



PUGET SOUND ENERGY

Puget Sound Energy
P.O. Box 97034
Bellevue, WA 98009-9734
PSE.com

April 29, 2016

Mr. Steven King, Executive Director & Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

RE: Affiliated Interest and Subsidiary Transactions Report – WAC 480-90-264

Dear Mr. King:

In accordance with the requirements of WAC 480-90-264, we are submitting the enclosed report of affiliated interest and subsidiary transactions for the year ended December 31, 2015, pertaining to Puget Sound Energy (“PSE” or “the Company”).

If there are any questions concerning this report, please contact me at (425) 462-3202.

Sincerely,

Michael Stranik
Controller & Principal Accounting Officer

Enclosures

CC: Kathie Barnard
Kenneth Johnson

Puget Sound Energy, Inc.

Affiliated Interest and Subsidiary Transaction Report For the Year-to-Date December 31, 2015

1. Refer to Exhibit 1 for a summary of all transactions, except transactions provided at tariff rates, which occurred between Puget Sound Energy, Inc. (PSE), its affiliated interests and subsidiary.

Refer to Exhibit 2 for the corporate organization chart of PSE and its affiliated interests and subsidiaries.

2. Financial information for affiliated interests and subsidiary with total transactions with PSE that equal or exceed \$100,000 during the reporting period:
 - A. Refer to Exhibit 3 for balance sheets and income statements for affiliated interests and subsidiary.
 - B. Refer to Exhibit 1 for a description of the products or services provided to or from PSE and each affiliated interest or subsidiary.
 - C. Refer to Exhibit 4 for a description of the pricing basis or costing method, and procedures for allocating costs for such products or services. Corporate common costs were allocated on a monthly basis. Corporate policy regarding the allocation of common costs is outlined in PSE's Contoller Manual CTM-8, attached as Exhibit 4. Refer to Exhibit 1 for the amount and accounts charged during the year.
 - D. Affiliated interest loan terms are as follows:
 - Puget Energy loan to PSE: maximum loan amount is \$28.6 million;
 - Average interest rate for the twelve months ended December 31, 2015 was 0.44%;
 - On June 30, 2015 PSE repaid, in full, the outstanding balance, leaving the year-end loan balance at zero.
 - E. There were no obligations or liabilities assumed by PSE on behalf of any affiliated interest or subsidiary during the year ended December 31, 2015.
 - F. Refer to Exhibit 2 for a description of activities of each affiliated interest or subsidiary having transactions with PSE.
 - G. Refer to Exhibit 2 for a list of officers and directors common to PSE and affiliated interests and subsidiaries.
3. Not Applicable
4. All outstanding contracts from the current and previous years have been filed with the commission.

PUGET SOUND ENERGY
AFFILIATED INTEREST AND SUBSIDIARY
TRANSACTIONS REPORT

EXHIBIT 1

EXHIBIT 1

Puget Sound Energy, Inc.
Summary of Transactions
For Year-to-Date December 31, 2015

The following represents all transactions and balances, except transactions provided at tariff rates, that occurred between PSE and its affiliated interests, and PSE and its subsidiaries.

	<u>Amount</u>
<u>Puget Holdings LLC</u>	
Accounts payable to PSE	\$ 250,253
Reimbursement of labor and other expenses to PSE	\$ 718,338
<u>Puget Intermediate Holdings, Inc.</u>	
Accounts receivable from PSE	\$ 3,794
Reimbursement of labor and other expenses to PSE	\$ 229,809
<u>Puget Equico LLC</u>	
Accounts payable to PSE	\$ 1,509
Reimbursement of labor and other expenses to PSE	\$ 27,469
<u>Puget Energy, Inc.</u>	
Account payable to PSE	\$ 170,680
Interest payable from PSE	\$ 1,003
Reimbursement of labor and other expenses to PSE	\$ 1,770,455
Interest income on Puget Energy note from PSE	\$ 63,749
Dividends Receivable from PSE	\$ 270,233,279
<u>Puget Western, Inc.</u>	
Accounts payable to PSE	\$ 41,067
Reimbursement of labor and other expenses to PSE	\$ 651,184

The following represents all transactions and balances, except transactions provided at tariff rates, that occurred between PSE and its possible affiliated interest.

	<u>Amount</u>
<u>Macquarie Energy, LLC</u>	
Electric Transmission Service	\$ 123,135

PUGET SOUND ENERGY
AFFILIATED INTEREST AND SUBSIDIARY
TRANSACTIONS REPORT

EXHIBIT 2

EXHIBIT 2

COMPANIES WITH AN AFFILIATED INTEREST

PUGET HOLDINGS, LLC. (Puget Holdings) is a limited liability energy services holding company formed on October 11, 2007 in the State of Delaware, which directly owns Puget Intermediate Holdings, Inc. (Puget Intermediate). All of the operations of Puget Holdings are conducted through its indirect subsidiary Puget Sound Energy (PSE). Puget Holdings has its principal executive office at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004.

PUGET INTERMEDIATE HOLDINGS, INC. (Puget Intermediate) is an energy services holding company formed on October 24, 2007 in the State of Washington that directly owns Puget Equico, LLC. All of the operations of Puget Intermediate are conducted through its indirect subsidiary PSE. Puget Intermediate has its principal executive office at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004.

PUGET EQUICO, LLC (Puget Equico) is a limited liability energy services holding company. formed on October 1, 2008 in the State of Washington, which directly owns Puget Energy. All of the operations of Puget Equico are conducted through its indirect subsidiary, PSE. Puget Equico has its principal executive office at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004.

PUGET ENERGY, INC. (Puget Energy) is an energy services holding company incorporated in the State of Washington in 1999. All of its operations are conducted through its direct subsidiary PSE. Puget Energy has its principal executive office at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004.

PUGET SOUND ENERGY, INC. (Puget Sound Energy) is a wholly-owned utility incorporated in the State of Washington, which generates purchases and sells electricity and purchases transports and sells natural gas in a service territory covering 6,000 square miles, principally in the Puget Sound region of Washington State. PSE has its principal executive office at Address: 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004. Puget Sound Energy had the following subsidiary at December 31, 2015.

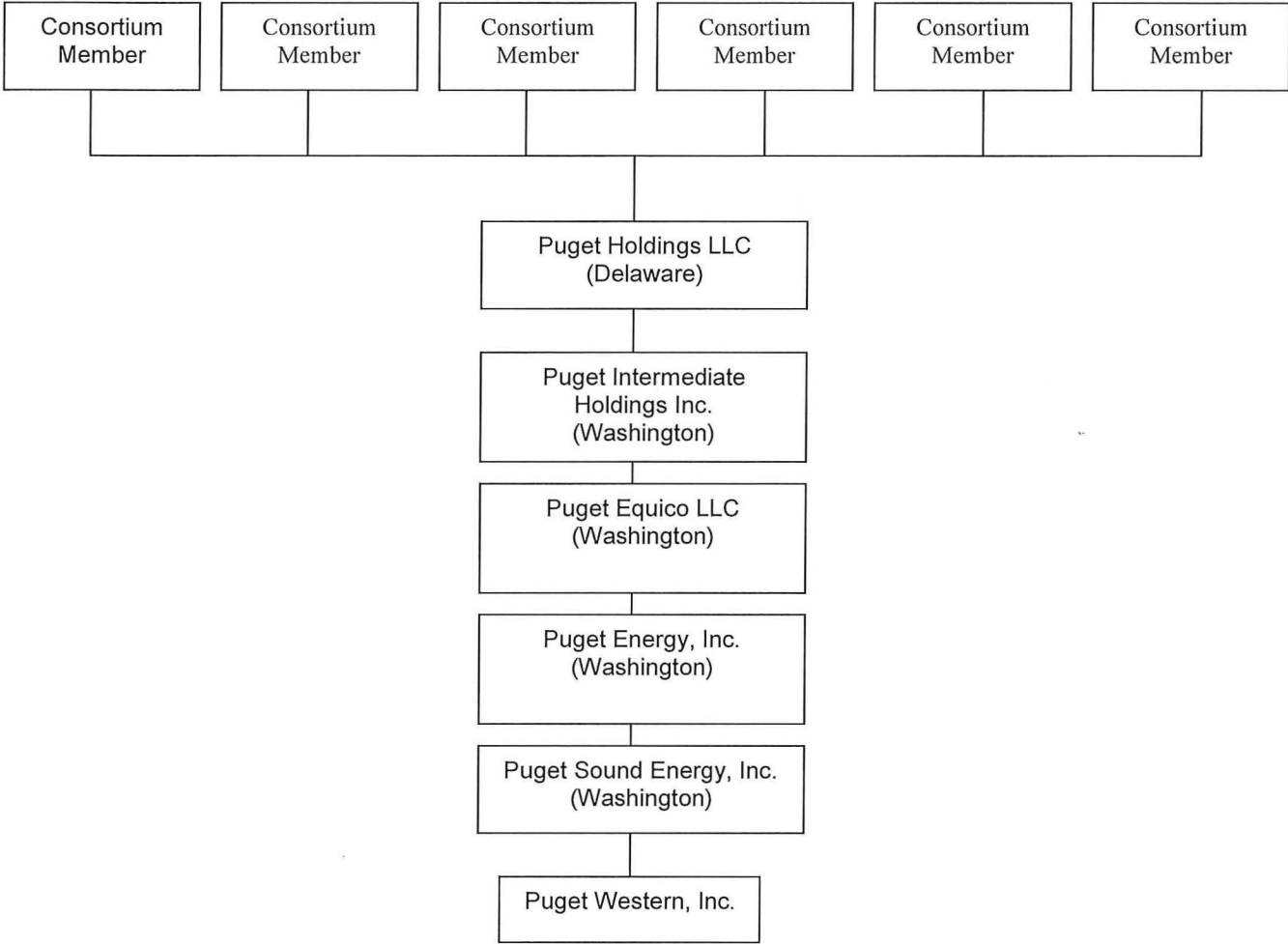
PUGET WESTERN, INC., a Washington corporation, is a real estate investment and development company. Address: 19515 North Creek Parkway, Suite 310, Bothell, Washington 98011.

COMPANIES THAT MAY HAVE AN AFFILIATED INTEREST

MACQUARIE CAPITAL (USA), INC. (Macquarie Capital (USA)), incorporated in March 1, 1994, is a Delaware Corporation that is a wholly owned subsidiary of Macquarie Holdings (USA), Inc. (the "Parent"), which is an indirect wholly owned subsidiary of Macquarie Group Limited ("MGL"), a non-operating holding company located in Sydney, Australia. Macquarie Capital (USA) principal place of business is at 125 West 55th Street, New York, NY 10019.

MACQUARIE ENERGY, LLC (Macquarie Energy), the surviving entity of an internal corporate reorganization that took effect February 1, 2010, pursuant to which the power marketer, Macquarie Cook Power, Incorporated, merged into is affiliated natural gas marketer Macquarie Cook Energy LLC. Macquarie Energy, LLC is an indirect, wholly-owned subsidiary of Macquarie Bank Limited, which in turn is wholly-owned by Macquarie Group Limited ("MGL"), an Australian-based company which is a global provider of banking, financial, advisory, investment and funds management services. Macquarie Energy, LLC is a Delaware limited liability company with its principal place of business at 500 Dallas Street, Suite 3100, Houston, TX 77002.

**PUGET HOLDINGS
CORPORATE STRUCTURE**



PUGET HOLDINGS LLC LISTING OF SUBSIDIARIES

Puget Holdings LLC TIN #26-1273439 (formed 10/11/2007)

Directors

Melanie Dressel, Chair
Andrew Chapman
Daniel Fetter
Kimberly Harris
Steve Hooper
Alan James
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Christopher Trumpy

Officers

Kimberly J. Harris, President and Chief Executive Officer
Daniel A. Doyle, Senior Vice President and Chief Financial Officer
Steve R. Secrist, Senior Vice President, General Counsel and
Corporate Secretary
Michael J. Stranik, Controller and Principal Accounting Officer
Samuel S. Osborne, Assistant Secretary
Brandon J. Lohse, Treasurer

Puget Intermediate Holdings Inc. TIN #26-1297959 (formed 10/24/2007)

Directors

Melanie Dressel, Chair
Andrew Chapman
Daniel Fetter
Kimberly Harris
Steve Hooper
Alan James
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Christopher Trumpy

Officers

Kimberly J. Harris, President and Chief Executive Officer
Daniel A. Doyle, Senior Vice President and Chief Financial Officer
Steve R. Secrist, Senior Vice President, General Counsel and
Corporate Secretary
Michael J. Stranik, Controller and Principal Accounting Officer
Samuel S. Osborne, Assistant Secretary
Brandon J. Lohse, Treasurer

Puget Equico LLC TIN #26-3755171 (formed 10/1/2008)

Directors

Melanie Dressel, Chair
Andrew Chapman
Daniel Fetter
Kimberly Harris
Steve Hooper
Alan James
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Christopher Trumpy

Officers

Kimberly J. Harris, President and Chief Executive Officer
Daniel A. Doyle, Senior Vice President and Chief Financial Officer
Steve R. Secrist, Senior Vice President, General Counsel and
Corporate Secretary
Michael J. Stranik, Controller and Principal Accounting Officer
Samuel S. Osborne, Assistant Secretary
Brandon J. Lohse, Treasurer

Puget Energy, Inc. TIN #91-1969407 (formed 4/23/1999)

Directors

Melanie Dressel, Chair
Andrew Chapman
Daniel Fetter
Kimberly Harris
Steve Hooper
Alan James
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Christopher Trumpy

Officers

Kimberly J. Harris, President and Chief Executive Officer
Daniel A. Doyle, Senior Vice President and Chief Financial Officer
Steve R. Secrist, Senior Vice President, General Counsel, Chief Ethics
and Compliance Officer and Corporate Secretary
Michael J. Stranik, Controller and Principal Accounting Officer
Samuel S. Osborne, Assistant Secretary
Brandon J. Lohse, Treasurer

SUBSIDIARY OF PUGET ENERGY, INC.

Puget Sound Energy, Inc. TIN #91-0374630 (formed 9/12/1960)

Directors

Melanie Dressel, Chair
Scott Armstrong
Andrew Chapman
Daniel Fetter
Kimberly Harris
Steve Hooper
Alan James
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Herb Simon
Christopher Trumpy

Officers

Kimberly J. Harris, President and Chief Executive Officer
Philip K. Bussey, SVP and Chief Customer Officer
Daniel A. Doyle, Senior Vice President and Chief Financial Officer
Booga K. Gilbertson, Senior Vice President Operations
Margaret Hopkins, Vice President and Chief Information Officer
Marla Mellies, Senior Vice President and Chief Administrative Officer
David Mills, Vice President Energy Operations
Steve R. Secrist, Senior Vice President, General Counsel, Chief
Ethics and Compliance Officer and Corporate Secretary
Jason Teller, Vice President Customer Solutions
Andrew W. Wappler, Vice President Corporate Affairs
Michael J. Stranik, Controller and Principal Accounting Officer
Samuel S. Osborne, Assistant Secretary
Brandon J. Lohse, Treasurer

SUBSIDIARY OF PUGET SOUND ENERGY, INC.

2. Puget Western Inc. (Formed 5/10/60) TIN #91-0716282

Directors

Daniel A. Doyle, Chair
Roger Garratt
Clay Riding
Jason Teller

Officers

Gust M. Erikson, President
David Yasuda, Vice President
Daniel A. Doyle, Treasurer
Samuel S. Osborne, Secretary

PUGET SOUND ENERGY
AFFILIATED INTEREST AND SUBSIDIARY
TRANSACTIONS REPORT

EXHIBIT 3

Puget Western, Inc.
BALANCE SHEET
DECEMBER 31, 2015

	PERIOD ENDED 12/31/2015	PERIOD ENDED 12/31/2014	\$ CHANGE FROM PRIOR YEAR END
CURRENT ASSETS			
Petty Cash	5	100	(95)
Cash - Money Market	2,397,352	1,808,292	589,060
Cash - MMkt Snoqualmie	88,392	88,374	18
Cash in Bank	7,712	126,624	(118,912)
Notes Receivable	2,224,000	273,000	1,951,000
Interest Receivable	0	796	(796)
Prepaid Escrow Deposits	40,000	0	40,000
Prepaid Rent	0	12,085	(12,085)
Prepaid Insurance	8,199	8,164	35
Total Current Assets	4,765,660	2,317,435	2,448,225
Long-Term Assets			
Furniture & Fixtures	298,267	298,267	0
Accum Depr FF&E	(288,476)	(285,573)	(2,903)
Sub-total	9,791	12,694	(2,903)
Investments			
Investment in Kinetic Ventures	0	88,630	(88,630)
Deferred Tax Asset-Kinetic	0	437,000	(437,000)
Sub-total	0	525,630	(525,630)
Land Held for Sale or Development			
Commercial Land	21,865,050	24,651,973	(2,786,923)
Project Development	4,215,880	3,912,404	303,476
Total Long-Term Assets	26,090,721	29,102,701	(3,011,980)
TOTAL ASSETS	30,856,381	31,420,136	(563,755)

Puget Western, Inc.
BALANCE SHEET
DECEMBER 31, 2015

	PERIOD ENDED 12/31/2015	PERIOD ENDED 12/31/2014	\$ CHANGE FROM PRIOR YEAR END
CURRENT LIABILITIES			
Earnest Money Payable	0	2,000	(2,000)
Future Property Obligations	0	56,090	(56,090)
Interest Payable	50,848	50,848	0
Accounts Payable Accruals	37,000	45,000	(8,000)
Salary & Wage Accruals	0	110,000	(110,000)
Total Current Liabilities	87,848	263,938	(176,090)
LONG-TERM LIABILITIES			
Intercompany Payable to Parent-FIT	(1,946,692)	(1,052,061)	(894,631)
Notes Payable	2,411,777	2,411,777	0
Property Tax Payable	0	0	0
Unearned Income	0	1,000	(1,000)
Deferred FIT	405,819	(69,931)	475,750
Total Long-Term Liabilities	870,904	1,290,785	(419,881)
TOTAL LIABILITIES	958,752	1,554,723	(595,971)
EQUITY			
Common Stock	10,200	10,200	0
Additional Paid-In-Capital	44,487,244	44,487,244	0
Retained Earnings	(14,632,030)	(16,531,791)	1,899,761
Y-T-D Net Profit (Loss)	32,215	1,899,760	(1,867,545)
TOTAL EQUITY	29,897,629	29,865,413	32,216
TOTAL LIABILITIES & EQUITY	30,856,381	31,420,136	(563,755)

Puget Western Inc
Income Statement
 FOR THE YEAR TO DATE ENDED
 DECEMBER 31, 2015

	ACTUAL YTD Ended 12/31/15	Budget YTD Ended 12/31/15	VARIANCE	ACTUAL YTD Ended 12/31/14	VARIANCE
INCOME					
Sales Revenue	\$3,996,611	\$3,678,400	\$318,211	\$10,589,000	(\$6,592,389)
Cost of Sale	2,932,667	2,120,900	(\$811,767)	5,711,347	(\$2,778,680)
Direct Selling Exp	306,604	283,000	(\$23,604)	807,124	(\$500,520)
GROSS PROFIT ON SALES	757,340	1,274,500	(517,160)	4,070,529	(3,313,189)
Rental Income	6,000	10,800	(\$4,800)	28,155	(22,155)
Interest Income	2,402	5,700	(3,298)	2,027	375
Earnest Money Revenue	-	-	-	5,000	(5,000)
Miscellaneous Income	455,330	-	455,330	253,313	202,017
TOTAL INCOME	1,221,072	1,291,000	(69,928)	4,359,024	(3,137,952)
EXPENSE					
North Creek Rent	92,135	95,800	3,665	90,182	1,953
Kinetic Value Adjustments	13,699	6,000	(7,699)	3,839	9,860
Consulting Fees	17,159	12,000	(5,159)	4,395	12,764
Legal Fees	94	6,000	5,906	-	94
Accounting Fees	26,276	38,400	12,124	26,065	211
Interest Expense	-	-	-	-	0
Bank Service Charges	-	1,200	1,200	6	(6)
B & O/Excise Taxes	-	1,200	1,200	-	0
Property Taxes	256,018	240,000	(16,018)	365,934	(109,916)
Snoqualmie Traffic Signal	-	-	-	-	0
Personal Property Tax	218	2,400	2,182	234	(16)
Marketing Expense	-	1,200	1,200	-	0
General & Admin. Expense	541,440	675,000	133,560	625,593	(84,153)
Depreciation Expense	2,904	1,200	(1,704)	1,335	1,569
Sub-Total	949,943	1,080,400	130,457	1,117,583	(167,640)
OPERATING EXPENSE					
Misc. Prop Mgmt Expense	2,561	60,000	57,439	22,706	(20,145)
Escrow/Title Fees	-	1,200	1,200	-	0
Employee Expense	-	1,200	1,200	-	0
Travel Expense	5,817	7,200	1,383	7,709	(1,892)
Training Expense	-	1,200	1,200	-	0
Meals & Entertainment	2,428	1,200	(1,228)	972	1,456
Office Supplies & Equipment	10,910	9,600	(1,310)	8,163	2,747
Utilities	131,439	120,000	(11,439)	208,211	(76,772)
Postage	412	1,200	788	408	4
Dues, Subscriptions, Manuals	815	1,200	385	755	60
Donations	1,335	1,200	(135)	500	835
Repairs & Maintenance	-	2,400	2,400	-	0
Leasing Expense	-	1,200	1,200	-	0
PSE Strander Lease Expense	50,640	56,400	5,760	54,860	(4,220)
Insurance Expense	14,019	18,000	3,981	13,935	84
Licenses	219	1,200	981	240	(21)
Property Option Expense	-	1,200	1,200	-	-
Miscellaneous	200	1,200	1,000	-	200
TOTAL OPERATING EXP.	220,795	286,800	66,005	318,459	(97,864)
TOTAL EXPENSES	1,170,738	1,367,200	196,462	1,436,042	(265,304)
INCOME (LOSS) BEFORE FIT	50,334	(76,200)	126,534	2,922,982	(2,872,448)
Federal Income Tax	18,119	(41,395)	(59,514)	1,023,223	(1,005,104)
NET INCOME	32,215	(34,805)	67,020	1,899,759	(1,867,544)

PUGET SOUND ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS

	December 31,	
	2015	2014
Utility plant (at original cost, including construction work in progress of \$408,795 and \$239,690, respectively):		
Electric plant	\$ 9,601,091	\$ 9,330,999
Natural gas plant	3,444,744	3,282,818
Common plant	548,657	512,842
Less: Accumulated depreciation and amortization	(4,681,830)	(4,449,680)
Net utility plant	8,912,662	8,676,979
Other property and investments:		
Other property and investments	83,069	86,913
Total other property and investments	83,069	86,913
Current assets:		
Cash and cash equivalents	41,856	37,466
Restricted cash	7,949	32,863
Accounts receivable, net of allowance for doubtful accounts of \$9,756 and \$7,472, respectively	324,358	307,046
Unbilled revenue	217,274	168,039
Purchased gas adjustment receivable	—	21,073
Materials and supplies, at average cost	78,244	83,189
Fuel and gas inventory, at average cost	57,324	66,656
Unrealized gain on derivative instruments	24,418	21,178
Taxes	293	301
Prepaid expenses and other	16,826	20,907
Total current assets	768,542	758,718
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	72,694	94,913
Power cost adjustment mechanism	4,749	4,623
Other regulatory assets	894,059	866,793
Unrealized gain on derivative instruments	5,225	3,170
Other	88,535	89,306
Total other long-term and regulatory assets	1,065,262	1,058,805
Total assets	\$ 10,829,535	\$ 10,581,415

The accompanying notes are an integral part of the consolidated financial statements.

PUGET SOUND ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

	December 31,	
	2015	2014
Capitalization:		
Common shareholder's equity:		
Common stock \$0.01 par value, 150,000,000 shares authorized, 85,903,791 shares outstanding	\$ 859	\$ 859
Additional paid-in capital	3,275,105	3,246,205
Retained earnings	236,578	202,622
Accumulated other comprehensive income (loss), net of tax	(149,550)	(170,957)
Total common shareholder's equity	3,362,992	3,278,729
Long-term debt:		
First mortgage bonds and senior notes	3,364,412	3,189,412
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Debt discount and other	(1,888)	(13)
Total long-term debt	3,774,384	3,601,259
Total capitalization	7,137,376	6,879,988
Current liabilities:		
Accounts payable	259,353	307,572
Short-term debt	159,004	85,000
Short-term note owed to parent	—	28,933
Current maturities of long-term debt	—	162,000
Purchased gas adjustment liability	12,589	—
Accrued expenses:		
Taxes	114,854	107,782
Salaries and wages	38,457	40,970
Interest	47,772	55,346
Unrealized loss on derivative instruments	131,420	135,973
Other	53,868	62,464
Total current liabilities	817,317	986,040
Other Long-term and regulatory liabilities:		
Deferred income taxes	1,556,616	1,441,410
Unrealized loss on derivative instruments	47,776	60,063
Regulatory liabilities	651,094	630,651
Other deferred credits	619,356	583,263
Total other long-term and regulatory liabilities	2,874,842	2,715,387
Commitments and contingencies (Note 15)		
Total capitalization and liabilities	\$ 10,829,535	\$ 10,581,415

The accompanying notes are an integral part of the consolidated financial statements.

PUGET SOUND ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	Year Ended December 31,		
	2015	2014	2013
Operating revenue:			
Electric	\$ 2,128,468	\$ 2,083,797	\$ 2,156,920
Natural gas	947,549	1,012,859	1,028,357
Other	17,241	19,467	2,058
Total operating revenue	3,093,258	3,116,123	3,187,335
Operating expenses:			
Energy costs:			
Purchased electricity	499,522	514,087	541,905
Electric generation fuel	249,907	263,493	261,332
Residential exchange	(112,473)	(129,036)	(81,053)
Purchased natural gas	403,310	458,691	488,201
Unrealized (gain) loss on derivative instruments, net	(12,688)	85,636	(98,880)
Utility operations and maintenance	530,720	550,146	529,939
Non-utility expense and other	26,618	23,729	12,205
Depreciation and amortization	420,807	365,606	388,955
Conservation amortization	110,866	104,096	105,897
Taxes other than income taxes	320,531	310,982	303,260
Total operating expenses	2,437,120	2,547,430	2,451,761
Operating income (loss)	656,138	568,693	735,574
Other income (deductions):			
Other income	20,711	24,036	38,690
Other expense	(6,764)	(7,457)	(7,134)
Interest charges:			
AFUDC	7,575	5,611	11,261
Interest expense	(247,507)	(264,745)	(261,264)
Interest expense on parent note	(64)	(182)	(112)
Income (loss) before income taxes	430,089	325,956	517,015
Income tax (benefit) expense	125,900	89,342	160,886
Net income (loss)	\$ 304,189	\$ 236,614	\$ 356,129

The accompanying notes are an integral part of the consolidated financial statements.

PUGET ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS

	December 31,	
	2015	2014
Utility plant (at original cost, including construction work in progress of \$408,795 and \$239,690, respectively):		
Electric plant	\$ 7,432,490	\$ 7,135,206
Natural gas plant	2,850,290	2,680,067
Common plant	508,750	472,926
Less: Accumulated depreciation and amortization	(1,878,868)	(1,611,220)
Net utility plant	8,912,662	8,676,979
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	86,731	91,139
Total other property and investments	1,743,244	1,747,652
Current assets:		
Cash and cash equivalents	42,494	37,527
Restricted cash	7,949	32,863
Accounts receivable, net of allowance for doubtful accounts of \$9,756 and \$7,472, respectively	324,391	306,923
Unbilled revenue	217,274	168,039
Purchased gas adjustment receivable	—	21,073
Materials and supplies, at average cost	78,244	83,189
Fuel and gas inventory, at average cost	58,658	69,433
Unrealized gain on derivative instruments	24,418	21,178
Taxes	293	301
Prepaid expense and other	16,827	20,905
Power contract acquisition adjustment gain	37,031	43,843
Total current assets	807,579	805,274
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	73,231	95,432
Power cost adjustment mechanism	4,749	4,623
Regulatory assets related to power contracts	26,223	29,816
Other regulatory assets	894,071	866,835
Unrealized gain on derivative instruments	5,225	3,170
Power contract acquisition adjustment gain	288,757	347,547
Other	96,878	96,275
Total other long-term and regulatory assets	1,389,134	1,443,698
Total assets	\$ 12,852,619	\$ 12,673,603

The accompanying notes are an integral part of the consolidated financial statements.

PUGET ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

	December 31,	
	2015	2014
Capitalization:		
Common shareholder's equity:		
Common stock \$0.01 par value, 1,000 shares authorized, 200 shares outstanding	\$ —	\$ —
Additional paid-in capital	3,308,957	3,308,957
Retained earnings	249,534	271,414
Accumulated other comprehensive income (loss), net of tax	(27,266)	(37,043)
Total common shareholder's equity	3,531,225	3,543,328
Long-term debt:		
First mortgage bonds and senior notes	3,364,412	3,189,412
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Long-term debt	1,800,000	1,699,000
Debt discount and other	(210,389)	(218,664)
Total long-term debt	5,365,883	5,081,608
Total capitalization	8,897,108	8,624,936
Current liabilities:		
Accounts payable	259,353	307,578
Short-term debt	159,004	85,000
Current maturities of long-term debt	—	162,000
Purchased gas adjustment liability	12,589	—
Accrued expenses:		
Taxes	114,854	107,782
Salaries and wages	38,457	40,970
Interest	73,378	78,914
Unrealized loss on derivative instruments	136,173	142,195
Power contract acquisition adjustment loss	3,611	3,593
Other	53,867	62,464
Total current liabilities	851,286	990,496
Other Long-term and regulatory liabilities:		
Deferred income taxes	1,435,955	1,360,912
Unrealized loss on derivative instruments	48,073	62,913
Regulatory liabilities	652,441	633,471
Regulatory liabilities related to power contracts	325,788	391,389
Power contract acquisition adjustment loss	22,613	26,223
Other deferred credits	619,355	583,263
Total other long-term and regulatory liabilities	3,104,225	3,058,171
Commitments and contingencies (Note 15)		
Total capitalization and liabilities	\$ 12,852,619	\$ 12,673,603

The accompanying notes are an integral part of the consolidated financial statements.

PUGET ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	Year Ended December 31,		
	2015	2014	2013
Operating revenue:			
Electric	\$ 2,128,468	\$ 2,083,797	\$ 2,156,920
Natural gas	947,549	1,012,859	1,028,357
Other	16,683	16,515	2,020
Total operating revenue	3,092,700	3,113,171	3,187,297
Operating expenses:			
Energy costs:			
Purchased electricity	499,522	514,087	541,905
Electric generation fuel	249,907	263,493	261,332
Residential exchange	(112,473)	(129,036)	(81,053)
Purchased natural gas	403,310	458,691	488,201
Unrealized (gain) loss on derivative instruments, net	(13,233)	84,146	(102,744)
Utility operations and maintenance	530,720	550,146	529,939
Non-utility expense and other	10,818	13,109	(3,555)
Depreciation and amortization	420,807	365,606	388,955
Conservation amortization	110,866	104,096	105,897
Taxes other than income taxes	320,531	310,982	303,260
Total operating expenses	2,420,775	2,535,320	2,432,137
Operating income (loss)	671,925	577,851	755,160
Other income (deductions):			
Other income	20,711	24,038	38,693
Other expense	(6,764)	(7,457)	(7,134)
Non-hedged interest rate swap expense	(3,796)	(3,915)	2,420
Interest charges:			
AFUDC	7,575	5,611	11,261
Interest expense	(356,696)	(367,308)	(392,264)
Income (loss) before income taxes	332,955	228,820	408,136
Income tax (benefit) expense	91,776	56,985	122,408
Net income (loss)	\$ 241,179	\$ 171,835	\$ 285,728

The accompanying notes are an integral part of the consolidated financial statements.

PUGET EQUICO LLC
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS

	December 31,	
	2015	2014
Utility plant (at original cost, including construction work in progress of \$408,795 and \$239,690, respectively):		
Electric plant	\$ 7,432,490	\$ 7,135,206
Natural gas plant	2,850,290	2,680,067
Common plant	508,750	472,926
Less: Accumulated depreciation and amortization	(1,878,868)	(1,611,220)
Net utility plant	8,912,662	8,676,979
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	86,731	91,139
Total other property and investments	1,743,244	1,747,652
Current assets:		
Cash and cash equivalents	42,513	37,562
Restricted cash	7,949	32,863
Accounts receivable, net of allowance for doubtful accounts of \$9,756 and \$7,472, respectively	324,390	306,922
Unbilled revenue	217,274	168,039
Purchased gas adjustment receivable	—	21,073
Materials and supplies, at average cost	78,244	83,189
Fuel and gas inventory, at average cost	58,658	69,433
Unrealized gain on derivative instruments	24,418	21,178
Taxes	293	301
Prepaid expense and other	16,827	20,905
Power contract acquisition adjustment gain	37,031	43,843
Total current assets	807,597	805,308
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	73,231	95,432
Power cost adjustment mechanism	4,749	4,623
Regulatory assets related to power contracts	26,223	29,816
Other regulatory assets	894,071	866,835
Unrealized gain on derivative instruments	5,225	3,170
Power contract acquisition adjustment gain	288,757	347,547
Other	96,878	96,275
Total other long-term and regulatory assets	1,389,134	1,443,698
Total assets	\$ 12,852,637	\$ 12,673,637

The accompanying notes are an integral part of the consolidated financial statements.

PUGET EQUICO LLC
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

	December 31,	
	2015	2014
Capitalization:		
Member's equity:		
Membership interest, \$1 par value, 100 shares authorized and outstanding	\$ —	\$ —
Additional paid-in capital	3,397,331	3,397,331
Retained earnings	161,269	183,156
Accumulated other comprehensive income (loss), net of tax	(27,265)	(37,044)
Total member's equity	3,531,335	3,543,443
Long-term debt:		
PSE first mortgage bonds and senior notes	3,364,412	3,189,412
PSE pollution control bonds	161,860	161,860
PSE junior subordinated notes	250,000	250,000
Puget Energy long-term debt	1,800,000	1,699,000
Debt discount and other	(210,389)	(218,664)
Total long-term debt	5,365,883	5,081,608
Total capitalization	8,897,218	8,625,051
Current liabilities:		
Accounts payable	259,353	307,578
Short-term debt	159,004	85,000
Current maturities of long-term debt	—	162,000
Purchased gas adjustment liability	12,589	—
Accrued expenses:		
Taxes	114,854	107,782
Salaries and wages	38,457	40,970
Interest	73,378	78,914
Unrealized loss on derivative instruments	136,173	142,195
Power contract acquisition adjustment loss	3,611	3,593
Other	53,867	62,466
Total current liabilities	851,286	990,498
Other Long-term and regulatory liabilities:		
Deferred income taxes	1,435,864	1,360,829
Unrealized loss on derivative instruments	48,073	62,913
Regulatory liabilities	652,441	633,471
Regulatory liabilities related to power contracts	325,788	391,389
Power contract acquisition adjustment loss	22,613	26,223
Other deferred credits	619,354	583,263
Total other long-term and regulatory liabilities	3,104,133	3,058,088
Commitments and contingencies (Note 15)		
Total capitalization and liabilities	\$ 12,852,637	\$ 12,673,637

The accompanying notes are an integral part of the consolidated financial statements.

PUGET EQUICO LLC
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	Year Ended December 31,	
	2015	2014
Operating revenue:		
Electric	\$ 2,128,468	\$ 2,083,797
Natural gas	947,549	1,012,859
Other	16,683	16,515
Total operating revenue	3,092,700	3,113,171
Operating expenses:		
Energy costs:		
Purchased electricity	499,522	514,087
Electric generation fuel	249,907	263,493
Residential exchange	(112,473)	(129,036)
Purchased natural gas	403,310	458,691
Unrealized (gain) loss on derivative instruments, net	(13,233)	84,146
Utility operations and maintenance	530,720	550,146
Non-utility expense and other	10,847	13,134
Depreciation and amortization	420,807	365,606
Conservation amortization	110,866	104,096
Taxes other than income taxes	320,531	310,982
Total operating expenses	2,420,804	2,535,345
Operating income (loss)	671,896	577,826
Other income (deductions):		
Other income	20,711	24,037
Other expense	(6,764)	(7,457)
Non-hedged interest rate swap expense	(3,796)	(3,915)
Interest charges:		
AFUDC	7,575	5,611
Interest expense	(356,696)	(367,308)
Income (loss) before income taxes	332,926	228,794
Income tax (benefit) expense	91,766	56,976
Net income (loss)	\$ 241,160	\$ 171,818

The accompanying notes are an integral part of the consolidated financial statements.

PUGET INTERMEDIATE HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS

	December 31,	
	2015	2014
Utility plant (at original cost, including construction work in progress of \$408,795 and \$239,690, respectively):		
Electric plant	\$ 7,432,490	\$ 7,135,206
Natural gas plant	2,850,290	2,680,067
Common plant	508,750	472,926
Less: Accumulated depreciation and amortization	(1,878,868)	(1,611,220)
Net utility plant	8,912,662	8,676,979
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	86,731	91,139
Total other property and investments	1,743,244	1,747,652
Current assets:		
Cash and cash equivalents	42,565	37,579
Restricted cash	7,949	32,863
Accounts receivable, net of allowance for doubtful accounts of \$9,756 and \$7,472, respectively	324,740	306,832
Unbilled revenue	217,274	168,039
Purchased gas adjustment receivable	—	21,073
Materials and supplies, at average cost	78,244	83,189
Fuel and gas inventory, at average cost	58,658	69,433
Unrealized gain on derivative instruments	24,418	21,178
Taxes	293	301
Prepaid expense and other	16,827	20,904
Power contract acquisition adjustment gain	37,031	43,843
Total current assets	807,999	805,234
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	73,231	95,432
Power cost adjustment mechanism	4,749	4,623
Regulatory assets related to power contracts	26,223	29,816
Other regulatory assets	894,071	866,835
Unrealized gain on derivative instruments	5,225	3,170
Power contract acquisition adjustment gain	288,757	347,547
Other	96,878	96,275
Total other long-term and regulatory assets	1,389,134	1,443,698
Total assets	\$ 12,853,039	\$ 12,673,563

The accompanying notes are an integral part of the consolidated financial statements.

PUGET INTERMEDIATE HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

	December 31,	
	2015	2014
Capitalization:		
Common shareholder's equity:		
Common Stock, \$0.01 par value, 1,000 shares authorized and outstanding	\$ —	\$ —
Additional paid-in capital	2,175,442	2,175,442
Retained Earnings	216,350	195,246
Accumulated other comprehensive income (loss), net of tax	(27,265)	(37,044)
Total common shareholder's equity	2,364,527	2,333,644
Long-term debt:		
PSE first mortgage bonds and senior notes	3,364,412	3,189,412
PSE pollution control bonds	161,860	161,860
PSE junior subordinated notes	250,000	250,000
Puget Energy long-term debt	1,800,000	1,699,000
Puget Intermediate Holdings senior secured investor notes	1,626,823	1,626,823
Debt discount and other	(210,389)	(218,664)
Total long-term debt	6,992,706	6,708,431
Total capitalization	9,357,233	9,042,075
Current liabilities:		
Accounts payable	259,353	307,578
Short-term debt	159,004	85,000
Current maturities of long-term debt	—	162,000
Purchased gas adjustment liability	12,589	—
Accrued expenses:		
Taxes	114,854	107,782
Salaries and wages	38,457	40,970
Interest	73,378	78,914
Unrealized loss on derivative instruments	136,173	142,195
Power contract acquisition adjustment loss	3,611	3,593
Other	53,867	62,464
Total current liabilities	851,286	990,496
Other Long-term and regulatory liabilities:		
Deferred income taxes	976,251	943,733
Unrealized loss on derivative instruments	48,073	62,913
Regulatory liabilities	652,441	633,471
Regulatory liabilities related to power contracts	325,788	391,389
Power contract acquisition adjustment loss	22,613	26,223
Other deferred credits	619,354	583,263
Total other long-term and regulatory liabilities	2,644,520	2,640,992
Commitments and contingencies (Note 15)		
Total capitalization and liabilities	\$ 12,853,039	\$ 12,673,563

The accompanying notes are an integral part of the consolidated financial statements.

PUGET INTERMEDIATE HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	Year Ended December 31,	
	2015	2014
Operating revenue:		
Electric	\$ 2,128,468	\$ 2,083,797
Natural gas	947,549	1,012,859
Other	16,683	16,515
Total operating revenue	3,092,700	3,113,171
Operating expenses:		
Energy costs:		
Purchased electricity	499,522	514,087
Electric generation fuel	249,907	263,493
Residential exchange	(112,473)	(129,036)
Purchased natural gas	403,310	458,691
Unrealized (gain) loss on derivative instruments, net	(13,233)	84,146
Utility operations and maintenance	530,720	550,146
Non-utility expense and other	11,079	13,340
Depreciation and amortization	420,807	365,606
Conservation amortization	110,866	104,096
Taxes other than income taxes	320,531	310,982
Total operating expenses	2,421,036	2,535,551
Operating income (loss)	671,664	577,620
Other income (deductions):		
Other income	20,711	24,038
Other expense	(6,764)	(7,457)
Non-hedged interest rate swap expense	(3,796)	(3,915)
Interest charges:		
AFUDC	7,575	5,611
Interest expense - investors	(124,397)	(167,020)
Interest expense - other	(356,696)	(367,308)
Income (loss) before income taxes	208,297	61,569
Income tax (benefit) expense	48,903	(1,300)
Net income (loss)	\$ 159,394	\$ 62,869

The accompanying notes are an integral part of the consolidated financial statements.

PUGET HOLDINGS LLC
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS

	December 31,	
	2015	2014
Utility plant (at original cost, including construction work in progress of \$408,795 and \$239,690, respectively):		
Electric plant	\$ 7,432,490	\$ 7,135,206
Natural gas plant	2,850,290	2,680,067
Common plant	508,750	472,926
Less: Accumulated depreciation and amortization	(1,878,868)	(1,611,220)
Net utility plant	8,912,662	8,676,979
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	86,731	91,139
Total other property and investments	1,743,244	1,747,652
Current assets:		
Cash and cash equivalents	42,723	37,607
Restricted cash	7,949	32,863
Accounts receivable, net of allowance for doubtful accounts of \$9,756 and \$7,472, respectively	324,491	306,654
Unbilled revenue	217,274	168,039
Purchased gas adjustment receivable	—	21,073
Materials and supplies, at average cost	78,244	83,189
Fuel and gas inventory, at average cost	58,658	69,433
Unrealized gain on derivative instruments	24,418	21,178
Taxes	293	301
Prepaid expense and other	16,827	20,905
Power contract acquisition adjustment gain	37,031	43,843
Total current assets	807,908	805,085
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	73,231	95,432
Power cost adjustment mechanism	4,749	4,623
Regulatory assets related to power contracts	26,223	29,816
Other regulatory assets	894,071	866,835
Unrealized gain on derivative instruments	5,225	3,170
Power contract acquisition adjustment gain	288,757	347,547
Other	96,878	96,275
Total other long-term and regulatory assets	1,389,134	1,443,698
Total assets	\$ 12,852,948	\$ 12,673,414

The accompanying notes are an integral part of the consolidated financial statements.

PUGET HOLDINGS LLC
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

	December 31,	
	2015	2014
Capitalization:		
Member's equity:		
Membership interest, no par value, 98,328 shares authorized and outstanding	\$ —	\$ —
Additional paid-in capital	2,200,062	2,200,062
Retained Earnings	201,372	180,021
Accumulated other comprehensive income (loss), net of tax	(27,265)	(37,043)
Total member's equity	2,374,169	2,343,040
Long-term debt:		
PSE first mortgage bonds and senior notes	3,364,412	3,189,412
PSE pollution control bonds	161,860	161,860
PSE junior subordinated notes	250,000	250,000
Puget Energy long-term debt	1,800,000	1,699,000
Puget Intermediate Holdings senior secured investor notes	1,626,823	1,626,823
Debt discount and other	(210,389)	(218,664)
Total long-term debt	6,992,706	6,708,431
Total capitalization	9,366,875	9,051,471
Current liabilities:		
Accounts payable	259,353	307,578
Short-term debt	159,004	85,000
Current maturities of long-term debt	—	162,000
Purchased gas adjustment liability	12,589	—
Accrued expenses:		
Taxes	114,854	107,782
Salaries and wages	38,457	40,970
Interest	73,378	78,914
Unrealized loss on derivative instruments	136,173	142,195
Power contract acquisition adjustment loss	3,611	3,593
Other	53,867	62,464
Total current liabilities	851,286	990,496
Other Long-term and regulatory liabilities:		
Deferred income taxes	966,518	934,187
Unrealized loss on derivative instruments	48,073	62,913
Regulatory liabilities	652,441	633,471
Regulatory liabilities related to power contracts	325,788	391,389
Power contract acquisition adjustment loss	22,613	26,223
Other deferred credits	619,354	583,264
Total other long-term and regulatory liabilities	2,634,787	2,631,447
Commitments and contingencies (Note 15)		
Total capitalization and liabilities	\$ 12,852,948	\$ 12,673,414

The accompanying notes are an integral part of the consolidated financial statements.

PUGET HOLDINGS LLC
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	Year Ended December 31,	
	2015	2014
Operating revenue:		
Electric	\$ 2,128,468	\$ 2,083,797
Natural gas	947,549	1,012,859
Other	16,683	16,515
Total operating revenue	3,092,700	3,113,171
Operating expenses:		
Energy costs:		
Purchased electricity	499,522	514,087
Electric generation fuel	249,907	263,493
Residential exchange	(112,473)	(129,036)
Purchased natural gas	403,310	458,691
Unrealized (gain) loss on derivative instruments, net	(13,233)	84,146
Utility operations and maintenance	530,720	550,146
Non-utility expense and other	11,616	13,705
Depreciation and amortization	420,807	365,665
Conservation amortization	110,866	104,096
Taxes other than income taxes	320,531	310,982
Total operating expenses	2,421,573	2,535,975
Operating income (loss)	671,127	577,196
Other income (deductions):		
Other income	20,711	24,038
Other expense	(6,764)	(7,457)
Non-hedged interest rate swap expense	(3,796)	(3,915)
Interest charges:		
AFUDC	7,575	5,611
Interest expense - investors	(124,397)	(167,020)
Interest expense - other	(356,696)	(367,308)
Income (loss) before income taxes	207,760	61,145
Income tax (benefit) expense	48,714	(1,143)
Net income (loss)	\$ 159,046	\$ 62,288

The accompanying notes are an integral part of the consolidated financial statements.

PUGET SOUND ENERGY
AFFILIATED INTEREST AND SUBSIDIARY
TRANSACTIONS REPORT

EXHIBIT 4



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**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
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references

key words

Approvals

/s/ Michael J. Stranik
Controller & Principle Accounting Officer

/s/ Susan Free
Manager Revenue Requirements

BACKGROUND

On January 16, 2009 pursuant to the First Condition of Order No. 08 issued by the Commission on December 30, 2008 in Docket No. U-072375, Puget Holdings LLC ("Puget Holdings") and Puget Sound Energy, Inc. ("PSE") accepted each of the conditions set forth in Attachment B to Order No. 08 as to the purchase of PSE by Puget Holdings. Puget Holdings closed on the purchase of the outstanding common stock of Puget Energy, Inc. (Puget Energy) on February 6, 2009 and in doing so accepted the terms of the Washington Utilities and Transportation Commission's order.

In Order No. 08 the Washington Utilities and Transportation Commission, approved and adopted subject to conditions a Settlement Stipulation proposed by all parties except Public Counsel, authorizing Puget Holdings to acquire Puget Energy, and its wholly-owned subsidiary PSE. As part of the requirements in Docket No. UE-072375 PSE must adhere to the following commitments¹ from the Settlement Stipulation regarding allocation of costs:

- 9. PSE will (i) maintain separate books and records; (ii) agree to prohibitions against loans or pledges of utility assets to Puget Energy or Public Holdings without Commission approval; and (iii) generally hold PSE customers harmless from any business and financial risk exposures associated with Puget Energy, Puget Holdings, or any of their subsidiaries or affiliates, without Commission approval.
- 19. Puget Holdings and PSE will make reasonable commitments, consistent with recent Commission merger orders, to provide access to PSE's books and records; access to financial information and filings; audit rights with respect to the documents supporting any costs that may be allocable to PSE; and access to PSE's board

¹ Please see Attachment B to Order No. 08, Docket No. U-072375 for further Commission clarification regarding several of the listed commitments.



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**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
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minutes, audit reports, and information provided to credit rating agencies pertaining to PSE.

20. Affiliate Transactions, Cross-Subsidization: PSE agrees (i) to file cost allocation methodologies used to allocate Puget Energy or Puget Holdings-related costs to PSE; (ii) to propose methods and standards for treatment of affiliate transactions; and (iii) that there will be no cross-subsidization by PSE customers of unregulated activities.
21. Transaction Costs: PSE and Puget Holdings agree that there will be no recovery of legal and financial advisory fees associated with the Proposed Transaction in rates and no recovery of the acquisition premium in rates.
26. In furtherance of Commitment 9:
 - (a) Puget Holdings and PSE commit that PSE's customers will be held harmless from the liabilities of any non-regulated activity of PSE or Puget Holdings. In any proceeding before the Commission involving rates of PSE, the fair rate of return for PSE will be determined without regard to any adverse consequences that are demonstrated to be attributable to the non-regulated activities. Any new non-regulated subsidiary will be established as a subsidiary of either Puget Holdings, Puget Intermediate Holdings Inc., or Puget Energy rather than as a subsidiary of PSE. Measures providing for separate financial and accounting treatment will be established for each non-regulated activity.
 - (b) Puget Holdings and PSE will notify the Commission subsequent to Puget Holdings' board approval and as soon as practicable following any public announcement of: (1) any acquisition of a regulated or unregulated business representing 5 percent or more of the capitalization of Puget Holdings; or (2) the change in effective control or acquisition of any material part of PSE by any other firm, whether by merger, combination, transfer of stock or assets.
 - (c) Neither PSE nor Puget Holdings will assert in any future proceedings, that, by virtue of the Proposed Transaction and the



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resulting corporate structure, the Commission is without jurisdiction over any transaction that results in a change of control of PSE.

27. In furtherance of Commitment 19:
- (a) PSE and Puget Holdings will maintain the necessary books and records so as to provide an audit trail for all corporate, affiliate, or subsidiary transactions with PSE, or that result in costs that may be allocable to PSE.
 - (b) PSE will provide Commission Staff and Public Counsel access to books and records (including those of Puget Holdings or any affiliate or subsidiary companies) required to be accessed to verify or examine transactions with PSE, or that result in costs that may be allocable to PSE. The Proposed Transaction will not result in reduced access to the necessary books and records that relate to transactions with PSE, or that result in costs that may be allocable to PSE, and the Proposed Transaction and resulting corporate structure will not be used by PSE as a basis to oppose requests for such books and records made by the Commission or by Commission Staff or Public Counsel.
 - (c) Nothing in the Proposed Transaction will limit or affect the Commission's rights with respect to inspection of accounts, books, papers and documents of PSE pursuant to RCW 80.04.070 or RCW 80.16.030. Nothing in the Proposed Transaction will limit or affect the Commission's rights with respect to inspection of accounts, books, papers and documents of Puget Holdings pursuant to RCW 80.16.030; provided, that such right to inspection shall be limited to those accounts, books, papers and documents of Puget Holdings that pertain to transactions affecting PSE's regulated utility operations.
 - (d) Puget Holdings and PSE will provide the Commission with access to written information provided by and to credit rating agencies that pertains to PSE. Puget Holdings and each of its members will also provide the Commission with access to written information provided by and to credit rating agencies that pertains to Puget

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Holdings' subsidiaries to the extent such information may potentially affect PSE.

28. In furtherance of Commitment 20:
- (a) If and when any subsidiary of PSE becomes a subsidiary of Puget Holdings, Puget Intermediate Holdings Inc., or Puget Energy, PSE will so advise the Commission within thirty (30) days and will submit to the Commission a written document setting forth PSE's proposed corporate and affiliate cost allocation methodologies.
 - (b) PSE will notify the Commission of any change in corporate structure that affects PSE's corporate and affiliate cost allocation methodologies. PSE will propose revisions to such cost allocation methodologies to accommodate such changes. PSE will not argue that compliance with this provision constitutes approval by the Commission of a particular methodology for corporate and affiliate cost allocation.
 - (c) PSE and Puget Holdings will comply with all applicable provisions of Title 80 RCW, including those pertaining to transfers of property under Chapter 80.12 RCW, affiliated interests under Chapter 80.16 RCW, and securities and the assumption of obligations and liabilities under Chapter 80.08 RCW.
 - (d) With respect to the ratemaking treatment of affiliate transactions, PSE and Puget Holdings will comply with the Commission's then-existing practice; provided, however, that nothing in this Commitment limits PSE from also proposing a different ratemaking treatment for the Commission's consideration or limit the positions any other party may take with respect to ratemaking treatment.
 - (e) PSE will bear the burden of proof in any general rate case that any corporate and affiliate cost allocation methodology it proposes is reasonable for ratemaking purposes. Neither PSE nor Puget Holdings will contest the Commission's authority to disallow, for retail ratemaking purposes in a general rate case, unsupported, unreasonable, or misallocated costs from non-regulated or affiliate businesses to PSE's regulated utility operations.



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29. PSE and Puget Holdings acknowledge that all existing orders issued by the Commission with respect to PSE or its predecessors, Puget Sound Power & Light Company and Washington Natural Gas Company, will remain in effect, and are not modified or otherwise affected by the Proposed Transaction or any order of the Commission approving the Proposed Transaction. Notwithstanding the immediately preceding sentence, the Commission's *Order Accepting Stipulation and Approving Corporate Reorganization to Create a Holding Company, With Conditions*, dated August 15, 2000, in Docket No. UE-991779 will be superseded and replaced in its entirety by any order of the Commission approving the Proposed Transaction.

Guidelines that existed at the time Order No. 08 in WUTC Docket No. U-072375 was issued were sufficient to maintain the new commitments outlined above. These guidelines were based on testimony provided in WUTC Docket No. UE-960195 and are summarized as follows.

As part of the merger proceeding in Docket No. UE-960195, the Commission reviewed and approved the cost allocation methodology presented by PSE. In the Commission order on page 48, it states:

- h. The method for allocating costs between electric and gas operations and for accounting for intra-company transfers of natural gas set forth in the Stipulation shall be implemented.*

In Exhibit T-21 of Docket UE-960195, Merger Application, the direct testimony proposes cost allocation methodology for electric, gas, common and non-regulated business. The cost allocation factors were:

1. *direct charging;*
2. *allocation using causal relationship; and*
3. *allocation using a general allocation factor.*

In the direct testimony, direct charging and allocation using causal relationships are defined as:

Direct charging - Direct charging will be the preferred method for assignment of costs. When a cost can be uniquely identified to one



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service or the other, the costs will be charged to an account for that specific service.

Allocation using causal relationships – Costs that cannot be directly charged to one service or the other. Costs will be allocated based upon a common cause of the cost.

In addition, the direct testimony addresses nonregulated subsidiary companies. In the testimony, when utility personnel provide services to nonregulated subsidiaries, the subsidiary would be billed for the salary, employee benefits and facility costs associated with supporting the utility employee. This methodology as discussed in Docket No. UE-960195 is consistent with previous cost allocations of Puget Sound Power & Light Company. Below is an excerpt from this testimony:

Where practical, nonregulated subsidiaries will maintain separate facilities for staff and operations. The cost for these facilities and personnel will be charged to nonoperating expenses using the FERC system of accounts. When utility personnel provide service to the nonregulated subsidiary, the subsidiary will be billed for the salary, employee benefits and facility costs associated with supporting the utility employee. Facility costs will include an allocation for building rental, telephone service, purchasing support, payroll support, human resource and administrative support. Charges by subsidiary to the regulated company would have a similar overhead applied to its labor costs.

GUIDELINE

The purpose of this guideline is that PSE customers must be held harmless from the liabilities of any non-regulatory activities of PSE, Puget Holdings or other Puget Holdings' affiliated entities. The following guidelines are intended to establish procedures for allocating costs that are corporate in nature among and between PSE, Puget Holdings and its affiliates. Allocations will be based upon direct charging or upon an allocation using causal relationship. Any related transactions will be charged on a monthly basis to the appropriate company.

When utility personnel provide service to Puget Holdings, affiliates or subsidiaries, utility personnel will directly charge their time. In addition to their direct labor, labor overheads will be applied along with a facility overhead. Labor overheads will include the following overhead rates that are applied on direct labor: benefits, payroll tax, PTO, and incentives. Facility overhead includes an allocation for

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building rental, telephone service, purchasing support, payroll support, and accounting support that is applied on direct labor.

For cost allocation purposes herein, factors used for causal relationships will be determined as of December 31 of each year. Below are general guidelines for determining cost allocation of corporate related costs:

Function	Basis of Allocation
Salaries/Employee Expenses	Direct charging, or causal or general allocation
PSE independent Directors' Fees/Expenses	Direct charging, or causal or general allocation
Reimbursements of expenses of non-independent directors of PSE	Direct or causal allocation
Directors' & Officers Liability Insurance	Direct charging, or causal or general allocation
SEC and Other Regulatory Filing Fees	Direct charging, or causal or general allocation
Audit Fees	Direct charging, or causal or general allocation
Consultants and contract labor costs	Direct charging, or causal or general allocation
Line of Credit Fees and interest payments	Direct charging, or causal or general allocation
Legal Fees	Direct charging, or causal or general allocation
Impacts related to FAS-141R business combination accounting requirements	Direct charging, or causal or general allocation
Rating Agency Fees	Direct charging, or causal or general allocation