EXHIBIT NO. ___(EMM-8)
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____**

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

DECEMBER 3, 2007

Puget Energy, Inc.:

PSD: Initiating Coverage with a HOLD Rating

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Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

Rating	HOLD (3)
Price	$20.69
12-Mo. Price Target	NA
Dividend	$1.00
Yield	4.8%
52-Wk. Range	$20-$25
Trading Volume	NM
Market Cap. (mm)	$2,389.7
Shares Out. (mm)	115.50
Book Value	$16.61
Fiscal Year End	December
2006E	$1.45
2005E	$1.35
2004A	$1.55
2006 P/E	14.3x
2005 P/E	15.3x
First Call 2006E	$1.47
First Call 2005E	$1.37
Next Quarter	December
Estimate	$0.45
Vs.	$0.59
First Call Estimate	$0.49

KEY INVESTMENT POINTS

We are initiating coverage of PSD with a HOLD (3) rating. While the Company benefits from strong demographics with solid customer growth in an attractive region of the country, this proves to be a double-edged sword. The regulatory framework in Washington State precludes PSD from realizing the benefit of this growth on a timely basis. Because the state does not use forward-looking test years in rate cases, the utility faces a headwind recovering capital and cost increases between rate cases. This puts the Company in a position of being extremely challenged to earn its authorized return. It also necessitates the frequent filing of rate cases with accompanying regulatory uncertainty.

PSD's 2002 rate settlement alleviated much of the uncertainty that previously surrounded its net short power position in a region where power prices have been extremely volatile due to an interrelated dependency on hydroelectric output and purchased power. Under this regulatory framework, PSD has a mechanism where net power costs are shared between the customer and shareholder and costs above a baseline level are limited to $40 million (plus 1% of costs above this threshold). This agreement is in place through June 30, 2006.

We look favorably on PSD's decision to divest its InfrastruX subsidiary. In our view, this simplifies the investment thesis for the shares, while eliminating the volatility surrounding the utility construction services industry, which is prone to the cyclicality of utility capital programs.

We are initiating coverage with 2005 and 2006 estimates of $1.35 and $1.45, respectively. These estimates reflect the negative impact of regulatory lag as the Company is pressured by continued operation and maintenance cost pressures as well as depreciation and amortization expenses above the level imbedded in base rates. We look for improved 2006 results from a full year of earnings from PSD's investment in a sizable (150 MW) wind farm which will be placed in rates through the power cost only rate case as well as a full year of higher rates from PSD's full gas and electric rate cases, which became effective in early March 2005. These items will be partly offset by dilution associated with the recent 15 million share equity offering.

VALUATION

Based upon our 2006 estimate, PSD shares sell at a modest discount to the peer (smaller vertically integrated) group average P/E ratio of 14.7x, compared to PSD's 14.3x. We believe this valuation is reasonable given the outlook for the continued inability to earn the authorized return and outlook for frequent rate cases.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 5 - 6 OF THIS NOTE.

Exhibit No. ___(EMM-8)

RISKS

PSD is subject to several sources of risk in its business. As discussed, the Company must file frequent rate cases to minimize regulatory lag associated with inflation and capital spending. During a period of financial challenges related to the Western power crisis, the Commission authorized creative regulatory constructs allowing PSD the opportunity to rebuild its financial health. With the Company now on more solid ground, we have seen PSD's regulatory outcomes decreasingly allowing such opportunity.

Energy prices also could negatively impact PSD's results. While it is somewhat early to assess the actual impact that natural gas prices will have on demand levels, we believe customer conservation efforts could impact sales of natural gas and electricity. Further, even if prices were to retreat, some of these conservation habits may prove sticky.

Lastly is the sector specific risk that utility valuation levels return to a more historic discount to the broad market from current levels.

PSD AT A GLANCE

PSD is the holding company of Puget Sound Energy. PSD is based in Bellevue, Washington, with Puget Sound Energy, its regulated gas and electric utility, operating mainly in the Puget Sound region of Washington. InfrastruX Group, the unregulated utility infrastructure construction and maintenance subsidiary operates in different regions nationwide. In February 2005, PSD announced its intention to divest InfrastruX, as the cyclical construction industry was not in tune with its desire for the stability offered by regulated utility operations. With a market capitalization of approximately $2.4 billion, PSD is a smaller utility holding company. The Company generated nearly $2.6 billion (nearly $2.2 billion excluding InfrastruX) in revenues in 2004.

Following a period of financial difficulty related to poor conditions for PSD's hydroelectric plants and high unrecoverable electric energy costs, PSD has been improving its financial position to place the Company in a position to grow. The annual common stock dividend was cut from $1.84 to $1.00 per share. In 2001, with its net short power position, rate freeze (from a merger agreement) in place, the severe drought and rise in power prices, PSD's $1.84 dividend was greater than it's $1.14 EPS. PSD has also shored up its balance sheet, which should help further stabilize its credit ratings. A constructive rate settlement agreement for its gas and electric business was also approved in 2002 for PSD, raising revenues and net income for both utility operations.

As part of the settlement agreement, the Washington Commission also granted Puget Sound Energy temporary rate relief to combat energy costs. A pass-through mechanism was introduced into customer billing so fluctuations in net power costs are reflected in rates and not entirely absorbed by the Company once a threshold has been crossed (which it has). As with its 2002 rate case, PSD has been permitting rates based upon a hypothetical equity ratio, to facilitate and expedite continued balance sheet improvement.

STRATEGY

With the announced plans to divest the InfrastruX business, PSD is focused upon the core regulated utility operations. With the population drawing to the aesthetics of the Pacific Northwest, PSD enjoys strong customer growth with favorable demographics. Management seeks to lessen the impact of volatile pricing power by increasing physically owned generation. PSD foresees the need to add meaningful incremental capacity to decrease its net short power position. As demonstrated by PSD's ongoing addition of 380 MW of wind capacity, environmental factors drive management decision-making.

OVERVIEW OF BUSINESS SEGMENTS

Puget Sound Energy (PSE) is PSD's regulated, gas and electric utility operation. Headquartered in Bellevue, Washington, Puget Sound Energy had at the end of 3Q05 1,013,739 electric customers and 683,404 gas customers, with over 300,000 who use it as both their gas and electric provider. Of the electric customers, approximately 894,929 are residential, 112,428 are commercial, 3,903 are industrial and 2,462 are other. The total number of electric customers grew by 23,500 in 2004, a growth rate of 2.4%. Although PSE's customer base is heavily residential, revenue is much more evenly spread out between residential and commercial. Residential revenue represented 47% of its billed electric revenue in 2004, while commercial represented 44%; industrial was 7% and 2% was other.

The 683,404 gas customers are comprised of approximately 629,963 residential, 50,637 commercial, 2,674 industrial and 130 transportation customers. PSE added 27,400 gas customers in 2004, which was a 4.3% increase. Its 2004 retail gas revenue was more residential-based, with 63% residential, 30% commercial, 5% industrial and 2% transport.

PSE's business is seasonal in that it is influenced heavily by weather. Winter weather affects the amount of gas and electricity used due to heating needs. Many heating systems in the Puget Sound region are older electrical resistance heaters rather than natural gas, creating higher electrical use during the winter. During the summer months, there is little air conditioning use in the Pacific Northwest. The first and fourth quarters of the calendar year tend to be PSE's most attractive for both gas and electric sales.

PSE currently purchases the majority of the electricity it supplies to its customers. In 2004, PSE supplied 31% of its total electric production through its own resources, 23% through long-term contracts with Washington Public Utility Districts, 19% from other firm purchases, and 27% from non-firm (spot) purchases. PSE's 1,963 MW of owned generation capacity is comprised of the Montana Colstrip plants (677 owned MW, coal fired), Baker River Hydro Project (180 MW), Snoqualmie Hydro Plant (42 MW), Electron Hydro Plant (22 MW), several dual-fuel (natural gas and petroleum fired) combustion turbines (791 MW), two natural gas fired plants (291 MW), an internal combustion plant (3 MW) and the newly completed Hopkins Ridge wind facility (150 MW). The Company plans to have a second 230 MW wind facility, Wild Horse completed by year-end 2006. While the total capacity of the wind projects is 380 MW, on average they are expected to generate 125 MW, due to variability of the wind resource.

The past few years have been marked by severe droughts in the Northwestern United States, which have hurt hydroelectric plants' energy outputs. The lack of power being produced by PSE's hydro plants forces the Company to purchase more power from outside sources. When there is enough water for the hydroelectric plants to produce excess power or market prices are above incremental cost of production or purchase, PSE sells power into the wholesale power markets.

PSE expects to see higher demands for power in its service territory in the near future. Economic factors have lowered industrial demands for power across the country, but PSD's service territory continues to see growth. Over the past 12 months, electric customer growth has been approximately 2% and the number of natural gas customers has grown at approximately 3% as PSD adds new customers and experiences electric to gas conversions. This growth is primarily in the residential and commercial sectors. PSD feels that customer growth will outpace its generation and supply capacity, and is formulating its plan to best meet the needs of its consumer base. PSD expects that through customer growth and contract expirations it will have a 305 MW generation capacity shortfall by the end of 2008, growing to 457 MW by the end of 2010. These amounts take into consideration the two wind capacity projects expected to be online by the end of 2006, with total capacity of 380 MW (125 MW on average, accounting for wind variability). PSD recently filed a Request for Proposals to address the forecast shortfall. The Company expects that it will rely on new purchase contracts and the purchase or construction of generation assets. Lately, PSD has focused on building its portfolio of owned assets. We view this favorably, as it provides longer-term growth through rate base additions and reduces exposure to volatile markets.

REGULATORY ISSUES

PSD currently is operating under a Power Cost Adjustment mechanism, which limits its exposure to absorbing high purchased power costs. Specifics on the power cost adjustment pertain to the amount recoverable, when it is recoverable and what is taken into consideration for cost recovery. Through the plan, $40 million of PSE's cumulative pretax earnings plus 1% of all other excess costs is at risk due to power cost variation. When the accumulated costs are $40 million, excess costs are then split between shareholders (1%) and ratepayers (99%). This settlement is in effect until mid-2006. The specific factors being monitored when determining power cost variation are hydroelectric generation availability and variability, change in market price for purchased power, market price variability of surplus power sales, changes in natural gas and coal prices and plant outages. Special funds can be requested if during an actual or projected one-year period deferred power costs exceed $30 million.

In October, 2003, Puget Sound Energy filed a power cost only rate case related to its proposed purchase of a 49.9% stake in the 249 MW combined cycle Frederickson plant. This acquisition is part of PSD's plan to increase its supply portfolio, with a bias toward owned generation, as opposed to contracted power purchases. In it's initial filing PSD requested a $64 million (4.72%) electric rate increase. Following intervener testimony, PSD refiled for a $54 million increase. In the WUTC staff recommendation, the acquisition and costs were deemed prudent. However, the staff also looked at the costs associated with two purchased power contracts the Company had entered into (Tenaska and Encogen). Puget Sound Energy had bought out the gas supply obligations related to these contracts during 1997 and 1999, respectively. At the time, orward gas markets suggested that fuel could be purchased more economically. Based upon expectations that PSE would purchase gas at costs lower than those in the contracts, the WUTC permitted the buyout premium to be collected from ratepayers.

As part of the Frederickson rate case, the WUTC ruled that PSE had not prudently contracted the required lower cost gas that would have produced the previously forecast savings and disallowed approximately $10 million of PSE's $54 million requested rate increase. Additionally, PSE was required to write-down an additional after-tax $28.1 million related to these contracts. The WUTC noted that the actions deemed imprudent had occurred under a previous management structure. Because of the tenure of the contracts, PSD remains exposed to further prudence reviews. The Company has indicated that it expected from 2006 through 2008 disallowances to be $8.8 million, $7.7 million and $6.3 million, respectively.

In April 2004, PSE filed a general rate case requesting electric and gas rate hikes of 5.7% and 6.3%, respectively. Aside from requesting to recover higher operating expenses and to earn on incremental infrastructure investment since its last rate case, PSE sought to change its allowed ROE and assumed capital structure. The rate filing requested an 11.75% ROE (from 11.0%) and a hypothetical equity ratio of 45% on a rate base of $3.7 billion. In total, PSE requested to increase rates $128.6 million, comprised of $81.4 million electric and $47.2 million on the gas side. Later in the case, PSE revised its requested electric increase to $99.8 million.

On February 18, 2005, the WUTC issued an order authorizing a $56.6 million electric rate increase and a $26.3 million gas rate increase, effective March 4, 2005. These increases were premised upon a 10.3% ROE, a 43% equity ratio and a rate base of $3.61 billion. The order also addresses PSD's request to limit exposure to catastrophic events by limiting this annual exposure to $2.4 million, with deferral of the balance.

In October 2005, the WUTC approved a 3.7% ($55.6 million) power cost only rate case related to the addition of the 150 MW Hopkins Ridge wind farm. New rates became effective November 1, 2005. The commission also requires PSD to file a general rate case by mid-February 2006, for new rates to become effective January 1, 2007. As part of the order, the WUTC modified to PCA mechanism by switching it over to a calendar year. The $40 million limit to excess power costs expires June 30, 2006. Upon expiration of the cap, annual exposure to PSD shareholders/ratepayers follows: First $20 million risk or benefit (PSD would benefit in a strong hydro or environment where power costs fell below baseline costs) borne 100%/0% by shareholder/ratepayer; $20 million to $40 million borne 50%/50%; $40 million to $120 million 10%/90% and over $120 million 5%/95%, respectively. The recent ruling halved these amounts for the annualized July 1-December 31, 2006 period. In its next rate case, PSD will set to reset the baseline costs. We also expect the Company to propose changes to the PCA concept to reduce potential earnings volatility. While we would like to see forward-looking test years utilized in the state, we understand that this would likely require legislation.

In 2000, during very volatile western power pricing, PSD developed a plan to introduce time of use pricing to its customers. Through this innovative program, approximately 300,000 customers had real time meters installed. This plan was well received during the period of high priced power in the west, and PSD received kudos from many parties (including the White House). Since that time, prices have dropped, and the difference between on-peak and off-peak pricing has greatly diminished, making administrative costs outweigh the benefits derived. However, the program could be reactivated if volatility were to return.

EARNINGS OUTLOOK

We are establishing initial 2005 and 2006 estimates of $1.35 and $1.45, respectively. As discussed, we expect WA regulation will preclude PSD from earning its authorized return given regulatory lag in a period of increased spending and personnel cost pressures. Hypothetically (with a 10.3% authorized ROE, 43% equity layer and rate base of $3.61 billion), PSD could earn nearly $160 million of net income or $1.55 per share on a projected 2005 average share count of 103 million shares. However, several factors are expected to preclude this. Firstly, disallowances related to prudence reviews of Tenaska gas purchases are borne by shareholders. These costs are expected to be roughly $10 million pre-tax or $0.06-$0.07 per share of net income. Inflationary pressures present a cost structure higher than that imbedded in rates by about $0.05 per share. Lastly, capital spend due to strong customer growth in the region coupled with infrastructure spending to improve reliability do not get captured in rates until the next rate case is approved. This lag is expected to cause roughly $0.10 of earnings drag.

For 2006, earnings should improve as the Hopkins Ridge wind farm presents greater rate base. The related $55.6 million rate increase will be in place for an incremental 10 months in 2006. Additionally, PSD will pick up an incremental two months of the higher electric and gas base rates from the general rate case filed in 2004. This rate case yielded higher annual base rates of $56.6 million and $26.3 million at the electric and gas utilities, respectively. Tenaska disallowances should be of a similar or lesser magnitude. Offsetting these factors will be a full year of a higher share count (approximately 115 million vs. 103 million average shares outstanding).

PSD's $1.00 per share annual dividend was premised upon a payout of 60% of normalized utility earnings. Given the level of capital spend over the coming few years, we would expect only modest, if any, dividend growth.

EPS (Net) Summary

	2004A	%CHG	2005E	%CHG	2006E	%CHG
1Q	$0.67	--	$0.68A	1.5%	--	--
2Q	$0.16	--	$0.15A	-6.3%	--	--
3Q	$0.13	--	$0.06A	-53.8%	--	--
4Q	$0.59	--	$0.45	-23.7%	--	--
YEAR	$1.55	--	$1.35	-12.9%	$1.45	7.4%

Source: McDonald Investments Inc. estimates

KeyBanc Capital Markets Disclosures and Certifications

Puget Energy, Inc. - PSD

We have managed or co-managed a public offering of equity securities for Puget Energy, Inc. within the past 12 months.

Puget Energy, Inc. is an investment banking client of ours.

We have received compensation for investment banking services from Puget Energy, Inc. during the past 12 months

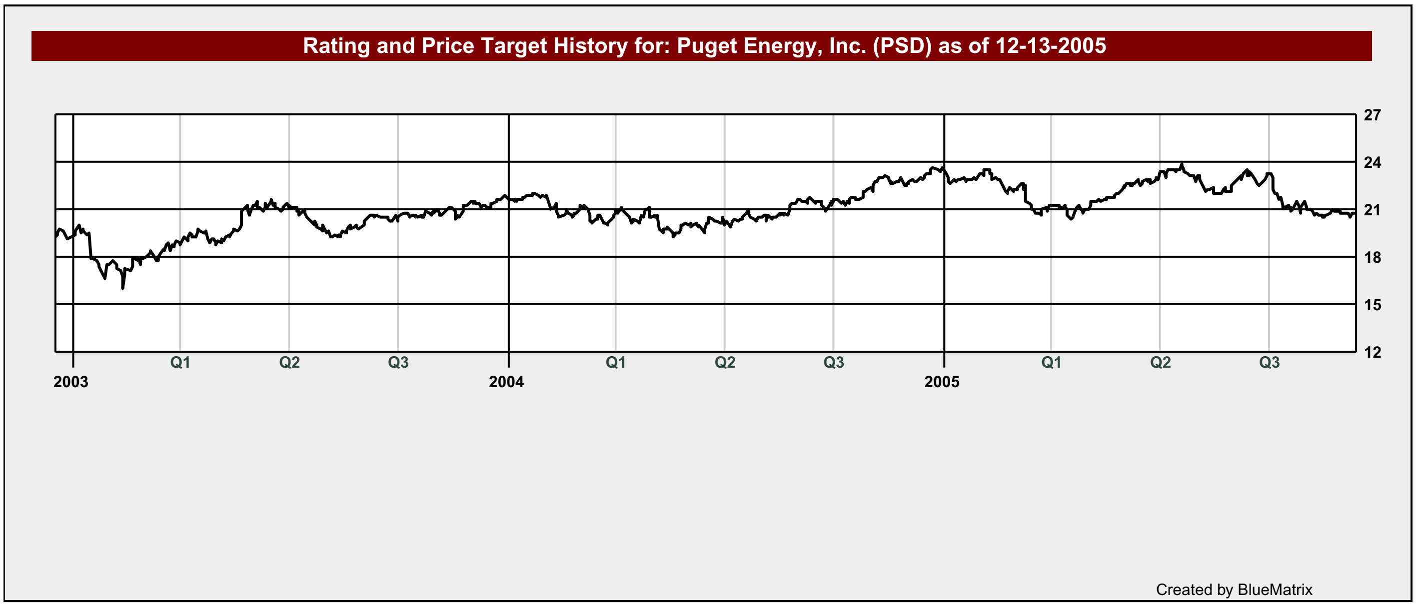
We expect to receive or intend to seek compensation for investment banking services from Puget Energy, Inc. within the next three months.

During the past 12 months, Puget Energy, Inc. has been a client of the firm or its affiliates for non-securities related services.

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three-Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [AB/BUY]	187	45.50	49	26.20
HOLD [HOLD]	208	50.61	39	18.75
SELL [UND/SELL]	16	3.89	3	18.75

ENERGY			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [AB/BUY]	31	41.89	17	54.84
HOLD [HOLD]	43	58.11	18	41.86
SELL [UND/SELL]	0	0.00	0	0.00

Rating System

AGGRESSIVE BUY (1) - The security is expected to outperform the market over the short term; investors should consider adding the security to their portfolios, subject to their overall diversification requirements.

BUY (2) - The security is expected to outperform the market over the long term; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD (3) - The security is expected to perform in line with general market indices; no buy or sell action is recommended at this time.

UNDERWEIGHT (4) - The security is expected to underperform the market; investors should reduce their holdings opportunistically.

SELL (5) - Absolute downside risk is evident for the security; investors should liquidate their holdings.