



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

April 28, 2017

Mr. Steven V. King  
Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive SW  
P.O. Box 47250  
Olympia, WA 98504-7250

**Re: Affiliated Interest and Subsidiary Transactions Report  
WAC 480-90-264 and 480-100-264**

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, 2016, pertaining to Puget Sound Energy ("PSE" or "the Company").

If there are any questions concerning this report, please contact me at (425) 456-2150.

Sincerely,

A handwritten signature in blue ink that reads 'MM for Matthew Marcellia'.

Matthew Marcellia  
Controller & principal Accounting Officer

Attachment:  
Affiliated Interest and Subsidiary Transactions Report

cc: Kathie Barnard  
Kenneth Johnson

## Puget Sound Energy, Inc.

### Affiliated Interest and Subsidiary Transaction Report For the 12 months ended December 31, 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 December 31, 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 December 31, 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>
<b><u>Puget Holdings LLC</u></b>		
Accounts payable to PSE	2A	\$ 302,376
Reimbursement of labor and other expenses to PSE	4A	\$ 419,343
<b><u>Puget Intermediate Holdings, Inc.</u></b>		
Accounts payable to PSE	2B	\$ 6,920
Reimbursement of labor and other expenses to PSE	5A	\$ 129,112
<b><u>Puget Equico LLC</u></b>		
Accounts payable to PSE	2C	\$ 1,314
Reimbursement of labor and other expenses to PSE	6A	\$ 31,534
<b><u>Puget Energy, Inc.</u></b>		
Account payable to PSE	2E	\$ 128,940
Reimbursement of labor and other expenses to PSE	7A	\$ 1,068,062
Dividends Receivable from PSE	10A	\$ 257,363,965
<b><u>Puget LNG LLC</u></b>		
Accounts payable to PSE	2.1A	\$ 15,672,158
Reimbursement of labor and other expenses to PSE	8A	\$ 28,151,305
<b><u>Puget Western, Inc.</u></b>		
Accounts payable to PSE	3A	\$ 32,784
Reimbursement of labor and other expenses to PSE	11A	\$ 503,939

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>
<b><u>Macquarie Energy, LLC</u></b>		
Electric Transmission Service	13A	\$ 22,671

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 currently 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 currently 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 currently 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 currently 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 LNG, LLC (Puget LNG) is a wholly-owned non-regulated subsidiary of Puget Energy, Inc. Puget LNG, was formed on November 29, 2016, and has the sole purpose of owning, developing and financing the non-regulated activity of a liquefied natural gas (LNG) facility currently under construction at the Port of Tacoma, Washington. Puget LNG has its principal executive office at 10885 NE 4<sup>th</sup> 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 4<sup>th</sup> Street, Suite 1200, Bellevue, Washington 98004. Puget Sound Energy had the following subsidiary at December 31, 2015:

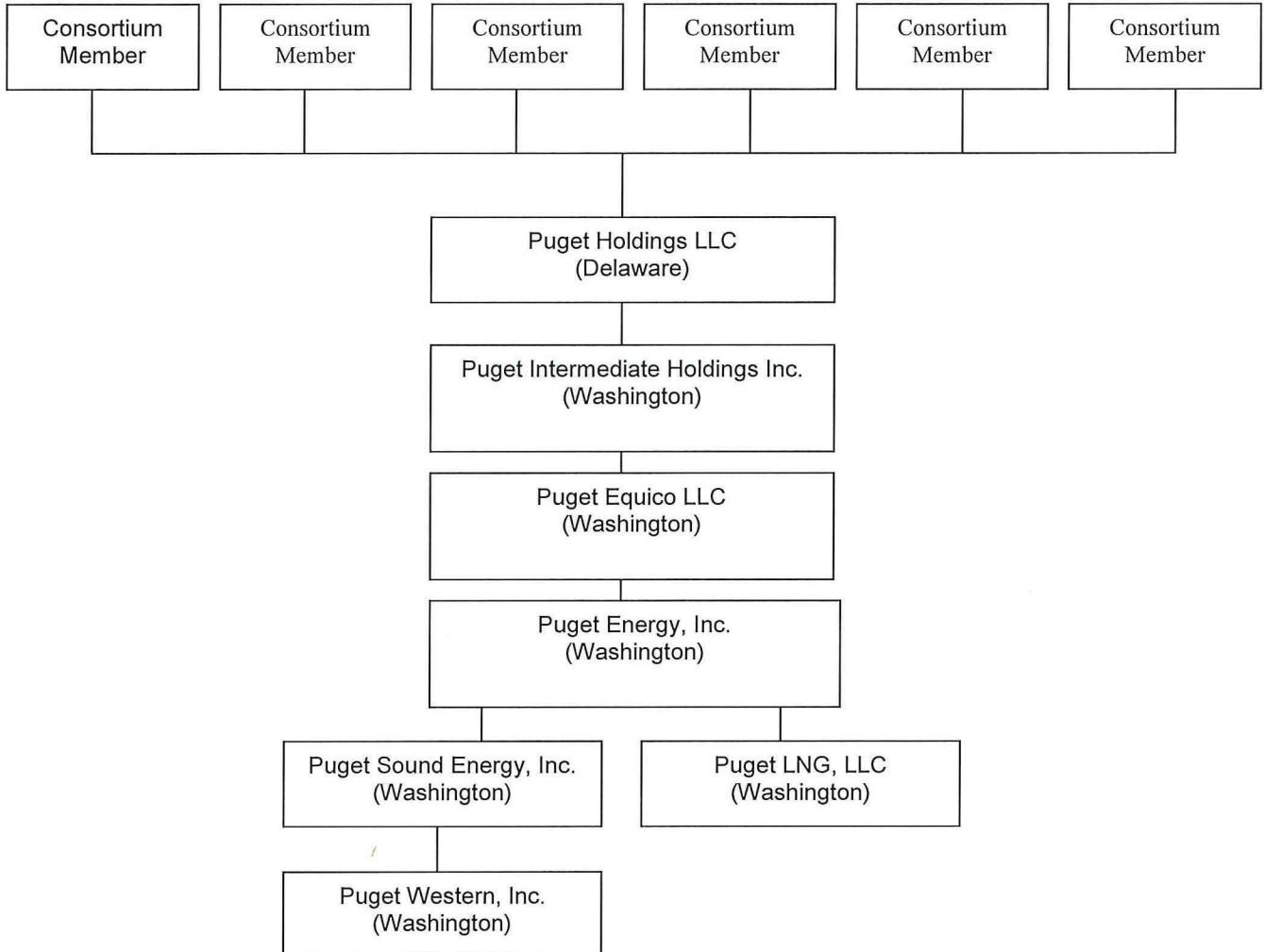
PUGET WESTERN, INC., a Washington corporation, is a real estate investment and development company. Address: 19515 North Creek Parkway, Suite 310, Bothell, Washington 98011.

### **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 55<sup>th</sup> 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 10/12/2007)

#### 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

**Puget LNG, LLC** EIN #81-4564062 (formed 11/29/16)

**Directors**

Daniel A. Doyle, Chair  
David E. Mills  
Roger Garratt

**Officers**

Roger Garratt, President  
Samuel Osborne, Vice President and Secretary  
Brandon Lohse, Treasurer

**SUBSIDIARY OF PUGET SOUND ENERGY, INC.**

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

**Directors**

Daniel A. Doyle, Chair  
Roger Garratt

**Officers**

Gust M. Erikson, 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, 2016

	PERIOD ENDED 12/31/2016	PERIOD ENDED 12/31/2015	\$ CHANGE FROM PRIOR YEAR END
<b>CURRENT ASSETS</b>			
Petty Cash	7	5	2
Cash - Money Market	3,858,028	2,397,352	1,460,676
Cash - MMkt Snoqualmie	88,409	88,392	17
Cash in Bank	20,355	7,712	12,643
Notes Receivable	0	2,224,000	(2,224,000)
Prepaid Property Taxes	0	0	0
Prepaid Escrow Deposits	40,000	40,000	0
Prepaid Rent	8,290	0	8,290
Prepaid Insurance	7,009	8,199	(1,190)
<b>Total Current Assets</b>	<b>4,022,098</b>	<b>4,765,660</b>	<b>(743,562)</b>
<b>Long-Term Assets</b>			
Furniture & Fixtures	298,267	298,267	0
Accum Depr FF&E	(291,380)	(288,476)	(2,904)
<b>Sub-total</b>	<b>6,887</b>	<b>9,791</b>	<b>(2,904)</b>
<b>Land Held for Sale or Development</b>			
Commercial Land	20,961,272	21,865,050	(903,778)
Project Development	4,749,081	4,215,880	533,201
<b>Total Land Held for Sale</b>	<b>25,710,353</b>	<b>26,080,930</b>	<b>(370,577)</b>
Total Long-Term Assets	25,717,240	26,090,721	(373,481)
<b>TOTAL ASSETS</b>	<b>29,739,338</b>	<b>30,856,381</b>	<b>(1,117,043)</b>

Puget Western, Inc.  
BALANCE SHEET  
DECEMBER 31, 2016

	PERIOD ENDED 12/31/2016	PERIOD ENDED 12/31/2015	\$ CHANGE FROM PRIOR YEAR END
<b>CURRENT LIABILITIES</b>			
Interest Payable	50,848	50,848	0
Accounts Payable Accruals	45,000	37,000	8,000
<b>Total Current Liabilities</b>	<b>95,848</b>	<b>87,848</b>	<b>8,000</b>
<b>LONG-TERM LIABILITIES</b>			
Intercompany Payable to Parent-FIT	(2,714,192)	(1,946,692)	(767,500)
Notes Payable	2,411,777	2,411,777	0
Property Tax Payable	0	0	0
Security Deposit Payable	8,306	0	8,306
Deferred FIT	416,372	405,819	10,553
<b>Total Long-Term Liabilities</b>	<b>122,263</b>	<b>870,904</b>	<b>(748,641)</b>
<b>TOTAL LIABILITIES</b>	<b>218,111</b>	<b>958,752</b>	<b>(740,641)</b>
<b>EQUITY</b>			
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)	(376,401)	32,215	(408,616)
<b>TOTAL EQUITY</b>	<b>29,521,227</b>	<b>29,897,629</b>	<b>(376,402)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>29,739,338</b>	<b>30,856,381</b>	<b>(1,117,043)</b>

**Puget Western Inc**  
**Income Statement**  
FOR THE YEAR TO DATE ENDED  
DECEMBER 31, 2016

	Budget		VARIANCE	YTD Ended	
	YTD Ended 12/31/16	YTD Ended 12/31/16		12/31/15	VARIANCE
<b>INCOME</b>					
Sales Revenue	\$1,475,000	\$0	\$1,475,000	\$3,996,611	(\$2,521,611)
Cost of Sale	961,470	0	(\$961,470)	2,932,667	(\$1,971,197)
Direct Selling Exp	106,489	0	(\$106,489)	306,604	(\$200,115)
<b>GROSS PROFIT ON SALES</b>	<b>407,041</b>	<b>0</b>	<b>407,041</b>	<b>757,340</b>	<b>(350,299)</b>
Rental Income	83,500	83,100	\$400	6,000	77,500
Earnings - Other	-	-	-	-	0
Interest Income	48,115	64,980	(16,865)	2,402	45,713
Miscellaneous Income	-	-	-	455,330	(455,330)
<b>TOTAL INCOME</b>	<b>538,656</b>	<b>148,080</b>	<b>390,576</b>	<b>1,221,072</b>	<b>(682,416)</b>
<b>EXPENSE</b>					
North Creek Rent	100,384	98,400	(1,984)	92,135	8,249
Kinetic Value Adjustments	-	-	-	13,699	(13,699)
Consulting Fees	15,017	17,400	2,383	17,159	(2,142)
Legal Fees	-	1,200	1,200	94	(94)
Accounting Fees	25,935	26,400	465	26,276	(341)
Interest Expense	-	-	-	-	0
Bank Service Charges	-	-	-	-	0
B & O/Excise Taxes	-	-	-	-	0
Property Taxes	233,091	240,000	6,909	256,018	(22,927)
Personal Property Tax	-	2,400	2,400	218	(218)
Marketing Expense	-	-	-	-	0
General & Admin. Expense	537,333	540,000	2,667	541,440	(4,107)
Depreciation Expense	2,904	3,000	96	2,904	0
Sub-Total	<b>914,664</b>	<b>928,800</b>	<b>14,136</b>	<b>949,943</b>	<b>(35,279)</b>
<b>OPERATING EXPENSE</b>					
Misc. Prop Mgmt Expense	2,540	2,400	(140)	2,561	(21)
Escrow/Title Fees	-	-	100	-	0
Employee Expense	-	-	-	-	0
Travel Expense	6,477	8,400	1,923	5,817	660
Training Expense	-	-	-	-	0
Meals & Entertainment	1,355	2,400	1,045	2,428	(1,073)
Office Supplies & Equipment	8,098	10,800	2,702	10,910	(2,812)
Utilities	129,558	132,000	2,442	131,439	(1,881)
Postage	178	480	302	412	(234)
Dues, Subscriptions, Manuals	1,243	1,200	(43)	815	428
Donations	250	1,200	950	1,335	(1,085)
Repairs & Maintenance	-	600	600	-	0
Leasing Expense	-	-	-	-	0
PSE Strander Lease Expense	42,200	29,750	(12,450)	50,640	(8,440)
Insurance Expense	13,205	14,400	1,195	14,019	(814)
Licenses	203	240	37	219	(16)
Property Option Expense	-	-	-	-	-
Miscellaneous	-	240	240	200	(200)
<b>TOTAL OPERATING EXP.</b>	<b>205,307</b>	<b>204,110</b>	<b>(1,197)</b>	<b>220,795</b>	<b>(15,288)</b>
<b>TOTAL EXPENSES</b>	<b>1,119,971</b>	<b>1,132,910</b>	<b>12,939</b>	<b>1,170,738</b>	<b>(50,767)</b>
<b>INCOME (LOSS) BEFORE FIT</b>	<b>(581,315)</b>	<b>(984,830)</b>	<b>403,515</b>	<b>50,334</b>	<b>(631,849)</b>
Federal Income Tax	(204,914)	71,772	276,685	18,119	(223,033)
<b>NET INCOME</b>	<b>(376,401)</b>	<b>(1,056,602)</b>	<b>680,201</b>	<b>32,215</b>	<b>(408,616)</b>

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

**ASSETS**

	December 31,	
	2016	2015
Utility plant (at original cost, including construction work in progress of \$420,278 and \$408,795, respectively):		
Electric plant	\$ 9,813,169	\$ 9,601,091
Natural gas plant	3,640,271	3,444,744
Common plant	632,718	548,657
Less: Accumulated depreciation and amortization	(4,927,602)	(4,681,830)
Net utility plant	9,158,556	8,912,662
Other property and investments:		
Other property and investments	77,960	83,069
Total other property and investments	77,960	83,069
Current assets:		
Cash and cash equivalents	28,481	41,856
Restricted cash	12,418	7,949
Accounts receivable, net of allowance for doubtful accounts of \$9,798 and \$9,756, respectively	344,964	324,358
Unbilled revenue	234,053	217,274
Purchased gas adjustment receivable	2,785	—
Materials and supplies, at average cost	106,378	78,244
Fuel and natural gas inventory, at average cost	56,851	57,324
Unrealized gain on derivative instruments	54,341	24,418
Prepaid expenses and other	43,046	17,119
Total current assets	883,317	768,542
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	71,517	72,694
Power cost adjustment mechanism	4,531	4,749
Other regulatory assets	1,034,352	894,059
Unrealized gain on derivative instruments	8,738	5,225
Other	58,109	58,513
Total other long-term and regulatory assets	1,177,247	1,035,240
Total assets	\$ 11,297,080	\$ 10,799,513

*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,	
	2016	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	359,795	236,578
Accumulated other comprehensive income (loss), net of tax	(145,511)	(149,550)
<b>Total common shareholder's equity</b>	<b>3,490,248</b>	<b>3,362,992</b>
Long-term debt:		
First mortgage bonds and senior notes	3,362,000	3,364,412
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Debt discount, issuance costs and other	(28,974)	(31,910)
<b>Total long-term debt</b>	<b>3,744,886</b>	<b>3,744,362</b>
<b>Total capitalization</b>	<b>7,235,134</b>	<b>7,107,354</b>
Current liabilities:		
Accounts payable	317,043	259,353
Short-term debt	245,763	159,004
Current maturities of long-term debt	2,412	—
Purchased gas adjustment liability	—	12,589
Accrued expenses:		
Taxes	111,428	114,854
Salaries and wages	49,749	38,457
Interest	48,087	47,772
Unrealized loss on derivative instruments	44,170	131,420
Other	71,996	53,868
<b>Total current liabilities</b>	<b>890,648</b>	<b>817,317</b>
Other Long-term and regulatory liabilities:		
Deferred income taxes	1,732,390	1,556,616
Unrealized loss on derivative instruments	16,261	47,776
Regulatory liabilities	653,296	651,094
Other deferred credits	769,351	619,356
<b>Total other long-term and regulatory liabilities</b>	<b>3,171,298</b>	<b>2,874,842</b>
Commitments and contingencies (Note 15)		
<b>Total capitalization and liabilities</b>	<b>\$ 11,297,080</b>	<b>\$ 10,799,513</b>

*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,		
	2016	2015	2014
<b>Operating revenue:</b>			
Electric	\$ 2,238,492	\$ 2,128,468	\$ 2,083,797
Natural gas	890,510	947,549	1,012,859
Other	35,616	17,241	19,467
<b>Total operating revenue</b>	<b>3,164,618</b>	<b>3,093,258</b>	<b>3,116,123</b>
<b>Operating expenses:</b>			
<b>Energy costs:</b>			
Purchased electricity	531,596	499,522	514,087
Electric generation fuel	215,331	249,907	263,493
Residential exchange	(69,824)	(112,473)	(129,036)
Purchased natural gas	313,954	403,310	458,691
Unrealized (gain) loss on derivative instruments, net	(83,795)	(12,688)	85,636
Utility operations and maintenance	568,492	530,720	550,146
Non-utility expense and other	37,859	26,618	23,729
Depreciation and amortization	439,579	420,807	365,606
Conservation amortization	107,784	110,866	104,096
Taxes other than income taxes	328,649	320,531	310,982
<b>Total operating expenses</b>	<b>2,389,625</b>	<b>2,437,120</b>	<b>2,547,430</b>
<b>Operating income (loss)</b>	<b>774,993</b>	<b>656,138</b>	<b>568,693</b>
<b>Other income (deductions):</b>			
Other income	25,537	20,711	24,036
Other expense	(10,923)	(6,764)	(7,457)
<b>Interest charges:</b>			
AFUDC	9,304	7,575	5,611
Interest expense	(242,983)	(247,571)	(264,927)
<b>Income (loss) before income taxes</b>	<b>555,928</b>	<b>430,089</b>	<b>325,956</b>
<b>Income tax (benefit) expense</b>	<b>175,347</b>	<b>125,900</b>	<b>89,342</b>
<b>Net income (loss)</b>	<b>\$ 380,581</b>	<b>\$ 304,189</b>	<b>\$ 236,614</b>

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



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

**ASSETS**

	December 31,	
	2016	2015
Utility plant (at original cost, including construction work in progress of \$420,278 and \$408,795, respectively):		
Electric plant	\$ 7,673,772	\$ 7,432,490
Natural gas plant	3,051,586	2,850,290
Common plant	594,994	508,750
Less: Accumulated depreciation and amortization	(2,161,796)	(1,878,868)
Net utility plant	9,158,556	8,912,662
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	106,418	86,731
Total other property and investments	1,762,931	1,743,244
Current assets:		
Cash and cash equivalents	28,878	42,494
Restricted cash	12,418	7,949
Accounts receivable, net of allowance for doubtful accounts of \$9,798 and \$9,756, respectively	329,375	324,391
Unbilled revenue	234,053	217,274
Purchased gas adjustment receivable	2,785	—
Materials and supplies, at average cost	106,378	78,244
Fuel and natural gas inventory, at average cost	58,181	58,658
Unrealized gain on derivative instruments	54,341	24,418
Prepaid expense and other	43,046	17,120
Power contract acquisition adjustment gain	33,413	37,031
Total current assets	902,868	807,579
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	72,038	73,231
Power cost adjustment mechanism	4,531	4,749
Regulatory assets related to power contracts	22,613	26,223
Other regulatory assets	1,034,348	894,071
Unrealized gain on derivative instruments	8,738	5,225
Power contract acquisition adjustment gain	241,648	288,757
Other	58,109	58,513
Total other long-term and regulatory assets	1,442,025	1,350,769
Total assets	\$ 13,266,380	\$ 12,814,254

*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,	
	2016	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	413,468	249,534
Accumulated other comprehensive income (loss), net of tax	(33,712)	(27,266)
<b>Total common shareholder's equity</b>	<b>3,688,713</b>	<b>3,531,225</b>
Long-term debt:		
First mortgage bonds and senior notes	3,362,000	3,364,412
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Long-term debt	1,812,480	1,800,000
Debt discount, issuance costs and other	(234,679)	(248,754)
<b>Total long-term debt</b>	<b>5,351,661</b>	<b>5,327,518</b>
<b>Total capitalization</b>	<b>9,040,374</b>	<b>8,858,743</b>
Current liabilities:		
Accounts payable	317,043	259,353
Short-term debt	245,763	159,004
Current maturities of long-term debt	2,412	—
Purchased gas adjustment liability	—	12,589
Accrued expenses:		
Taxes	111,428	114,854
Salaries and wages	49,749	38,457
Interest	73,610	73,378
Unrealized loss on derivative instruments	44,310	136,173
Power contract acquisition adjustment loss	3,159	3,611
Other	71,996	53,867
<b>Total current liabilities</b>	<b>919,470</b>	<b>851,286</b>
Other Long-term and regulatory liabilities:		
Deferred income taxes	1,570,931	1,435,955
Unrealized loss on derivative instruments	16,261	48,073
Regulatory liabilities	654,622	652,441
Regulatory liabilities related to power contracts	275,061	325,788
Power contract acquisition adjustment loss	19,454	22,613
Other deferred credits	770,207	619,355
<b>Total other long-term and regulatory liabilities</b>	<b>3,306,536</b>	<b>3,104,225</b>
<b>Commitments and contingencies (Note 15)</b>		
<b>Total capitalization and liabilities</b>	<b>\$ 13,266,380</b>	<b>\$ 12,814,254</b>

*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,		
	2016	2015	2014
<b>Operating revenue:</b>			
Electric	\$ 2,238,492	\$ 2,128,468	\$ 2,083,797
Natural gas	890,510	947,549	1,012,859
Other	35,299	16,683	16,515
<b>Total operating revenue</b>	<b>3,164,301</b>	<b>3,092,700</b>	<b>3,113,171</b>
<b>Operating expenses:</b>			
<b>Energy costs:</b>			
Purchased electricity	531,596	499,522	514,087
Electric generation fuel	215,331	249,907	263,493
Residential exchange	(69,824)	(112,473)	(129,036)
Purchased natural gas	313,954	403,310	458,691
Unrealized (gain) loss on derivative instruments, net	(83,795)	(13,233)	84,146
Utility operations and maintenance	568,492	530,720	550,146
Non-utility expense and other	27,151	10,818	13,109
Depreciation and amortization	439,579	420,807	365,606
Conservation amortization	107,784	110,866	104,096
Taxes other than income taxes	328,649	320,531	310,982
<b>Total operating expenses</b>	<b>2,378,917</b>	<b>2,420,775</b>	<b>2,535,320</b>
<b>Operating income (loss)</b>	<b>785,384</b>	<b>671,925</b>	<b>577,851</b>
<b>Other income (deductions):</b>			
Other income	25,539	20,711	24,038
Other expense	(10,923)	(6,764)	(7,457)
Non-hedged interest rate swap expense	(1,062)	(3,796)	(3,915)
<b>Interest charges:</b>			
AFUDC	9,304	7,575	5,611
Interest expense	(355,139)	(356,696)	(367,308)
<b>Income (loss) before income taxes</b>	<b>453,103</b>	<b>332,955</b>	<b>228,820</b>
Income tax (benefit) expense	140,204	91,776	56,985
<b>Net income (loss)</b>	<b>\$ 312,899</b>	<b>\$ 241,179</b>	<b>\$ 171,835</b>

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

**PUGET EQUICO LLC**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands)

**ASSETS**

	December 31,	
	2016	2015
Utility plant (at original cost, including construction work in progress of \$420,278 and \$408,795, respectively):		
Electric plant	\$ 7,673,772	\$ 7,432,490
Natural gas plant	3,051,586	2,850,290
Common plant	594,994	508,750
Less: Accumulated depreciation and amortization	(2,161,796)	(1,878,868)
Net utility plant	9,158,556	8,912,662
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	106,418	86,731
Total other property and investments	1,762,931	1,743,244
Current assets:		
Cash and cash equivalents	28,973	42,513
Restricted cash	12,418	7,949
Accounts receivable, net of allowance for doubtful accounts of \$9,798 and \$9756, respectively	329,375	324,390
Unbilled revenue	234,053	217,274
Purchased gas adjustment receivable	2,785	—
Materials and supplies, at average cost	106,378	78,244
Fuel and gas inventory, at average cost	58,181	58,658
Unrealized gain on derivative instruments	54,341	24,418
Prepaid expense and other	43,046	17,120
Power contract acquisition adjustment gain	33,413	37,031
Total current assets	902,963	807,597
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	72,038	73,231
Power cost adjustment mechanism	4,531	4,749
Regulatory assets related to power contracts	22,613	26,223
Other regulatory assets	1,034,348	894,071
Unrealized gain on derivative instruments	8,738	5,225
Power contract acquisition adjustment gain	241,648	288,757
Other	58,109	58,513
Total other long-term and regulatory assets	1,442,025	1,350,769
Total assets	\$ 13,266,475	\$ 12,814,272

*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,	
	2016	2015
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	325,292	161,269
Accumulated other comprehensive income (loss), net of tax	(33,712)	(27,265)
<b>Total member's equity</b>	<b>3,688,911</b>	<b>3,531,335</b>
Long-term debt:		
PSE first mortgage bonds and senior notes	3,362,000	3,364,412
PSE pollution control bonds	161,860	161,860
PSE junior subordinated notes	250,000	250,000
Puget Energy long-term debt	1,812,480	1,800,000
Debt discount and other	(234,679)	(248,754)
<b>Total long-term debt</b>	<b>5,351,661</b>	<b>5,327,518</b>
<b>Total capitalization</b>	<b>9,040,572</b>	<b>8,858,853</b>
Current liabilities:		
Accounts payable	317,043	259,353
Short-term debt	245,763	159,004
Current maturities of long-term debt	2,412	—
Purchased gas adjustment liability	—	12,589
Accrued expenses:		
Taxes	111,428	114,854
Salaries and wages	49,749	38,457
Interest	73,610	73,378
Unrealized loss on derivative instruments	44,310	136,173
Power contract acquisition adjustment loss	3,159	3,611
Other	71,996	53,867
<b>Total current liabilities</b>	<b>919,470</b>	<b>851,286</b>
Other Long-term and regulatory liabilities:		
Deferred income taxes	1,570,828	1,435,864
Unrealized loss on derivative instruments	16,261	48,073
Regulatory liabilities	654,622	652,441
Regulatory liabilities related to power contracts	275,061	325,788
Power contract acquisition adjustment loss	19,454	22,613
Other deferred credits	770,207	619,354
<b>Total other long-term and regulatory liabilities</b>	<b>3,306,433</b>	<b>3,104,133</b>
Commitments and contingencies (Note 15)		
<b>Total capitalization and liabilities</b>	<b>\$ 13,266,475</b>	<b>\$ 12,814,272</b>

*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,	
	2016	2015
Operating revenue:		
Electric	\$ 2,238,492	\$ 2,128,468
Natural gas	890,510	947,549
Other	35,299	16,683
Total operating revenue	3,164,301	3,092,700
Operating expenses:		
Energy costs:		
Purchased electricity	531,596	499,522
Electric generation fuel	215,331	249,907
Residential exchange	(69,824)	(112,473)
Purchased natural gas	313,954	403,310
Unrealized (gain) loss on derivative instruments, net	(83,795)	(13,233)
Utility operations and maintenance	568,492	530,720
Non-utility expense and other	27,184	10,847
Depreciation and amortization	439,579	420,807
Conservation amortization	107,784	110,866
Taxes other than income taxes	328,649	320,531
Total operating expenses	2,378,950	2,420,804
Operating income (loss)	785,351	671,896
Other income (deductions):		
Other income	25,539	20,711
Other expense	(10,923)	(6,764)
Non-hedged interest rate swap expense	(1,062)	(3,796)
Interest charges:		
AFUDC	9,304	7,575
Interest expense	(355,139)	(356,696)
Income (loss) before income taxes	453,070	332,926
Income tax (benefit) expense	140,193	91,766
Net income (loss)	\$ 312,877	\$ 241,160

*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,	
	2016	2015
Utility plant (at original cost, including construction work in progress of \$420,278 and \$408,795, respectively):		
Electric plant	\$ 7,673,772	\$ 7,432,490
Natural gas plant	3,051,586	2,850,290
Common plant	594,994	508,750
Less: Accumulated depreciation and amortization	(2,161,796)	(1,878,868)
Net utility plant	9,158,556	8,912,662
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	106,418	86,731
Total other property and investments	1,762,931	1,743,244
Current assets:		
Cash and cash equivalents	29,026	42,565
Restricted cash	12,418	7,949
Accounts receivable, net of allowance for doubtful accounts of \$9,798 and \$9,756, respectively	329,725	324,740
Unbilled revenue	234,053	217,274
Purchased gas adjustment receivable	2,785	—
Materials and supplies, at average cost	106,378	78,244
Fuel and gas inventory, at average cost	58,181	58,658
Unrealized gain on derivative instruments	54,341	24,418
Prepaid expense and other	43,046	17,120
Power contract acquisition adjustment gain	33,413	37,031
Total current assets	903,366	807,999
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	72,038	73,231
Power cost adjustment mechanism	4,531	4,749
Regulatory assets related to power contracts	22,613	26,223
Other regulatory assets	1,034,348	894,071
Unrealized gain on derivative instruments	8,738	5,225
Power contract acquisition adjustment gain	241,648	288,757
Other	58,109	58,513
Total other long-term and regulatory assets	1,442,025	1,350,769
Total assets	\$ 13,266,878	\$ 12,814,674

*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,	
	2016	2015
<b>Capitalization:</b>		
<b>Common shareholder's equity:</b>		
Common Stock, \$0.01 par value, 1,000 shares authorized and outstanding	\$ —	\$ —
Additional paid-in capital	2,175,442	2,175,442
Retained Earnings	422,969	216,350
Accumulated other comprehensive income (loss), net of tax	(33,712)	(27,265)
<b>Total common shareholder's equity</b>	<b>2,564,699</b>	<b>2,364,527</b>
<b>Long-term debt:</b>		
PSE first mortgage bonds and senior notes	3,362,000	3,364,412
PSE pollution control bonds	161,860	161,860
PSE junior subordinated notes	250,000	250,000
Puget Energy long-term debt	1,812,480	1,800,000
Puget Intermediate Holdings senior secured investor notes	1,626,823	1,626,823
Debt discount and other	(234,679)	(248,754)
<b>Total long-term debt</b>	<b>6,978,484</b>	<b>6,954,341</b>
<b>Total capitalization</b>	<b>9,543,183</b>	<b>9,318,868</b>
<b>Current liabilities:</b>		
Accounts payable	317,043	259,353
Short-term debt	245,763	159,004
Current maturities of long-term debt	2,412	—
Purchased gas adjustment liability	—	12,589
<b>Accrued expenses:</b>		
Taxes	111,428	114,854
Salaries and wages	49,749	38,457
Interest	73,610	73,378
Unrealized loss on derivative instruments	44,310	136,173
Power contract acquisition adjustment loss	3,159	3,611
Other	71,996	53,867
<b>Total current liabilities</b>	<b>919,470</b>	<b>851,286</b>
<b>Other Long-term and regulatory liabilities:</b>		
Deferred income taxes	1,068,620	976,251
Unrealized loss on derivative instruments	16,261	48,073
Regulatory liabilities	654,622	652,441
Regulatory liabilities related to power contracts	275,061	325,788
Power contract acquisition adjustment loss	19,454	22,613
Other deferred credits	770,207	619,354
<b>Total other long-term and regulatory liabilities</b>	<b>2,804,225</b>	<b>2,644,520</b>
<b>Commitments and contingencies (Note 15)</b>		
<b>Total capitalization and liabilities</b>	<b>\$ 13,266,878</b>	<b>\$ 12,814,674</b>

*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,	
	2016	2015
Operating revenue:		
Electric	\$ 2,238,492	\$ 2,128,468
Natural gas	890,510	947,549
Other	35,299	16,683
Total operating revenue	3,164,301	3,092,700
Operating expenses:		
Energy costs:		
Purchased electricity	531,596	499,522
Electric generation fuel	215,331	249,907
Residential exchange	(69,824)	(112,473)
Purchased natural gas	313,954	403,310
Unrealized (gain) loss on derivative instruments, net	(83,795)	(13,233)
Utility operations and maintenance	568,492	530,720
Non-utility expense and other	27,315	11,079
Depreciation and amortization	439,579	420,807
Conservation amortization	107,784	110,866
Taxes other than income taxes	328,649	320,531
Total operating expenses	2,379,081	2,421,036
Operating income (loss)	785,220	671,664
Other income (deductions):		
Other income	25,539	20,711
Other expense	(10,923)	(6,764)
Non-hedged interest rate swap expense	(1,062)	(3,796)
Interest charges:		
AFUDC	9,304	7,575
Interest expense - investors	(121,895)	(124,397)
Interest expense - other	(355,139)	(356,696)
Income (loss) before income taxes	331,044	208,297
Income tax (benefit) expense	97,586	48,903
Net income (loss)	\$ 233,458	\$ 159,394

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

**PUGET HOLDINGS LLC**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands)

**ASSETS**

	December 31,	
	2016	2015
Utility plant (at original cost, including construction work in progress of \$420,278 and \$408,795, respectively):		
Electric plant	\$ 7,673,772	\$ 7,432,490
Natural gas plant	3,051,586	2,850,290
Common plant	594,994	508,750
Less: Accumulated depreciation and amortization	(2,161,796)	(1,878,868)
Net utility plant	9,158,556	8,912,662
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	106,418	86,731
Total other property and investments	1,762,931	1,743,244
Current assets:		
Cash and cash equivalents	29,508	42,723
Restricted cash	12,418	7,949
Accounts receivable, net of allowance for doubtful accounts of \$9,798 and \$9,756, respectively	328,852	324,491
Unbilled revenue	234,053	217,274
Purchased gas adjustment receivable	2,785	—
Materials and supplies, at average cost	106,378	78,244
Fuel and gas inventory, at average cost	58,181	58,658
Unrealized gain on derivative instruments	54,341	24,418
Prepaid expense and other	43,046	17,120
Power contract acquisition adjustment gain	33,413	37,031
Total current assets	902,975	807,908
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	72,038	73,231
Power cost adjustment mechanism	4,531	4,749
Regulatory assets related to power contracts	22,613	26,223
Other regulatory assets	1,034,348	894,071
Unrealized gain on derivative instruments	8,738	5,225
Power contract acquisition adjustment gain	241,648	288,757
Other	58,109	58,513
Total other long-term and regulatory assets	1,442,025	1,350,769
Total assets	\$ 13,266,487	\$ 12,814,583

*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,	
	2016	2015
<b>Capitalization:</b>		
<b>Member's equity:</b>		
Membership interest, no par value, 98,328 shares authorized and outstanding	\$ —	\$ —
Additional paid-in capital	2,200,062	2,200,062
Retained Earnings	407,839	201,372
Accumulated other comprehensive income (loss), net of tax	(33,712)	(27,265)
<b>Total member's equity</b>	<b>2,574,189</b>	<b>2,374,169</b>
<b>Long-term debt:</b>		
PSE first mortgage bonds and senior notes	3,362,000	3,364,412
PSE pollution control bonds	161,860	161,860
PSE junior subordinated notes	250,000	250,000
Puget Energy long-term debt	1,812,480	1,800,000
Puget Intermediate Holdings senior secured investor notes	1,626,823	1,626,823
Debt discount and other	(234,678)	(248,754)
<b>Total long-term debt</b>	<b>6,978,485</b>	<b>6,954,341</b>
<b>Total capitalization</b>	<b>9,552,674</b>	<b>9,328,510</b>
<b>Current liabilities:</b>		
Accounts payable	317,043	259,353
Short-term debt	245,763	159,004
Current maturities of long-term debt	2,412	—
Purchased gas adjustment liability	—	12,589
<b>Accrued expenses:</b>		
Taxes	111,428	114,854
Salaries and wages	49,749	38,457
Interest	73,610	73,378
Unrealized loss on derivative instruments	44,310	136,173
Power contract acquisition adjustment loss	3,159	3,611
Other	71,996	53,867
<b>Total current liabilities</b>	<b>919,470</b>	<b>851,286</b>
<b>Other Long-term and regulatory liabilities:</b>		
Deferred income taxes	1,058,738	966,518
Unrealized loss on derivative instruments	16,261	48,073
Regulatory liabilities	654,622	652,441
Regulatory liabilities related to power contracts	275,061	325,788
Power contract acquisition adjustment loss	19,454	22,613
Other deferred credits	770,207	619,354
<b>Total other long-term and regulatory liabilities</b>	<b>2,794,343</b>	<b>2,634,787</b>
<b>Commitments and contingencies (Note 15)</b>		
<b>Total capitalization and liabilities</b>	<b>\$ 13,266,487</b>	<b>\$ 12,814,583</b>

*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,	
	2016	2015
<b>Operating revenue:</b>		
Electric	\$ 2,238,492	\$ 2,128,468
Natural gas	890,510	947,549
Other	35,299	16,683
<b>Total operating revenue</b>	<b>3,164,301</b>	<b>3,092,700</b>
<b>Operating expenses:</b>		
<b>Energy costs:</b>		
Purchased electricity	531,596	499,522
Electric generation fuel	215,331	249,907
Residential exchange	(69,824)	(112,473)
Purchased natural gas	313,954	403,310
Unrealized (gain) loss on derivative instruments, net	(83,795)	(13,233)
Utility operations and maintenance	568,492	530,720
Non-utility expense and other	27,737	11,616
Depreciation and amortization	439,579	420,807
Conservation amortization	107,784	110,866
Taxes other than income taxes	328,649	320,531
<b>Total operating expenses</b>	<b>2,379,503</b>	<b>2,421,573</b>
<b>Operating income (loss)</b>	<b>784,798</b>	<b>671,127</b>
<b>Other income (deductions):</b>		
Other income	25,539	20,711
Other expense	(10,923)	(6,764)
Non-hedged interest rate swap expense	(1,062)	(3,796)
<b>Interest charges:</b>		
AFUDC	9,304	7,575
Interest expense - investors	(121,895)	(124,397)
Interest expense - other	(355,139)	(356,696)
<b>Income (loss) before income taxes</b>	<b>330,622</b>	<b>207,760</b>
<b>Income tax (benefit) expense</b>	<b>97,438</b>	<b>48,714</b>
<b>Net income (loss)</b>	<b>\$ 233,184</b>	<b>\$ 159,046</b>

*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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## 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 commitments<sup>1</sup> 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

<sup>1</sup> 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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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:

<b>Function</b>	<b>Basis of Allocation</b>
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