN LE REPORTE LA	\$47.66
¢	A. (2000) (A. (200) (A. (2000) (A. (2000) (A. (2000) (A. (2000) (A. (2000) (A. (200)) (A. (2000) (A. (200) (A. (2000) (A. (200) (A. (2000) (A. (2000) (A. (2000) (A. (2000) (A. (2000) (A. (200)) (A. (2000) (A.	- Colo processor Advanta Advanta Advanta (Advanta (Advant		÷ 1
\Box	LoC Interest - PSE	C/5/9I	9,/18	\$1.02
Ш	LoC Interest - Counterparty	14,375	9,718	\$1.02
Щ	LoC Imputed Debt Equity Offset	190,385	124,156	\$13.03
	SUBTOTAL Credit		000000000000000000000000000000000000000	\$15.07
W	TOTAL Levelized Cost		2000	\$62.73

Credit Assumptions:

- Rate = 1.15%
- Credit Cap = \$125 million
- 100% Equity Offset

Recovery of Equity Offset Costs Acquisition Analysis

...resulting from LOC imputed debt

Approximate...

LoC Imputed Debt Equity Offset	uity Offset					240.0	
Key Assumptions:					oon inter en est in the interest of the intere		
LoC Posted Amount	\$ 125,000		POPULATION TO THE POPULATION OF THE POPULATION O	LEGISTON AL TOTAL CONTRACTOR OF THE CONTRACTOR O	000 100 100 100 100 100 100 100 100 100		Annonementaria (A. de Antonio Contratamente Contrata (A. de Antonio Anno Antonio Anton
Yr LoC put on Balance Sheet	2005	or year S&P	imputes d	S&P imputes debt on Letter of Credit	of Credit		
S&P Risk Factor	100%			and and an and an and an			
	2005 GRC		S&P LoC				
	Year-end		Imputed	Y4040000000000000000000000000000000000			
	Estimate		Equity				
	\$ 000		Offset		energia de la constanta de la		
Debt	\$2,440,398	25.0%	omnionodronos advocadas cadantas cadant	\$2,440,398	53.8%		
Equity	\$1,996,690	45.0%	\$ 102,273	\$2,098,962	46.2%	1.2%	1.2% incremental equity ratio
	\$4,437,088	100.0%		\$4,539,361	100.0%		TO DE COMMENT AND

needed to recover the equity offset for the imputed debt related to This increase in allowed equity ratio is in addition to the increase PPA payments.



Gas Hedge – Equity Offset Cost Acquisition Analysis

Hypothetical Example

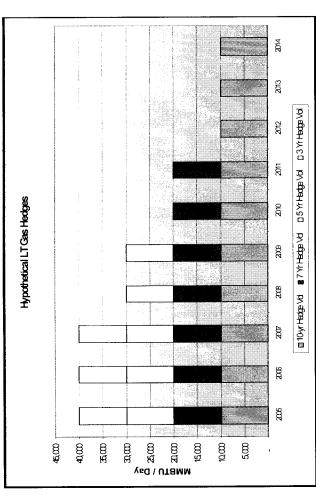
									Approx.	
Joseph Principles		***************************************				% Price	Stress		Treasury	Discount
					Year	Stress	Price	MTM \$MM	Yield Curve	MM8 MTM
250	MW plant capacity	acity	The second of th		-	30%	\$3.50	\$ 14.2	2.30%	€
%09	capacity factor				7	20%	\$4.00	9.5	2.80%	
7200	Heat Rate			• • • • • • • • • • • • • • • • • • • •	ဗ	20%	\$4.00	9.5	3.00%	8.79
150	aMW Expected annua		generation		4	20%	\$4.00	9.5	3.40%	
25,920	mmbtu / day gas requi		rement	And the second s	5	20%	\$4.00	9.5	3.80%	8.00
20	years	The first of the state of the s			9	20%	\$4.00	9.5	4.00%	7.63
\$5.00	average gas price	rice			7	20%	\$4.00	9.5	4.20%	
A Control of the Cont			00000000000000000000000000000000000000		8	20%	\$4.00	9.5	4.35%	
	VIVII (II) AND AND THE MARKET A DECEMBER AND A SECOND AND A SECOND AND A SECOND ASSESSMENT OF THE SECOND ASSESSMENT AS A SECOND AS	***************************************			6	20%	\$4.00	9.5	4.50%	
\$ 129.5	Imputed Debt			TO A STATE OF THE	10	20%	\$4.00	9.5	4.60%	6.17
\$ 106.0	Equity Offset		1000 0 1000 1 1000 1 100 1 100 1 100 1 100 1 100 1 100 1 100 1 100 1 100 1 100 1 100 1 100 1 100 1 100 1 100 1			20%	\$4.00	9.5	4.65%	5.87
Son and the second district of the second dis	TOTAL CONTRACTOR AND	The state of the s			12	20%	\$4.00	9.5	4.70%	5.58
A STATE OF THE STA					13	20%	\$4.00	9.5	4.75%	5.30
					14	20%	\$4.00	9.5	4.80%	5.02
					15	20%	\$4.00	9.5	4.85%	4.76
					16	20%	\$4.00	9.5	4.90%	4.51
					17	20%	\$4.00	9.5	4.95%	4.26
					18	20%	\$4.00	9.5	2.00%	4.03
					19	20%	\$4.00	9.5	2.00%	
					82	20%	\$4.00	9.5	2.00%	3.65
The second secon						200	000 Opening of the Control of the Co			\$ 129.5
	2005 GRC		O TO SE TO THE SECOND PROPERTY OF THE SECOND	Company of the second s						
	Year-end		Imputed							
	Estimate		Equity							
	& MM		Qffset 2005							
Debt	\$2,440	25.0%	,	\$2,440	53.7%					
Eauity	\$1,997	45.0%	\$ 106	\$2,103	46.3%		1.3%	incremental equity ratio	equity ratio	
Annual An	\$4,437	100.0%		\$4,543	100.0%					

Acquisition Analysis Gas Hedge

10,000 mmbtu/day \$22 million Credit Requirement

Assumptions:

- S&P liquidity stress test of 30% price change in first year and 20% thereafter
- Hedges are comprised of an equal mix of 10, 7, 5, and 3-year fixed price deals
- 10,000 mmbtu/day and a \$5 nominal fixed price
- Discounted at Libor/Treasury rates for terms of 1 to 10-years



First year Credit

10yr \$ 32.4M 7yr \$ 24.7M 5yr \$ 18.9M 3yr \$ 12.5M Average \$ 22.1M