

Addendum G

Puget Sound Energy, Inc.

Affiliated Interest and Subsidiary Transaction Report For the 12 months ended September 30, 2016

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 Controller 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:

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 12 months ended September 30, 2016.
 - 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 the 12 Months Ended September 30, 2016

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	2I	\$ 279,366
Reimbursement of labor and other expenses to PSE	4C	\$ 425,648
<u>Puget Intermediate Holdings, Inc.</u>		
Accounts payable to PSE	2J	\$ 4,069
Reimbursement of labor and other expenses to PSE	5C	\$ 121,532
<u>Puget Equico LLC</u>		
Accounts payable to PSE	2K	\$ 2,272
Reimbursement of labor and other expenses to PSE	6C	\$ 31,520
<u>Puget Energy, Inc.</u>		
Account payable to PSE	2L	\$ 159,065
Reimbursement of labor and other expenses to PSE	7B	\$ 1,076,747
Dividends Receivable from PSE	10C	\$ 290,819,221
<u>Puget Western, Inc.</u>		
Accounts payable to PSE	3C	\$ 38,837
Reimbursement of labor and other expenses to PSE	11C	\$ 460,335

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	13A	\$ 95,198

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.

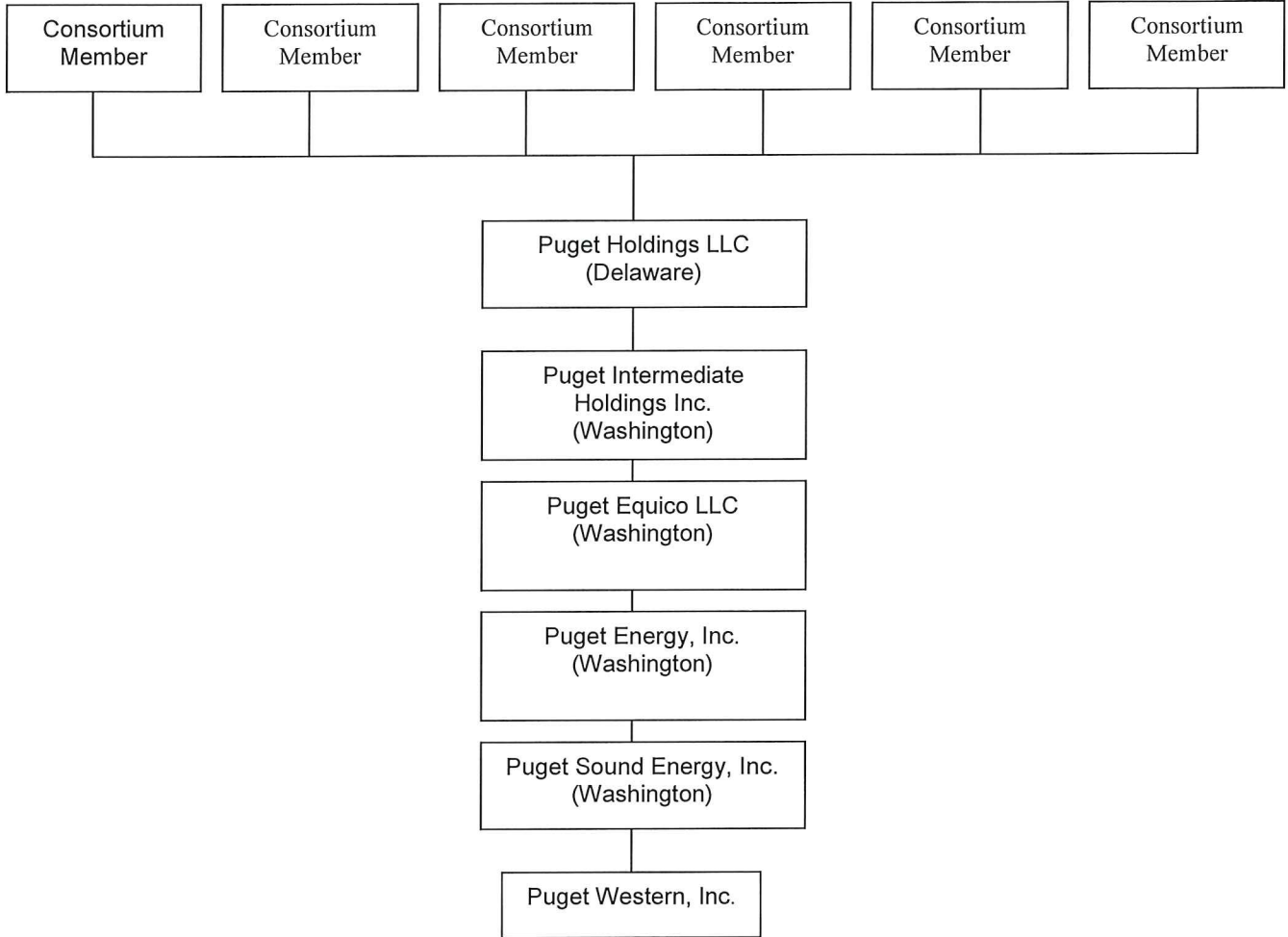
PUGET WESTERN, INC., a Washington corporation, is a real estate investment and development company. Address: 19515 North Creek Parkway, Suite 310, Bothell, Washington 98011.

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 its 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 10/12/2007)

Directors

Melanie Dressel, Chair
Andrew Chapman
Kimberly Harris
Steve Hooper
Alan James
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Etienne Middleton
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
Matt Marcelia, 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
Kimberly Harris
Steve Hooper
Alan James
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Etienne Middleton
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
Matt Marcelia, 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
Kimberly Harris
Steve Hooper
Alan James
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Etienne Middleton
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
Matt Marcelia, 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
Kimberly Harris
Steve Hooper
Alan James
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Etienne Middleton
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
Matt Marcelia, 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
Kimberly Harris
Steve Hooper
Alan James
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Etienne Middleton
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
Andrew W. Wappler, Vice President Customer Operations and
Communications
Matt Marcelia, 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 5/10/1960) TIN #91-0716282

Directors

Daniel A. Doyle, Chair
Roger Garratt

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
SEPTEMBER 30, 2016

	PERIOD ENDED 9/30/2016	PERIOD ENDED 12/31/2015	\$ CHANGE FROM PRIOR YEAR END
CURRENT ASSETS			
Petty Cash	14	5	9
Cash - Money Market	4,272,512	2,397,352	1,875,160
Cash - MMkt Snoqualmie	88,405	88,392	13
Cash in Bank	13,602	7,712	5,890
Notes Receivable	0	2,224,000	(2,224,000)
Prepaid Escrow Deposits	40,000	40,000	0
Prepaid Rent	12,254	0	12,254
Prepaid Insurance	10,013	8,199	1,814
Total Current Assets	4,436,800	4,765,660	(328,860)
Long-Term Assets			
Furniture & Fixtures	298,267	298,267	0
Accum Depr FF&E	(290,654)	(288,476)	(2,178)
Sub-total	7,613	9,791	(2,178)
Land Held for Sale or Development			
Commercial Land	20,961,272	21,865,050	(903,778)
Project Development	4,550,309	4,215,880	334,429
Total Long-Term Assets	25,511,581	26,080,930	(569,349)
TOTAL ASSETS	29,955,994	30,856,381	(900,387)

Puget Western, Inc.
BALANCE SHEET
SEPTEMBER 30, 2016

	PERIOD ENDED 9/30/2016	PERIOD ENDED 12/31/2015	\$ CHANGE FROM PRIOR YEAR END
CURRENT LIABILITIES			
Interest Payable	17,686	50,848	(33,162)
Accounts Payable Accruals	45,000	37,000	8,000
Total Current Liabilities	62,686	87,848	(25,162)
LONG-TERM LIABILITIES			
Intercompany Payable to Parent-FIT	(2,647,756)	(1,946,692)	(701,064)
Notes Payable	2,411,777	2,411,777	0
Property Tax Payable	60,000	0	60,000
Security Deposit Payable	8,306	0	8,306
Deferred FIT	416,372	405,819	10,553
Total Long-Term Liabilities	248,699	870,904	(622,205)
TOTAL LIABILITIES	311,385	958,752	(647,367)
EQUITY			
Common Stock	10,200	10,200	0
Additional Paid-In-Capital	44,487,244	44,487,244	0
Retained Earnings	(14,599,816)	(14,632,030)	32,214
Y-T-D Net Profit (Loss)	(253,019)	32,215	(285,234)
TOTAL EQUITY	29,644,609	29,897,629	(253,020)
TOTAL LIABILITIES & EQUITY	29,955,994	30,856,381	(900,387)

Puget Western Inc
Income Statement
FOR THE YEAR TO DATE ENDED
SEPTEMBER 30, 2016

	YTD Ended 9/30/16	Budget YTD Ended 9/30/16	VARIANCE	YTD Ended 9/30/15	VARIANCE
INCOME					
Sales Revenue	\$1,475,000	\$0	\$1,475,000	\$482,500	\$992,500
Cost of Sale	961,470	0	(\$961,470)	320,628	\$640,842
Direct Selling Exp	106,489	0	(\$106,489)	59,199	\$47,290
GROSS PROFIT ON SALES	407,041	0	407,041	102,673	304,368
Rental Income	59,387	59,100	\$287	6,000	53,387
Earnings - Other	-	-	-	-	0
Interest Income	47,594	64,710	(17,116)	2,185	45,409
Miscellaneous Income	-	-	-	417,500	(417,500)
TOTAL INCOME	514,022	123,810	390,212	528,358	(14,336)
EXPENSE					
North Creek Rent	76,270	73,800	(2,470)	68,539	7,731
Kinetic Value Adjustments	-	-	-	9,250	(9,250)
Consulting Fees	13,342	13,050	(292)	12,942	400
Legal Fees	-	900	900	94	-
Accounting Fees	19,419	19,800	381	20,020	(601)
Interest Expense	-	-	-	-	0
Bank Service Charges	-	-	-	-	0
B & O/Excise Taxes	-	-	-	-	0
Property Taxes	186,354	180,000	(6,354)	195,267	(8,913)
Personal Property Tax	-	1,800	1,800	109	(109)
Marketing Expense	-	-	-	-	0
General & Admin. Expense	417,010	405,000	(12,010)	438,972	(21,962)
Depreciation Expense	2,178	2,250	72	2,178	0
Sub-Total	714,573	696,600	(17,973)	747,371	(32,704)
OPERATING EXPENSE					
Misc. Prop Mgmt Expense	1,881	1,800	(81)	4,226	(2,345)
Escrow/Title Fees	-	-	100	-	0
Employee Expense	-	-	-	-	0
Travel Expense	4,958	6,300	1,342	4,405	553
Training Expense	-	-	-	-	0
Meals & Entertainment	1,105	1,800	695	2,115	(1,010)
Office Supplies & Equipment	6,461	8,100	1,639	8,625	(2,164)
Utilities	126,539	99,000	(27,539)	126,061	478
Postage	124	360	236	294	(170)
Dues, Subscriptions, Manuals	1,243	900	(343)	727	516
Donations	250	900	650	1,335	(1,085)
Repairs & Maintenance	-	450	450	-	0
Leasing Expense	-	-	-	-	0
PSE Strander Lease Expense	37,980	29,750	(8,230)	37,980	0
Insurance Expense	10,201	10,800	599	10,506	(305)
Licenses	203	180	(23)	219	(16)
Property Option Expense	-	-	-	-	-
Miscellaneous	-	180	180	200	(200)
TOTAL OPERATING EXP.	190,945	160,520	(30,425)	196,693	(5,548)
TOTAL EXPENSES	905,518	857,120	(48,398)	944,064	(38,546)
INCOME (LOSS) BEFORE FIT	(391,496)	(733,310)	341,814	(415,706)	23,916
Federal Income Tax	(138,477)	(256,658)	(118,182)	(144,819)	6,342
NET INCOME	(253,019)	(476,652)	223,633	(270,887)	17,868

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

ASSETS

	September 30, 2016	December 31, 2015
Utility plant (at original cost, including construction work in progress of \$436,472 and \$408,795, respectively):		
Electric plant	\$ 9,678,988	\$ 9,601,091
Natural gas plant	3,588,069	3,444,744
Common plant	624,728	548,657
Less: Accumulated depreciation and amortization	(4,878,960)	(4,681,830)
Net utility plant	9,012,825	8,912,662
Other property and investments:		
Other property and investments	80,416	83,069
Total other property and investments	80,416	83,069
Current assets:		
Cash and cash equivalents	16,409	41,856
Restricted cash	9,340	7,949
Accounts receivable, net of allowance for doubtful accounts of \$9,571 and \$9,756, respectively	239,878	324,358
Unbilled revenue	126,021	217,274
Materials and supplies, at average cost	106,692	78,244
Fuel and gas inventory, at average cost	60,546	57,324
Unrealized gain on derivative instruments	15,008	24,418
Prepaid expense and other	46,471	17,119
Total current assets	620,365	768,542
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	70,274	72,694
Power cost adjustment mechanism	4,500	4,749
Other regulatory assets	1,015,140	894,059
Unrealized gain on derivative instruments	5,409	5,225
Other	56,659	58,513
Total other long-term and regulatory assets	1,151,982	1,035,240
Total assets	\$ 10,865,588	\$ 10,799,513

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

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

CAPITALIZATION AND LIABILITIES

	September 30, 2016	December 31, 2015
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	3,275,105
Retained earnings	297,095	236,578
Accumulated other comprehensive income (loss), net of tax	(141,991)	(149,550)
Total common shareholder's equity	3,431,068	3,362,992
Long-term debt:		
First mortgage bonds and senior notes	3,364,412	3,364,412
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Debt discount, issuance costs and other	(29,706)	(31,910)
Total long-term debt	3,746,566	3,744,362
Total capitalization	7,177,634	7,107,354
Current liabilities:		
Accounts payable	243,169	259,353
Short-term debt	172,000	159,004
Purchased gas adjustment liability	1,846	12,589
Accrued expenses:		
Taxes	78,443	114,854
Salaries and wages	39,300	38,457
Interest	55,931	47,772
Unrealized loss on derivative instruments	49,966	131,420
Other	72,093	53,868
Total current liabilities	712,748	817,317
Other long-term and regulatory liabilities:		
Deferred income taxes	1,675,248	1,556,616
Unrealized loss on derivative instruments	20,417	47,776
Regulatory liabilities	623,479	651,094
Other deferred credits	656,062	619,356
Total other long-term and regulatory liabilities	2,975,206	2,874,842
Commitments and contingencies (Note 8)		
Total capitalization and liabilities	\$ 10,865,588	\$ 10,799,513

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating revenue:				
Electric	\$ 495,321	\$ 482,786	\$ 1,622,664	\$ 1,526,029
Natural gas	114,458	119,582	601,309	653,385
Other	8,815	3,545	25,487	11,683
Total operating revenue	618,594	605,913	2,249,460	2,191,097
Operating expenses:				
Energy costs:				
Purchased electricity	94,849	97,694	356,296	355,645
Electric generation fuel	70,503	76,863	165,627	180,531
Residential exchange	(15,577)	(19,530)	(49,093)	(92,297)
Purchased natural gas	34,041	46,436	205,418	282,334
Unrealized (gain) loss on derivative instruments, net	6,327	5,588	(57,218)	(5,795)
Utility operations and maintenance	138,265	131,208	422,273	400,355
Non-utility expense and other	8,620	5,605	26,474	18,953
Depreciation and amortization	110,022	107,759	328,809	314,348
Conservation amortization	21,800	24,224	77,551	78,389
Taxes other than income taxes	65,268	64,030	235,431	228,942
Total operating expenses	534,118	539,877	1,711,568	1,761,405
Operating income (loss)	84,476	66,036	537,892	429,692
Other income (deductions):				
Other income	6,131	4,731	19,184	14,770
Other expense	(5,025)	(1,621)	(8,488)	(4,843)
Interest charges:				
AFUDC	2,702	2,102	7,663	5,262
Interest expense	(60,914)	(60,731)	(182,336)	(186,610)
Income (loss) before income taxes	27,370	10,517	373,915	258,271
Income tax (benefit) expense	8,393	641	117,533	76,596
Net income (loss)	\$ 18,977	\$ 9,876	\$ 256,382	\$ 181,675

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

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

ASSETS

	September 30, 2016	December 31, 2015
Utility plant (at original cost, including construction work in progress of \$436,472 and \$408,795, respectively):		
Electric plant	\$ 7,532,354	\$ 7,432,490
Natural gas plant	2,998,063	2,850,290
Common plant	586,933	508,750
Less: Accumulated depreciation and amortization	(2,104,525)	(1,878,868)
Net utility plant	9,012,825	8,912,662
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	83,762	86,731
Total other property and investments	1,740,275	1,743,244
Current assets:		
Cash and cash equivalents	16,848	42,494
Restricted cash	9,340	7,949
Accounts receivable, net of allowance for doubtful accounts of \$9,571 and \$9,756, respectively	240,017	324,391
Unbilled revenue	126,021	217,274
Materials and supplies, at average cost	106,692	78,244
Fuel and gas inventory, at average cost	61,877	58,658
Unrealized gain on derivative instruments	15,008	24,418
Prepaid expense and other	46,471	17,120
Power contract acquisition adjustment gain	32,668	37,031
Total current assets	654,942	807,579
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	70,781	73,231
Power cost adjustment mechanism	4,500	4,749
Regulatory assets related to power contracts	23,219	26,223
Other regulatory assets	1,015,140	894,071
Unrealized gain on derivative instruments	5,409	5,225
Power contract acquisition adjustment gain	249,477	288,757
Other	56,659	58,513
Total other long-term and regulatory assets	1,425,185	1,350,769
Total assets	\$ 12,833,227	\$ 12,814,254

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

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

CAPITALIZATION AND LIABILITIES

	September 30, 2016	December 31, 2015
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	346,016	249,534
Accumulated other comprehensive income (loss), net of tax	(27,666)	(27,266)
Total common shareholder's equity	3,627,307	3,531,225
Long-term debt:		
First mortgage bonds and senior notes	3,364,412	3,364,412
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Long-term debt	1,800,000	1,800,000
Debt discount, issuance costs and other	(238,159)	(248,754)
Total long-term debt	5,338,113	5,327,518
Total capitalization	8,965,420	8,858,743
Current liabilities:		
Accounts payable	243,169	259,353
Short-term debt	172,000	159,004
Purchased gas adjustment liability	1,846	12,589
Accrued expenses:		
Taxes	78,443	114,854
Salaries and wages	39,300	38,457
Interest	78,590	73,378
Unrealized loss on derivative instruments	51,449	136,173
Power contract acquisition adjustment loss	3,221	3,611
Other	72,093	53,867
Total current liabilities	740,111	851,286
Other long-term and regulatory liabilities:		
Deferred income taxes	1,524,117	1,435,955
Unrealized loss on derivative instruments	20,417	48,073
Regulatory liabilities	624,810	652,441
Regulatory liabilities related to power contracts	282,146	325,788
Power contract acquisition adjustment loss	19,998	22,613
Other deferred credits	656,208	619,355
Total other long-term and regulatory liabilities	3,127,696	3,104,225
Commitments and contingencies (Note 8)		
Total capitalization and liabilities	\$ 12,833,227	\$ 12,814,254

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating revenue:				
Electric	\$ 495,321	\$ 482,786	\$ 1,622,664	\$ 1,526,029
Natural gas	114,458	119,582	601,309	653,385
Other	8,499	3,365	25,170	11,495
Total operating revenue	618,278	605,733	2,249,143	2,190,909
Operating expenses:				
Energy costs:				
Purchased electricity	94,849	97,694	356,296	355,645
Electric generation fuel	70,503	76,863	165,627	180,531
Residential exchange	(15,577)	(19,530)	(49,093)	(92,297)
Purchased natural gas	34,041	46,436	205,418	282,334
Unrealized (gain) loss on derivative instruments, net	6,327	5,588	(57,218)	(6,339)
Utility operations and maintenance	138,265	131,208	422,273	400,355
Non-utility expense and other	4,708	1,573	15,520	7,106
Depreciation and amortization	110,022	107,759	328,809	314,348
Conservation amortization	21,800	24,224	77,551	78,389
Taxes other than income taxes	65,268	64,030	235,431	228,942
Total operating expenses	530,206	535,845	1,700,614	1,749,014
Operating income (loss)	88,072	69,888	548,529	441,895
Other income (deductions):				
Other income	6,130	4,732	19,187	14,770
Other expense	(5,025)	(1,621)	(8,488)	(4,843)
Non-hedged interest rate swap (expense) income	563	(1,156)	(651)	(4,571)
Interest charges:				
AFUDC	2,702	2,102	7,663	5,262
Interest expense	(89,297)	(88,753)	(266,786)	(267,484)
Income (loss) before income taxes	3,145	(14,808)	299,454	185,029
Income tax (benefit) expense	810	(6,880)	91,380	51,665
Net income (loss)	\$ 2,335	\$ (7,928)	\$ 208,074	\$ 133,364

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

PUGET EQUICO LLC

BALANCE SHEET

(Dollars in Thousands)

	(A)	(B)
	September 30, 2016	December 31, 2015
Assets:		
Utility Plant:		
1 Electric	\$ 7,532,354	\$ 7,432,490
2 Natural Gas	2,998,063	2,850,290
3 Common	586,933	508,750
4 Less: Accumulated Depreciation and Amortization	(2,104,525)	(1,878,868)
5 Net Utility Plant	<u>9,012,824</u>	<u>8,912,662</u>
6 Other Property and Investments:		
7 Goodwill	1,656,513	1,656,513
8 Other Property and Investments:	<u>83,762</u>	<u>86,731</u>
9 Total Other Property and Investments	<u>1,740,275</u>	<u>1,743,244</u>
10 Current Assets:		
11 Cash	16,948	42,513
12 Restricted Cash	9,340	7,949
13 Accounts Receivable	249,586	334,146
14 Less: Allowance for Doubtful Accounts	(9,571)	(9,756)
15 Unbilled Revenues	126,021	217,274
16 Materials and Supplies	106,692	78,244
17 Fuel and Gas Inventory	61,877	58,658
18 Unrealized Gain on Derivative Instruments	15,008	24,418
19 Prepaid Expense and Other	46,471	17,120
20 Power Contract Acquisition Adjustment Gain	<u>32,668</u>	<u>37,031</u>
21 Total Current Assets	<u>655,040</u>	<u>807,597</u>
22 Long-Term Assets:		
23 Regulatory Asset for Deferred Income Taxes	70,781	73,231
24 Power Cost Adjustment Mechanism	4,500	4,749
25 Regulatory Assets Related to Power Contracts	23,219	26,223
26 Other Regulatory Assets	1,015,140	894,071
27 Unrealized Gain on Derivative Instruments	5,409	5,225
28 Power Contract Acquisition Adjustment Gain	249,477	288,757
29 Other	<u>56,659</u>	<u>58,513</u>
30 Total Long-Term Assets	<u>1,425,184</u>	<u>1,350,769</u>
31 Total Assets	<u>\$ 12,833,323</u>	<u>\$ 12,814,272</u>
32		
33 Capitalization and Liabilities:		
34 Capitalization:		
35 Common Equity	\$ 3,627,508	\$ 3,531,335
36 Total Shareholders' Equity	<u>3,627,508</u>	<u>3,531,335</u>
37 Long-Term Debt		
38 Junior Subordinated Notes	250,000	250,000
39 Long-Term Debt	5,088,113	5,077,518
40 Total Long-Term Debt	<u>5,338,113</u>	<u>5,327,518</u>
41 Total Capitalization	<u>8,965,620</u>	<u>8,858,853</u>
42 Current Liabilities:		
43 Accounts Payable	243,169	259,353
44 Short-Term Debt	172,000	159,004
45 Accrued expenses:		
46 Purchased Gas Adjustment Liability	1,846	12,589
47 Taxes	78,443	114,854
48 Salaries and Wages	39,300	38,457
49 Interest	78,590	73,378
50 Unrealized Loss on Derivative Instruments	51,449	136,173
51 Power Contract Acquisition Adjustment Loss	3,221	3,611
52 Other	<u>72,093</u>	<u>53,867</u>
53 Total Current Liabilities	<u>740,111</u>	<u>851,286</u>
54 Long-Term Liabilities:		
55 Deferred Income Taxes	1,524,014	1,435,864
56 Unrealized Loss on Derivative Instruments	20,417	48,073
57 Regulatory Liabilities	624,810	652,441
58 Regulatory Liabilities Related to Power Contracts	282,146	325,788
59 Power Contract Acquisition Adjustment Loss	19,998	22,613
60 Other Deferred Credits	<u>656,208</u>	<u>619,354</u>
61 Total Long-Term Liabilities	<u>3,127,593</u>	<u>3,104,133</u>
62 Total Capitalization and Liabilities	<u>\$ 12,833,325</u>	<u>\$ 12,814,272</u>

PUGET EQUICO LLC
GAAP BASIS INCOME STATEMENT
YEAR-TO-DATE SEPTEMBER 30, 2016
(Dollars in Thousands)

	(A)	(B)	(C)	(D)
			(A) - (B)	(C) / (B)
	Actual	Actual Prior Year	Variance from 2015	
			\$	%
1 Operating Revenue:				
2 Electric	\$ 1,622,664	\$ 1,526,029	\$ 96,635	6
3 Natural Gas	601,309	653,385	(52,076)	(8)
4 Other	25,170	11,495	13,675	119
5 Total Operating Revenue	<u>2,249,143</u>	<u>2,190,909</u>	<u>58,234</u>	<u>3</u>
6				
7 Operating Expenses:				
8 Energy Costs:				
9 Purchased Electricity	356,296	355,645	(651)	(0)
10 Electric Generation Fuel	165,627	180,531	14,904	8
11 Residential/Farm Exchange Credit	(49,093)	(92,297)	(43,204)	(47)
12 Purchased Natural Gas	205,418	282,334	76,916	27
13 Unrealized (Gain) Loss on Derivative Instruments	(57,218)	(6,339)	50,879	-
14 Utility Operations and Maintenance	422,273	400,355	(21,918)	(5)
15 Non-Utility Expense and Other	15,550	7,132	(8,418)	(118)
16 Depreciation and Amortization	328,809	314,348	(14,461)	(5)
17 Conservation Amortization	77,551	78,389	838	1
18 Taxes Other than Income Taxes	235,431	228,942	(6,489)	(3)
19 Total Operating Expenses	<u>1,700,644</u>	<u>1,749,040</u>	<u>48,396</u>	<u>3</u>
20				
21 Operating Income	548,499	441,869	106,630	24
22 Other Income (Deductions):				
23 Other Income	19,186	14,770	4,416	30
24 Other Expense	(8,488)	(4,843)	(3,645)	(75)
25 Non-hedged Interest Rate Derivative Expense	(651)	(4,571)	3,920	86
26 Interest Charges:				
27 AFUDC	7,663	5,262	2,401	46
28 Interest Expense	(266,786)	(267,484)	698	0
29 Income Before Income Taxes	<u>299,423</u>	<u>185,003</u>	<u>114,420</u>	<u>62</u>
30 Income Taxes (Benefit)	91,369	51,656	(39,713)	(77)
31 Net Income (Loss)	<u>\$ 208,054</u>	<u>\$ 133,347</u>	<u>\$ 74,707</u>	<u>56</u>

PUGET INTERMEDIATE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

ASSETS

	September 30, 2016	December 31, 2015
Utility plant (at original cost, including construction work in progress of \$436,472 and \$408,795, respectively):		
Electric plant	\$ 7,532,354	\$ 7,432,490
Natural gas plant	2,998,063	2,850,290
Common plant	586,933	508,750
Less: Accumulated depreciation and amortization	(2,104,525)	(1,878,868)
Net utility plant	9,012,825	8,912,662
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	83,762	86,731
Total other property and investments	1,740,275	1,743,244
Current assets:		
Cash and cash equivalents	16,981	42,565
Restricted cash	9,340	7,949
Accounts receivable, net of allowance for doubtful accounts of \$9,571 and \$9,756, respectively	240,357	324,740
Unbilled revenue	126,021	217,274
Materials and supplies, at average cost	106,692	78,244
Fuel and gas inventory, at average cost	61,877	58,658
Unrealized gain on derivative instruments	15,008	24,418
Prepaid expense and other	46,471	17,120
Power contract acquisition adjustment gain	32,668	37,031
Total current assets	655,415	807,999
Other long-term and regulatory assets:		
Regulatory assets for deferred income taxes	70,781	73,231
Power cost adjustment mechanism	4,500	4,749
Regulatory assets related to power contracts	23,219	26,223
Other regulatory assets	1,015,140	894,071
Unrealized gain on derivative instruments	5,409	5,225
Power contract acquisition adjustment gain	249,477	288,757
Other	56,659	58,513
Total other long-term and regulatory assets	1,425,185	1,350,769
Total assets	\$ 12,833,700	\$ 12,814,674

PUGET INTERMEDIATE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

CAPITALIZATION AND LIABILITIES

	September 30, 2016	December 31, 2015
Capitalization:		
Common shareholder's equity:		
Additional paid-in capital	2,175,442	2,175,442
Retained earnings	344,986	216,350
Accumulated other comprehensive income (loss), net of tax	(27,666)	(27,265)
Total common shareholder's equity	2,492,762	2,364,527
Long-term debt:		
PSE first mortgage bonds and senior notes	3,364,412	3,364,412
PSE pollution control bonds	161,860	161,860
PSE junior subordinated notes	250,000	250,000
Puget Energy long-term debt	1,800,000	1,800,000
Puget Intermediate Holdings senior secured investor notes	1,626,823	1,626,823
Debt discount, issuance costs and other	(238,159)	(248,754)
Total long-term debt	6,964,936	6,954,341
Total capitalization	9,457,698	9,318,868
Current liabilities:		
Accounts payable	243,169	259,353
Short-term debt	172,000	159,004
Purchased gas adjustment liability	1,846	12,589
Accrued expenses:		
Taxes	78,443	114,854
Salaries and wages	39,300	38,457
Interest	78,590	73,378
Unrealized loss on derivative instruments	51,449	136,173
Power contract acquisition adjustment loss	3,221	3,611
Other	72,093	53,867
Total current liabilities	740,111	851,286
Other long-term and regulatory liabilities:		
Deferred income taxes	1,032,312	976,251
Unrealized loss on derivative instruments	20,417	48,073
Regulatory liabilities	624,810	652,441
Regulatory liabilities related to power contracts	282,146	325,788
Power contract acquisition adjustment loss	19,998	22,613
Other deferred credits	656,208	619,354
Total other long-term and regulatory liabilities	2,635,891	2,644,520
Commitments and contingencies		
Total capitalization and liabilities	\$ 12,833,700	\$ 12,814,674

PUGET INTERMEDIATE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating revenue:				
Electric	\$ 495,321	\$ 482,786	\$ 1,622,664	\$ 1,526,029
Natural gas	114,458	119,582	601,309	653,385
Other	8,499	3,365	25,170	11,495
Total operating revenue	618,278	605,733	2,249,143	2,190,909
Operating expenses:				
Energy costs:				
Purchased electricity	94,849	97,694	356,296	355,645
Electric generation fuel	70,503	76,863	165,627	180,531
Residential exchange	(15,577)	(19,530)	(49,093)	(92,297)
Purchased natural gas	34,041	46,436	205,418	282,334
Unrealized (gain) loss on derivative instruments, net	6,327	5,588	(57,218)	(6,339)
Utility operations and maintenance	138,265	131,208	422,273	400,355
Non-utility expense and other	4,720	1,590	15,669	7,359
Depreciation and amortization	110,022	107,759	328,809	314,348
Conservation amortization	21,800	24,224	77,551	78,389
Taxes other than income taxes	65,268	64,030	235,431	228,942
Total operating expenses	530,218	535,862	1,700,763	1,749,267
Operating income	88,060	69,871	548,380	441,642
Other income (deductions):				
Other income	6,130	4,732	19,186	14,770
Other expense	(5,025)	(1,621)	(8,488)	(4,843)
Non-hedged interest rate derivative expense	563	(1,156)	(651)	(4,571)
Interest charges:				
AFUDC	2,702	2,102	7,663	5,262
Interest expense - investors	(30,640)	(30,640)	(91,255)	(93,180)
Interest expense	(89,297)	(88,753)	(266,786)	(267,484)
Income (loss) before income taxes	(27,507)	(45,465)	208,049	91,596
Income tax (benefit) expense	(9,953)	(17,646)	59,279	18,854
Net income (loss)	\$ (17,554)	\$ (27,819)	\$ 148,770	\$ 72,742

PUGET HOLDINGS LLC

BALANCE SHEET

(Dollars in Thousands)

	(A)	(B)
	September 30, 2016	December 31, 2015
Assets:		
Utility Plant:		
1 Electric	\$ 7,532,354	\$ 7,432,490
2 Natural Gas	2,998,063	2,850,290
3 Common	586,933	508,750
4 Less: Accumulated Depreciation and Amortization	<u>(2,104,525)</u>	<u>(1,878,868)</u>
5 Net Utility Plant	<u>9,012,824</u>	<u>8,912,662</u>
Other Property and Investments:		
7 Goodwill	1,656,513	1,656,513
8 Other Property and Investments:	<u>83,762</u>	<u>86,731</u>
9 Total Other Property and Investments	<u>1,740,275</u>	<u>1,743,244</u>
Current Assets:		
11 Cash	17,566	42,723
12 Restricted Cash	9,340	7,949
13 Accounts Receivable	249,063	334,247
14 Less: Allowance for Doubtful Accounts	(9,571)	(9,756)
15 Unbilled Revenues	126,021	217,274
16 Materials and Supplies	106,692	78,244
17 Fuel and Gas Inventory	61,877	58,658
18 Unrealized Gain on Derivative Instruments	15,008	24,418
19 Prepaid Expense and Other	46,472	17,120
20 Power Contract Acquisition Adjustment Gain	<u>32,668</u>	<u>37,031</u>
21 Total Current Assets	<u>655,137</u>	<u>807,908</u>
Long-Term Assets:		
23 Regulatory Asset for Deferred Income Taxes	70,781	73,231
24 Power Cost Adjustment Mechanism	4,500	4,749
25 Regulatory Assets Related to Power Contracts	23,219	26,223
26 Other Regulatory Assets	1,015,140	894,071
27 Unrealized Gain on Derivative Instruments	5,409	5,225
28 Power Contract Acquisition Adjustment Gain	249,477	288,757
29 Other	<u>56,659</u>	<u>58,513</u>
30 Total Long-Term Assets	<u>1,425,184</u>	<u>1,350,769</u>
31 Total Assets	<u>\$ 12,833,420</u>	<u>\$ 12,814,583</u>
Capitalization and Liabilities:		
Capitalization:		
35 Common Equity	\$ 2,502,317	\$ 2,374,169
36 Total Shareholders' Equity	<u>2,502,317</u>	<u>2,374,169</u>
37 Long-Term Debt		
38 Junior Subordinated Notes	250,000	250,000
39 Long-Term Debt - Investors	1,626,823	1,626,823
40 Long-Term Debt	<u>5,088,113</u>	<u>5,077,518</u>
41 Total Long-Term Debt	<u>6,964,935</u>	<u>6,954,341</u>
42 Total Capitalization	<u>9,467,252</u>	<u>9,328,510</u>
Current Liabilities:		
44 Accounts Payable	243,169	259,353
45 Short-Term Debt	172,000	159,004
Accrued expenses:		
47 Purchased Gas Adjustment Liability	1,846	12,589
48 Taxes	78,443	114,854
49 Salaries and Wages	39,300	38,457
50 Interest	78,590	73,378
51 Unrealized Loss on Derivative Instruments	51,449	136,173
52 Power Contract Acquisition Adjustment Loss	3,221	3,611
53 Other	<u>72,093</u>	<u>53,867</u>
54 Total Current Liabilities	<u>740,111</u>	<u>851,286</u>
Long-Term Liabilities:		
56 Deferred Income Taxes	1,022,478	966,518
57 Unrealized Loss on Derivative Instruments	20,417	48,073
58 Regulatory Liabilities	624,810	652,441
59 Regulatory Liabilities Related to Power Contracts	282,146	325,788
60 Power Contract Acquisition Adjustment Loss	19,998	22,613
61 Other Deferred Credits	<u>656,208</u>	<u>619,354</u>
62 Total Long-Term Liabilities	<u>2,626,058</u>	<u>2,634,787</u>
63 Total Capitalization and Liabilities	<u>\$ 12,833,422</u>	<u>\$ 12,814,583</u>

PUGET HOLDINGS LLC
GAAP BASIS INCOME STATEMENT
YEAR-TO-DATE SEPTEMBER 30, 2016
(Dollars in Thousands)

	(A)	(B)	(C)	(D)
			(A) - (B)	(C) / (B)
	Actual	Actual Prior Year	Variance from 2015 \$	%
1 Operating Revenue:				
2 Electric	\$ 1,622,664	\$ 1,526,029	\$ 96,635	6
3 Natural Gas	601,309	653,385	(52,076)	(8)
4 Other	25,170	11,495	13,675	119
5 Total Operating Revenue	<u>2,249,143</u>	<u>2,190,909</u>	<u>58,234</u>	<u>3</u>
6				
7 Operating Expenses:				
8 Energy Costs:				
9 Purchased Electricity	356,296	355,645	(651)	(0)
10 Electric Generation Fuel	165,627	180,531	14,904	8
11 Residential/Farm Exchange Credit	(49,093)	(92,297)	(43,204)	(47)
12 Purchased Natural Gas	205,418	282,334	76,916	27
13 Unrealized (Gain) Loss on Derivative Instruments	(57,218)	(6,339)	50,879	-
14 Utility Operations and Maintenance	422,273	400,355	(21,918)	(5)
15 Non-Utility Expense and Other	15,953	7,753	(8,200)	(106)
16 Depreciation and Amortization	328,809	314,348	(14,461)	(5)
17 Conservation Amortization	77,551	78,389	838	1
18 Taxes Other than Income Taxes	235,431	228,942	(6,489)	(3)
19 Total Operating Expenses	<u>1,701,047</u>	<u>1,749,661</u>	<u>48,614</u>	<u>3</u>
20				
21 Operating Income	548,096	441,248	106,848	24
22 Other Income (Deductions):				
23 Other Income	19,185	14,770	4,415	30
24 Other Expense	(8,488)	(4,843)	(3,645)	(75)
25 Non-hedged Interest Rate Derivative Expense	(651)	(4,571)	3,920	86
26 Interest Charges:				
27 AFUDC	7,663	5,262	2,401	46
28 Interest Expense - Investors	(91,255)	(93,180)	1,925	2
29 Interest Expense	(266,786)	(267,484)	698	0
30 Income Before Income Taxes	<u>207,764</u>	<u>91,202</u>	<u>116,562</u>	<u>128</u>
31 Income Taxes (Benefit)	59,179	18,716	(40,463)	-
32 Net Income (Loss)	<u>\$ 148,585</u>	<u>\$ 72,486</u>	<u>\$ 76,099</u>	<u>105</u>

PUGET SOUND ENERGY
AFFILIATED INTEREST AND SUBSIDIARY
TRANSACTIONS REPORT

EXHIBIT 4



Controller's Manual

SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

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Date 07/10/12
Revision 5

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.



Controller's Manual

SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

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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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SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

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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