

**Exhibit \_\_\_ (KLE-4)**  
**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**

***Puget Energy Proxy Statement, pp 48-52***

**June 18, 2008**

**PugetEnergy**



February 16, 2008

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Dear Shareholder:

You are cordially invited to attend the special meeting of shareholders of Puget Energy, Inc. on April 16, 2008 beginning at 10:00 a.m. at the Puget Sound Energy Corporate Campus, 10885 N.E. 4th Street, Bellevue, Washington 98004. You will find a map with directions on the back page of this proxy statement. Details of the business to be conducted at the meeting are given in the attached Notice of Special Meeting of Shareholders and proxy statement. Only common stock shareholders of record at the close of business on February 14, 2008 are entitled to vote at the meeting.

The special meeting is being called to consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of October 25, 2007, by and among Puget Energy, Puget Holdings LLC, a Delaware limited liability company, Puget Intermediate Holdings Inc., a Washington corporation and a wholly owned subsidiary of Puget Holdings LLC, and Puget Merger Sub Inc., a Washington corporation and a wholly owned subsidiary of Puget Intermediate Holdings Inc., whereby Puget Merger Sub Inc. will merge with and into Puget Energy with Puget Energy becoming a wholly owned indirect subsidiary of Puget Holdings LLC. The current direct and indirect owners of Puget Holdings LLC consist of a consortium of infrastructure funds and institutional investors led by Macquarie Infrastructure Partners, the Canada Pension Plan Investment Board and British Columbia Investment Management Corporation, and also includes Alberta Investment Management, Macquarie-FSS Infrastructure Trust and Macquarie Capital Group Limited.

If the merger is completed, Puget Energy shareholders (other than shareholders who properly exercise their dissenters' rights and other than Puget Holdings and the wholly owned subsidiaries of Puget Energy and Puget Holdings) will receive \$30.00 in cash, without interest and less any applicable withholding tax, for each share of Puget Energy common stock owned by them as of the closing of the merger.

After careful consideration, the Puget Energy Board of Directors unanimously determined that the merger is in the best interests of Puget Energy, approved, adopted and declared advisable the merger agreement and the merger and the other actions contemplated by the merger agreement and directed that the merger agreement be submitted to Puget Energy's shareholders for approval. Puget Energy's Board of Directors unanimously recommends that you vote **FOR** approval of the merger agreement.

As described in the enclosed proxy statement, the Board of Directors considered a number of factors in evaluating the merger and consulted with its legal and financial advisors. We encourage you to read this proxy statement carefully, including its annexes, as it contains detailed information about the merger agreement and the merger.

**Your vote is important regardless of the number of shares of Puget Energy common stock you own. Because the approval of the merger agreement requires the affirmative vote of the holders of two-thirds of the outstanding shares of common stock of Puget Energy, a failure to vote will have the same effect as a vote AGAINST the merger. Accordingly, whether or not you plan to attend the special meeting, please vote immediately by submitting your proxy.** Shareholders of record have three ways to vote their shares by proxy: (1) via the Internet, (2) by telephone and (3) by mail. To vote via the Internet or by telephone, you should follow the instructions on the enclosed proxy card. To vote by mail, you should complete and return the enclosed proxy card in the envelope provided. The envelope requires no postage if mailed in the United States.

We appreciate your continued interest in Puget Energy and look forward to seeing you at the meeting.

Sincerely,

Stephen P. Reynolds  
Chairman, President and Chief Executive Officer

This proxy statement is dated February 16, 2008 and is first being mailed to shareholders on or about February 20, 2008.

As compensation for its services in connection with the merger, the Company has agreed to pay Morgan Stanley a fee of \$15 million, of which \$5 million was paid upon public announcement of the transaction, with \$5 million pending shareholder approval of the sale, and the balance to be paid upon closing of the merger. We have also agreed to reimburse Morgan Stanley for certain expenses incurred by Morgan Stanley, including fees of outside legal counsel, and to indemnify Morgan Stanley and related parties against liabilities arising out of Morgan Stanley's engagement. Morgan Stanley has performed various investment banking services for the Company and for Macquarie Group Limited and its affiliates in the past (including financings and advisory services) for which it received customary fees, and Morgan Stanley expects to provide such services in the future for which it has received and expects to receive, customary fees. In the ordinary course of Morgan Stanley's securities underwriting, trading, brokerage, foreign exchange, commodities and derivatives trading, prime brokerage, investment management, financing and financial advisory activities, Morgan Stanley or its affiliates may at any time hold long or short positions, finance positions, and may trade or otherwise structure and effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of the Parent, the Company or any other company or any currency or commodity that may be involved in this transaction or any related derivative instrument.

As compensation for its services in connection with the stock purchase agreement and pursuant to the engagement letter relating to such services, upon the closing of the share issuance, the Company paid to Morgan Stanley approximately \$2.6 million, which is 0.875% of the aggregate value of the consideration paid for the shares of Company common stock issued.

#### **Interests of the Company's Directors and Executive Officers in the Merger**

When considering the recommendation of our Board of Directors in favor of the approval of the merger agreement, you should be aware that the members of our Board of Directors and our executive officers have interests in the merger other than their interests as Company shareholders generally, including those described below. These interests may present such directors and executive officers with actual or potential conflicts of interest and may be different from, or be in conflict with, your interests as a shareholder. The members of our Board of Directors were aware of these additional interests and considered them, among other matters, in approving the merger agreement and recommending that the shareholders approve the merger agreement.

The merger agreement reflects the Parent's intention that PSE's current employees and management team will remain, while most of the members of our Board of Directors will resign as of the effective time of the merger. As of the date of this proxy statement, no member of our Board of Directors or management has entered into employment agreements with the Company or PSE in connection with the merger. In addition, as of the date of this proxy statement, no member of our Board of Directors or management has entered into or is currently negotiating any agreement, arrangement or understanding with the Parent or its affiliates regarding employment with, or the right to purchase or participate in the equity of, Puget Energy (as the surviving corporation in the merger) or the Parent.

#### *Equity Compensation Awards*

In this section we describe the treatment of equity awards that are expected to be outstanding at the effective time of the merger. Pursuant to the merger agreement, we may grant, either before or after our special meeting, additional equity awards to our directors, officers and employees in accordance with existing Company plans in the ordinary course of operation of such plans and consistent with past practices. As of the date of this proxy statement, our Board of Directors has not made any determination in connection with the issuance of additional equity awards.

### *Treatment of Stock Options*

The Company's only outstanding stock options were granted to Mr. Reynolds as part of his initial employment agreement in 2002. These stock options are fully vested and are priced at \$22.51 per share. Under the terms of the merger agreement, Mr. Reynolds will be entitled to receive, for his stock options, a cash payment equal to the excess of \$30 per share or, if higher, the average of the last sale prices of our common stock on the New York Stock Exchange for the 20 business days preceding the effective time, over the per share exercise price for such options, multiplied by the number of shares of common stock into which such options were convertible immediately prior to the merger, less any applicable withholding tax. For illustrative purposes, the pre-tax amount to which Mr. Reynolds would be entitled in connection with the cash out of the stock options to purchase 300,000 shares he holds as of December 31, 2007, and valuing our common stock at the per share merger consideration of \$30, is \$2,247,000.

### *Treatment of Performance Shares*

The Company's performance share awards are designed to provide incentives for management, over a three-year period, based on our total shareholder return, which we refer to as TSR, relative to the EEI Combination Gas & Electric Investor Owned Utilities Index (70%) and performance outcomes based on service quality measures, which we refer to as SQI, during the relevant performance cycle (30%). Three performance cycles are currently in progress: the 2005-2007 performance cycle, which will be paid after the date of this proxy statement but before the expected effective time of the merger, the 2006-2008 performance cycle and the 2007-2009 performance cycle. No shares are actually paid until completion of a three-year performance cycle. The number of shares of our common stock payable pursuant to the performance share awards can range from 0% to a maximum of 175% for relative TSR and 110% for SQI, for a combined maximum of 155.5% of the number of performance shares granted.

Under the terms of the merger agreement, immediately prior to the effective time of the merger, the vesting of all outstanding performance shares will be accelerated and holders will be eligible to receive, less any applicable withholding taxes, a cash payment equal to (i) \$30 or, if higher, the average of the last sale prices of our common stock on the New York Stock Exchange over each of the 20 business days preceding the effective time, multiplied by (ii) the total number of shares of our common stock that would be issuable upon achievement of the target performance level or, if higher, of the performance measures achieved for each outstanding award cycle during the period beginning on the starting year of the applicable award cycle and ending with the fiscal quarter immediately preceding the effective time of the merger, plus (iii) the amount of dividend equivalents associated with the resulting number of shares.

The actual payouts for the 2006 - 2008 and 2007 - 2009 cycle performance awards at the effective time of the merger are not known at this time and will not be known prior to completion of the merger. Factors that will impact the ultimate payout level include the time it takes to secure regulatory approvals and satisfy other conditions to the closing of the merger, the performance of our common stock, the total shareholder return of the other companies in the peer group index, and the achievement of service quality measures through the effective time of the merger. For illustrative purposes, if the merger were completed as of December 31, 2007, with performance payout percentages and the resulting number of shares payable based on share performance and the other pre-established performance outcomes through the quarter ended December 31, 2007, and valuing our common stock at the per share merger consideration of \$30, the total pre-tax amounts to which our executive officers would be entitled with respect to the 2006-2008 and 2007-2009 cycles are as follows: Mr. Reynolds, \$4,315,078; Mr. Valdman, \$952,213; Ms. O'Connor, \$655,252; Ms. McLain, \$610,387; Mr. Markell, \$604,352; and for eight other executive officers, a total of \$2,762,649.(1)

### *Treatment of Restricted Stock and Restricted Stock Units*

Under the terms of the merger agreement, immediately prior to the effective time, vesting of all restricted stock and restricted stock units will be fully accelerated and holders will be eligible to receive, for the total number of shares for which restrictions would lapse or shares would be issued upon full vesting of the awards, a cash payment equal to \$30 per share or, if higher, the average of the last sale prices of our common stock on the New York Stock Exchange over each of the 20 business days preceding the effective time, less any applicable withholding taxes. For illustrative purposes, the pre-tax amounts to which our executive officers would be entitled in connection with the cash out of invested restricted stock and restricted stock units they hold as of December 31, 2007, and valuing our common stock at the per share merger consideration of \$30, are as follows: Mr. Reynolds, \$751,110; Mr. Valdman, \$445,620; Ms. O'Connor, \$287,100; Ms. McLain, \$246,690; Mr. Markell, \$244,650; and for eight other executive officers, a total of \$1,145,370.(2)

### *Employment and Change of Control Agreements*

#### *Mr. Reynolds' Employment Agreement*

Pursuant to Mr. Reynolds' employment agreement entered into as of January 2, 2002 and subsequently amended, upon completion of the merger, Mr. Reynolds will be entitled to the following benefits in addition to the accelerated vesting and cash out of his equity awards as described above:

- payment of an amount equal to three times his then current annual base salary and target annual incentive bonus;
- accelerated vesting of his Performance-Based Equivalent Stock Account under the Deferred Compensation Plan for Key Employees;
- continued medical, dental, disability, life and other insurance benefits, at the Company's expense, for a period of three years after termination of employment or until Mr. Reynolds obtains similar coverage through another employer, whichever occurs first; and
- payment of an amount equal to any excise taxes imposed by Section 4999 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code (or similar taxes payable under any federal, state or foreign law), due to payments received under his employment agreement or any other payment or benefit from the Company or PSE, plus an amount equal to the income taxes payable by him as a result of this cash payment.

- (1) These amounts exclude amounts attributable to the 2005-2007 cycle performance awards that were outstanding as of December 31, 2007 but pursuant to their terms will vest and be paid prior to the anticipated effective time of the merger. Based on the same assumptions as described for the 2006-2008 and 2007-2009 cycle performance awards, the hypothetical pre-tax amounts to which our executive officers would be entitled with respect to the 2005-2007 cycle are as follows: Mr. Reynolds, \$2,403,223; Mr. Valdman, \$725,691; Ms. O'Connor, \$263,897; Ms. McLain, \$474,523; Mr. Markell, \$464,656; and for eight other executive officers, a total of \$1,337,466.
- (2) These amounts exclude amounts attributable to awards that were outstanding as of December 31, 2007 but pursuant to their terms would vest and be paid prior to the anticipated effective time of the merger, including for Mr. Reynolds certain awards that would vest on the date of the 2008 Annual Meeting, as follows: Mr. Reynolds, \$2,611,775; Mr. Valdman, \$109,494; Ms. O'Connor, \$84,297; Ms. McLain, \$70,395; Mr. Markell, \$69,554; and for eight other executive officers, a total of \$427,634.

### *Change of Control Agreements*

PSE has entered into change of control agreements with each of the other executive officers of PSE, the terms of which are the same for all of the executive officers. These agreements were originally entered into for retention purposes when the individual first became an executive officer on dates ranging from 1999 to 2006 and were amended and restated in 2006. The change of control agreements provide that upon completion of the merger, the officers will receive accelerated vesting and cash out of equity awards, as described above, and any officer who is not already vested in his or her benefit under the Supplemental Executive Retirement Plan, which we refer to as SERP, because the officer is not eligible for retirement will become vested in such benefit.

If at any time during the two-year period following the merger, an officer is terminated without cause or due to death or disability, or the officer terminates his or her employment for good reason, PSE (or its successor) must pay the officer a lump sum cash payment as follows:

- a severance payment equal to three times the sum of the officer's then current annual base salary and the greater of the officer's target annual incentive bonus for the year and the average of the officer's target bonus for the three years prior to the merger (this payment will be reduced to one times the sum of such salary and annual incentive bonus if the officer does not execute an acceptable release of claims);
- a pro rata portion of the officer's annual incentive bonus for the year; and
- a lump sum SERP benefit equal to the difference between the actuarial equivalent of the benefits the officer would have received under the PSE Retirement Plan and the SERP had his or her employment continued during the two-year period after the change of control and the actuarial equivalent of the officer's actual benefits under such plans.

In addition, for the remainder of such two-year period, the officer and his or her family will continue to receive the welfare and fringe benefits that they would have been provided if the officer's employment had continued during the two-year period (which benefits may not be less favorable, in the aggregate, than the most favorable such benefits provided during the 90-day period immediately preceding the merger or at any time thereafter with respect to other peer executives). However, if the officer obtains similar medical and other welfare benefits through another employer, then the benefits provided under the change of control agreement will become secondary and the officer will no longer be entitled to receive fringe benefits.

If any payments paid or payable under the change of control agreements or otherwise are characterized as "excess parachute payments" within the meaning of Code Section 280G, then the officer is entitled to a cash payment equal to any excise taxes imposed by Code Section 4999 due to payments received under the agreement or any other payment or benefit received, plus an amount equal to the income, excise and other taxes payable by the officer as a result of this cash payment.

The following table reflects the estimated amount of incremental compensation payable to the executive officers and group named in the table (i) upon completion of the merger and (ii) after the merger only in the event of an involuntary termination of the officer's employment without cause or by the officer for good reason. For illustrative purposes, the amounts shown assume the merger was

completed as of December 31, 2007 and the price of our common stock was equal to the per share merger consideration of \$30.

<u>Executive Officer</u>	<u>Upon Change of Control</u>	<u>After Change of Control Only if Involuntary Termination w/o Cause or for Good Reason</u>
<b>Stephen P. Reynolds</b>		
Cash Severance (salary and annual incentive)	\$4,440,000	0
Performance-Based Retirement Equivalent Stock Account (vesting accelerated)	0	0
Benefits Continuation	(1)	23,400
Estimated Excise Tax Gross-Up(2)	3,360,983	10,746
<b>Bertrand A. Valdman</b>		
Cash Severance (salary and annual incentive)	\$ 0	\$1,864,458
Prorated Annual Bonus	0	0
SERP (additional years of credited service)	0	509,869
Benefits Continuation	0	46,840
Estimated Excise Tax Gross-Up(2)	0	1,265,626
<b>Jennifer L. O'Connor</b>		
Cash Severance (salary and annual incentive)	\$ 0	\$1,342,628
Prorated Annual Bonus	0	0
SERP (additional years of credited service)	(3)	414,871
Benefits Continuation	0	37,840
Estimated Excise Tax Gross-Up(2)	(4)	731,956
<b>Susan McLain</b>		
Cash Severance (salary and annual incentive)	\$ 0	\$1,239,651
Prorated Annual Bonus	0	0
SERP (additional years of credited service)	0	117,800
Benefits Continuation	0	25,600
Estimated Excise Tax Gross-Up(2)	0	794,825
<b>Eric M. Markell</b>		
Cash Severance (salary and annual incentive)	\$ 0	\$1,440,000
Prorated Annual Bonus	0	0
SERP (additional years of credited service)	0	450,937
Benefits Continuation	0	37,840
Estimated Excise Tax Gross-Up(2)	0	1,055,209
<b>Eight Other Executive Officers</b>		
Cash Severance (salary and annual incentive)	\$ 0	\$7,666,337
Prorated Annual Bonus	0	0
SERP (accelerated vesting/additional years of credited service)	531,944	2,033,869
Benefits Continuation	0	253,760
Estimated Excise Tax Gross-Up(2)	0	4,703,063

(1) Mr. Reynolds would be entitled to receive an additional \$23,400 if his employment were terminated at the time of the merger, representing three years of Benefits Continuation, plus an additional \$10,746 in Estimated Excise Tax Gross-Up.