

**EXHIBIT NO. ___(EMM-7)
DOCKET NO. UE-07___/UG-07___
2007 PSE GENERAL RATE CASE
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___
Docket No. UG-07___**

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

DECEMBER 3, 2007

Final Rate Order: A Mixed Bag
■ Rate increase in line with expectation

On Friday, the WUTC authorized Puget an increase of \$17 MM in electric and \$31 MM in gas rates based on 10.4% ROE, 44% equity (vs. 11.25% ROE and 45% equity requested) and \$4.2 B rate base. We are pleased with certain aspects of the order in that the WUTC did not disapprove any aspect of the rate base and modestly raised the ROE and equity ratio from the last general rate case.

■ Order falls short in non-traditional ratemaking requests

The rate order does not completely address the issue of regulatory lag that Puget faces. The WUTC did not approve a depreciation tracker but did allow the company to seek out-of-period adjustments to the rate base so long as the amounts are not large so as to trigger a general rate proceeding. We expect Puget to continue to under-earn its authorized ROE.

■ Maintaining '07E EPS of \$1.65; Introducing '08E EPS of \$1.70

Our EPS estimates do not capture potential exposure to unrecovered fuel and purchased power costs. The WUTC left the current PCA dead band and sharing bands unchanged and did not extend the \$40 MM cap that could have mitigated the financial exposure. However, Puget can seek frequent true-ups of the power cost baseline rate.

■ Valuation: Maintaining Neutral 2 rating and \$25 price target

Our price target (derived using DCF) implies 14.7x PE on '08E EPS. We expect Puget to continue to trade at a discount to peers given higher regulatory risk.

Highlights (US\$m)	12/04	12/05	12/06E	12/07E	12/08E
Revenues	2,199	2,573	2,532	2,631	2,688
EBIT (UBS)	403	392	437	473	487
Net income (UBS)	151	146	180	192	199
EPS (UBS, US\$)	1.51	1.42	1.55	1.65	1.70
Net DPS (UBS, US\$)	1.00	1.00	1.00	1.00	1.00

Profitability & Valuation	5-yr hist. av.	12/05	12/06E	12/07E	12/08E
EBIT margin %	15.5	15.2	17.3	18.0	18.1
ROIC (EBIT) %	-	11.6	11.6	11.8	11.8
EV/EBITDA x	-	5.9	6.4	6.0	5.8
PE (UBS) x	-	15.8	16.2	15.2	14.7
Net dividend yield %	5.9	4.5	4.0	4.0	4.0

Source: Company accounts, Thomson Financial, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$24.99 on 08 Jan 2007 12:22 EST

Ronald J. Barone
Analyst
ronald.barone@ubs.com
+1-212-713 3848

Shalini Mahajan, CFA
Analyst
shalini.mahajan@ubs.com
+1-212-713 2491

Americas

Electric Utilities

Rating **Neutral 2**
Unchanged
Price target **US\$25.00**
Unchanged
Price **US\$24.99**

RIC: PSD.N BBG: PSD US

8 January 2007
Trading data

52-wk. range	US\$25.76-20.41
Market cap.	US\$2.90bn
Shares o/s	116m
Free float	80%
Avg. daily volume ('000)	324
Avg. daily value (US\$m)	7.9

Balance sheet data 12/06E

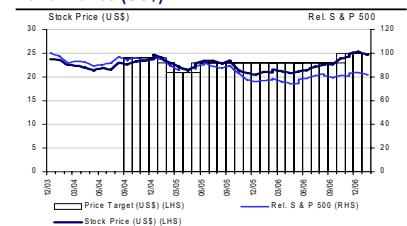
Shareholders' equity	US\$2.05bn
P/BV (UBS)	1.2x
Net cash (debt)	(US\$2.77bn)

Forecast returns

Forecast price appreciation	+0.0%
Forecast dividend yield	4.0%
Forecast stock return	+4.0%
Market return assumption	9.8%
Forecast excess return	-5.8%

EPS (UBS, US\$)

	12/06E			12/05
	From	To	Cons.	Actual
Q1	0.63	0.63	0.63	0.68
Q2	0.26	0.26	0.26	0.15
Q3	0.08	0.16	0.14	0.06
Q4E	0.57	0.49	0.53	0.52
12/06E	1.55	1.55	1.50	
12/07E	1.65	1.65	1.64	

Performance (US\$)


Source: UBS

www.ubs.com/investmentresearch
This report has been prepared by UBS Securities LLC
ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of UBS in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at www.ubs.com/independentresearch or may call +1 877-208-5700 to request a copy of this research.

■ Puget Energy Inc.

Puget Energy, Inc. is an energy services holding company incorporated in Washington State. All of its operations are conducted through its subsidiary, Puget Sound Energy, Inc. (PSE). PSE furnishes electric and gas service in a territory covering 6,000 square miles, principally in the Puget Sound region of Washington State.

■ Statement of Risk

Investors should be aware that PSE is short power and purchases a proportion of its power requirement in the spot market. This exposes the utility to volatile power costs - a grave concern given that PSE does not have a complete fuel pass-through. PSE has a power tracker mechanism in place that shares power costs / savings with customers in a specified manner. It is also important to note that PSE relies on hydro for roughly 27% of its total power requirement. While hydro is a cheap fuel source, it comes with a high degree of volatility since it is highly dependent on the weather and, more specifically, on the stream flow. This introduces fuel cost volatility that forces PSE to purchase electricity in the spot market in the event the company faces a low hydro year.

To address the short power situation, PSE continues to progress on its generation acquisition program that has resulted in addition of several wind and natural gas fueled resources to its rate base in the recent past. While this plan is integral to Puget's growth strategy, it introduces significant execution risks. These include the availability of generation assets, pricing, integration of the new acquisitions, and negotiating a working relationship with co-owners on partial ownership acquisitions.

Investors should also be aware of the potential impact of weather on Puget's regulated utility sales and the impact of soft patches in the economy. As a regulated entity, PSE faces regulatory risks. Finally, while Puget does not have any rating downgrade triggers that would accelerate the maturity dates of its outstanding debt, a rating downgrade could adversely impact its ability access the capital markets.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities LLC, an affiliate of UBS AG (UBS).

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures.

UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 6% above the MRA, higher degree of predictability	Buy 2	FSR is > 6% above the MRA, lower degree of predictability	Buy	44%	36%
Neutral 1	FSR is between -6% and 6% of the MRA, higher degree of predictability	Neutral 2	FSR is between -6% and 6% of the MRA, lower degree of predictability	Hold/Neutral	43%	36%
Reduce 1	FSR is > 6% below the MRA, higher degree of predictability	Reduce 2	FSR is > 6% below the MRA, lower degree of predictability	Sell	13%	26%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Ratings allocations are as of 31 December 2006.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Companies mentioned

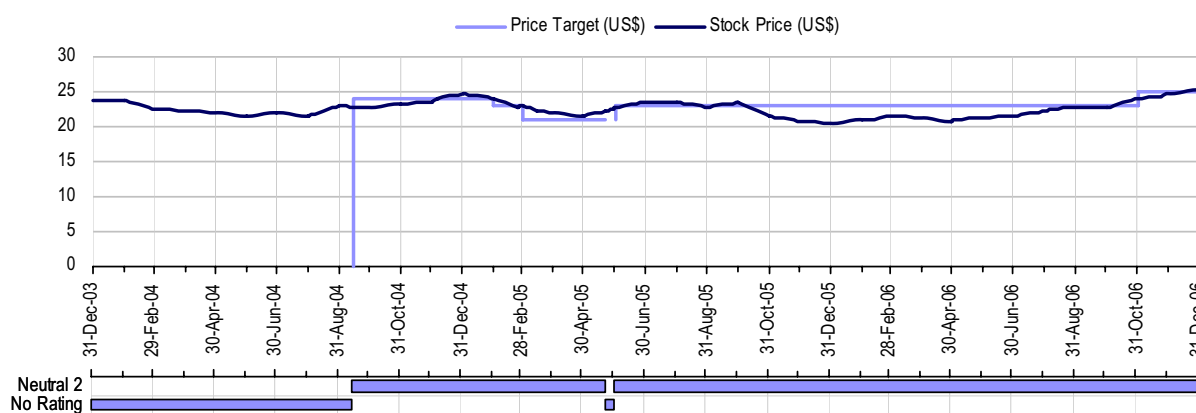
Company Name	Reuters	Rating	Price	Price date/time
Puget Energy Inc. ^{2,4,6a,6b,7,16}	PSD.N	Neutral 2	US\$24.62	05 Jan 2007 19:38 EST

Source: UBS. EST: Eastern standard time.

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.
4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
- 6a. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and investment banking services are being, or have been, provided.
- 6b. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-securities services are being, or have been, provided.
7. Within the past 12 months, UBS Securities LLC has received compensation for products and services other than investment banking services from this company/entity.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Puget Energy Inc. (US\$)



Source: UBS; as of 5 January 2007.

Note: On September 9, 2006, UBS adopted new percentage band criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details). Between October 13, 2003 and September 9, 2006 the percentage band criteria used in the rating system was 10%. Prior to October 13, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential >15%, smaller range around price target; Buy 2: Excess return potential >15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Excess return is defined as the difference between the FSR and the one-year local market interest rate.

Global Disclaimer

This report has been prepared by UBS Securities LLC, an affiliate of UBS AG (UBS). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC and/or UBS Capital Markets LP) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this research report.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. UBS Limited is regulated by the FSA. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. UBS Securities France S.A. is regulated by the the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this report, the report is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Russia:** Prepared and distributed by the Moscow Representative Office of UBS Cyprus Moscow Limited. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A.. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this report, the report is also deemed to have been prepared by UBS Italia Sim S.p.A.. **South Africa:** UBS South Africa (Pty) Limited (Registration No. 1995/011140/07) is a member of the JSE Limited, the South African Futures Exchange and the Bond Exchange of South Africa. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd or UBS AG, Singapore Branch. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

© 2007 UBS. All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect.

