EXHIBIT NO. ___(RG-7HC)
DOCKET NO. UE-09___/UG-09___
2009 PSE GENERAL RATE CASE
WITNESS: ROGER GARRATT

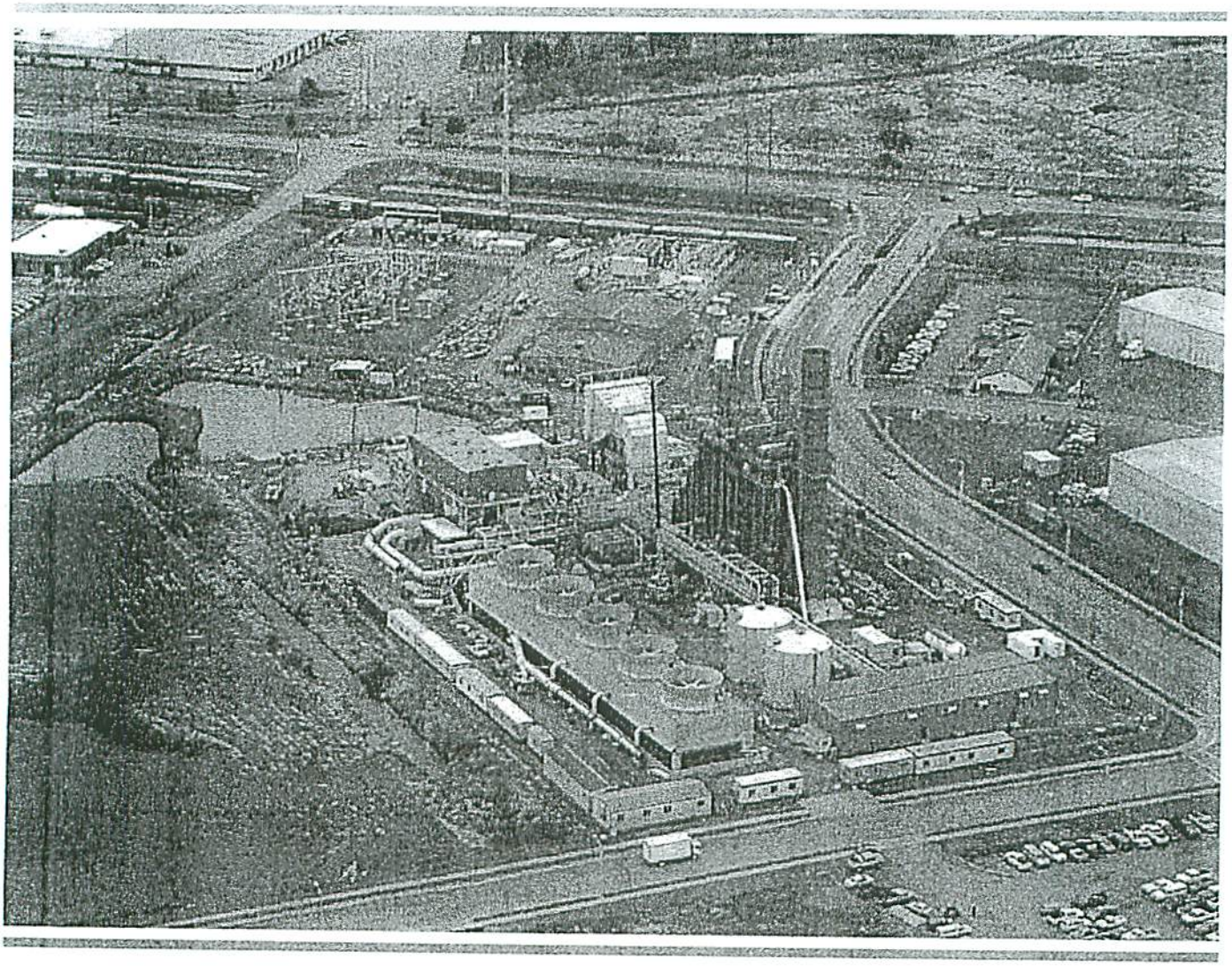
BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-09____** **Docket No. UG-09____**

SIXTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF ROGER GARRATT ON BEHALF OF PUGET SOUND ENERGY, INC.

REDACTED VERSION

MAY 8, 2009



Mint Farm Energy Center

Board of Directors' Meeting
August 4, 2008

PUGET SOUND ENERGY
The Energy To Do Great Things

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Acquisition of the Mint Farm Facility

RESOLUTIONS OF THE BOARD OF DIRECTORS OF

PUGET SOUND ENERGY, INC.

APPROVAL OF PURCHASE OF MINT FARM ENERGY CENTER, LLC

WHEREAS, the Board of Directors of Puget Sound Energy, Inc. ("PSE" or the "Company") has determined that it is in the best interests of the Company, its customers, shareholders and other stakeholders to add energy resources into the Company's energy resource portfolio consistent with the Company's least cost planning and analysis;

WHEREAS, the Company's review, analyses and evaluation of bids and responses to its 2007 Generation Resources Request for Proposal have determined an existing natural gas-fired generating facility located in Longview, Washington and owned by Mint Farm Energy Center, LLC ("MFEC"), an affiliate of Wayzata Investment Partners, LLC ("Wayzata"), to be a least cost resource for additional energy resource generation;

WHEREAS, the facility owned by MFEC consists of an approximately 311 MW natural gas electric generation facility situated on approximately 11 acres of land located in the Mint Farm Industrial Park, Longview, Washington, gas delivery facilities, an electrical switchyard, and other facilities (collectively, the "Mint Farm Facility");

WHEREAS, the Company's management has negotiated with Wayzata the terms and conditions of a Membership Interests Purchase Agreement ("MIPA"), pursuant to which the Company would purchase all of the ownership interests in MFEC held by its owners, Wayzata Opportunities Fund, LLC and Mint Farm Power, LLC (collectively, the "Sellers");

WHEREAS, the purchase price for MFEC under the MIPA is approximately $241,000,000 (the "Purchase Price"), payable to the Sellers upon closing;

WHEREAS, at or immediately following the closing, PSE will dissolve MFEC, with the result that all of the assets and liabilities of MFEC will become those of the Company;

WHEREAS, the MIPA and certain related matters, including anticipated additional investments in or expenses related to operation of the Mint Farm Facility of approximately $18,000,000 (the "Incremental Expenses"), are described more fully in a memorandum provided to the Board of Directors in advance of this meeting and filed with the minutes (the "Mint Farm Facility Proposal"); and

WHEREAS, the officers now seek Board approval of and authority to enter into the MIPA and all other contracts and actions described in the Mint Farm Facility Proposal and relating to the acquisition and operation of the Mint Farm Facility.

IT IS, THEREFORE

RESOLVED, that the Board, after full consideration and due deliberation, deems it advisable and in the best interests of the Company, its customers, shareholders and other stakeholders to approve (i) the acquisition and operation of the Mint Farm Facility pursuant to the MIPA, (ii) the payment of the Purchase Price and the Incremental Expenses, and (iii) any related agreements and the other transactions described in the Mint Farm Facility Proposal; and be it further

RESOLVED, that the Board hereby authorizes the Company's Chief Financial Officer, its Chief Resource Officer, its General Counsel, and any such other officers they deem appropriate (the "Authorized Officers") to execute the MIPA and all other agreements or contracts described in the Mint Farm Facility Proposal, which may include such further additions, amendments or changes to the terms thereof as are deemed necessary and appropriate by the Authorized Officers; and be it further

RESOLVED, that the Authorized Officers are further authorized to waive any conditions precedent to the closing of the MIPA in order to facilitate the closing of such agreement, provided that each of the Authorized Officers agrees to such waiver and deems it to be in the best interest of the Company, its customers, shareholders and other stakeholders.

GENERAL AUTHORITY

AND IT IS FURTHER

RESOLVED, that any and all actions taken by the officers of the Company, or any of them, as deemed by such officers to be necessary or advisable to effectuate the transactions contemplated by the foregoing resolutions, including the filing of appropriate documentation with the WUTC, whether prior to or subsequent to this action by this Board of Directors, are hereby authorized, approved and ratified, and the taking of any and all such actions and the performance of any and all such things in connection with the foregoing shall conclusively establish such officers' authority therefor from the Company and the approval and ratification thereof by this Board of Directors.

Acquisition of Mint Farm Energy Center, LLC

Kimberly Harris
Executive Vice President and Chief Resource Officer

August 4, 2008

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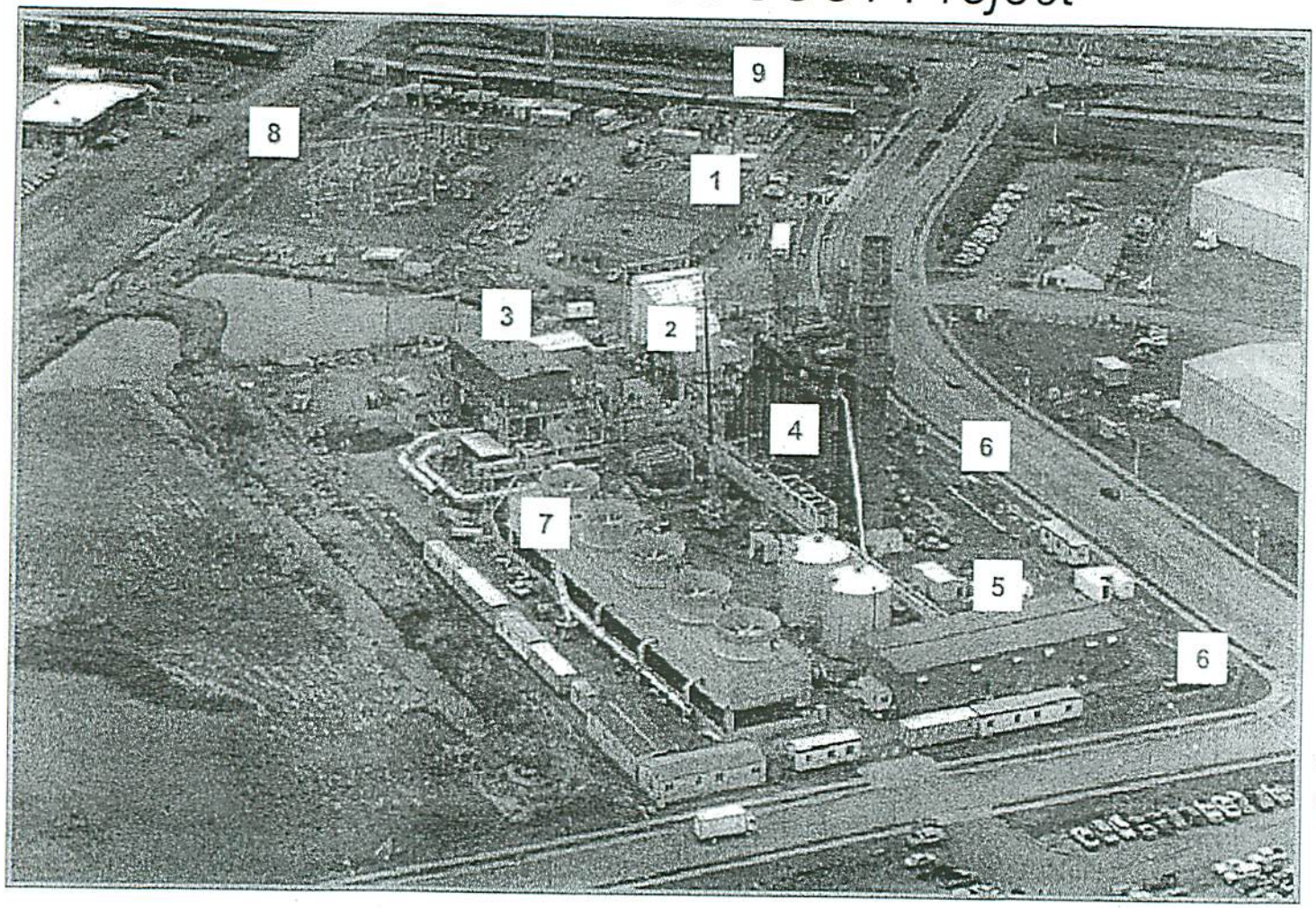
Recommendation to the Board

- Recommend authorization from PSE Board of Directors to acquire the 311 MW natural gas-fired combined cycle Mint Farm Energy Center for a total acquisition cost not to exceed $259,000,000

Mint Farm Energy Center - Longview, WA

311 MW Natural Gas-Fired CCCT Project



1. Administration Building
2. Gas Turbine and Generator
3. Steam Turbine and Generator
4. HRSG
5. Water Treatment Bldg
6. Water wells
7. Wet Cooling Tower
8. Transformers & Switchyard
9. Gas Compressors

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Key Commercial Terms and Conditions

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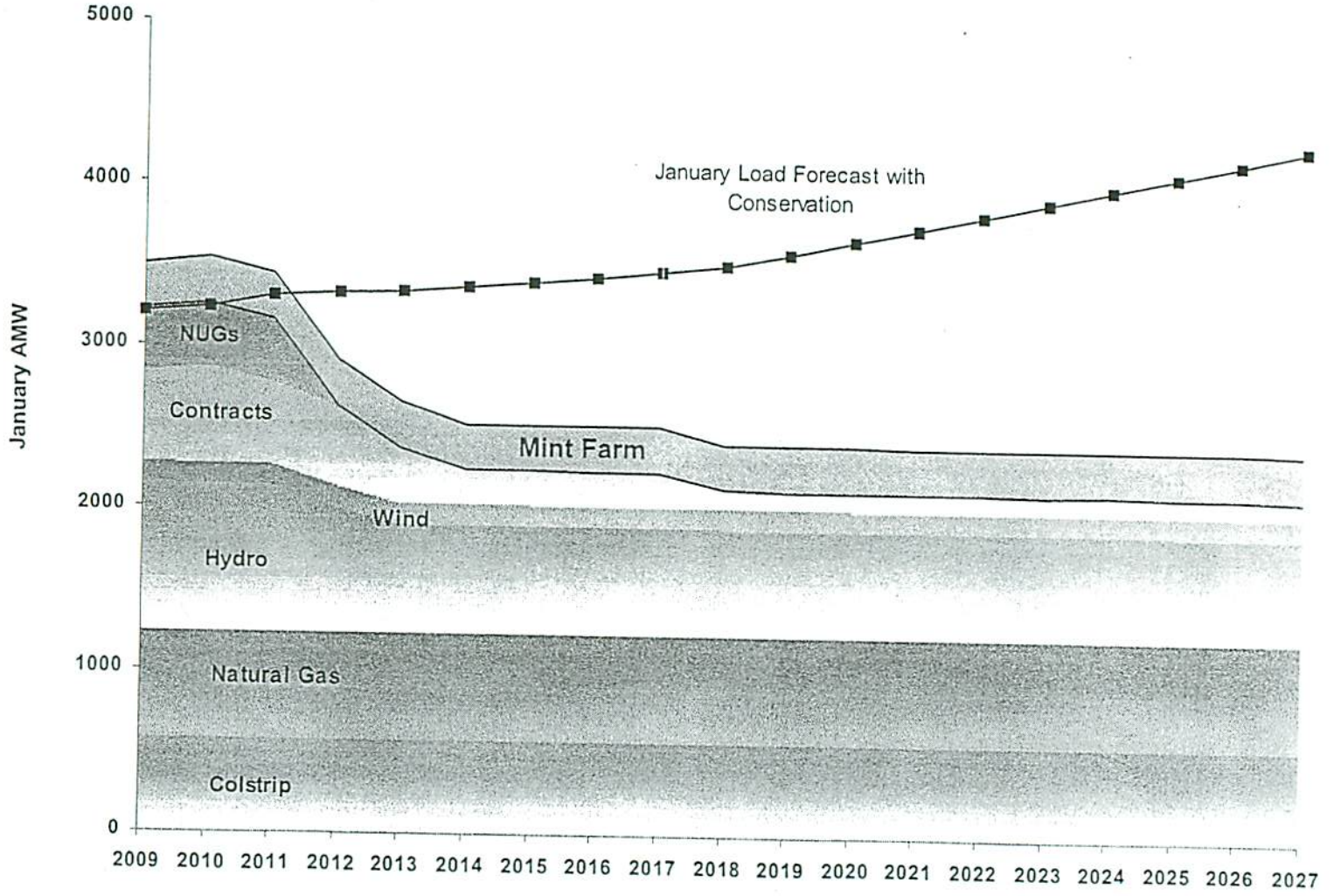
Structure	• PSE acquires 100% of the Membership Interests of Mint Farm Energy Center, LLC for $240,690,000.
Timeline	• 60 day due diligence period (ended August 4) • Either party can terminate agreement if closing has not occurred within 90 days of agreement signing, with one 45 day extension in the event that FERC approval or HSR waiting period remains as a condition precedent.
Taxes	• PSE pays [redacted] of Real Estate Excise Tax up to [redacted] • [redacted]
Major Closing Contingencies	• Closing contingent upon FERC approval, HSR approval and applicable third party consents regarding assignment of contracts and permits.
Indemnity	• General reps and warranties survive for [redacted] after closing. • Environmental, tax and employee/benefit reps and warranties will survive for [redacted] provided PSE finds specific potential liability concerns in its due diligence. • Title and due authorization reps and warranties will survive for [redacted] • Indemnification obligations for Wayzata will be capped at [redacted] of purchase price [redacted] and claims for recovery will only be available after the aggregate of all claims exceeds [redacted]

Mint Farm helps meet PSE's long term need



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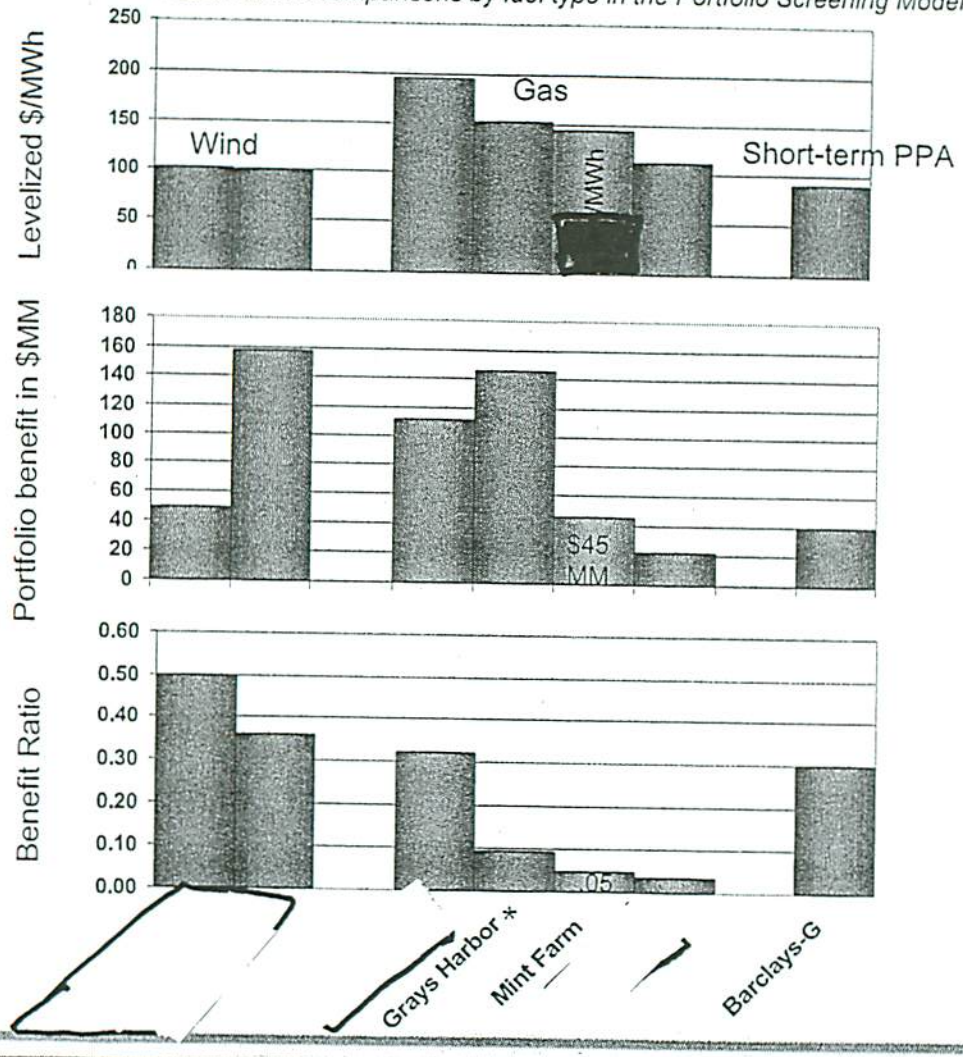
Mint Farm has a reasonable cost and benefit

Note: relative comparisons by fuel type in the Portfolio Screening Model



Levelized cost is the average annual cost per MWh produced during a 20-year period

Portfolio benefit is the 20-year present value of portfolio benefit derived for each project in comparison to the IRP generic resource.

Portfolio benefit ratio is the present value of portfolio benefit divided by the present value of the project revenue requirement

*Grays Harbor would be a 2012 acquisition involving a significant upfront option payment and associated risk; evaluation does not capture timing or counterparty risk. Transmission not available until 2015.

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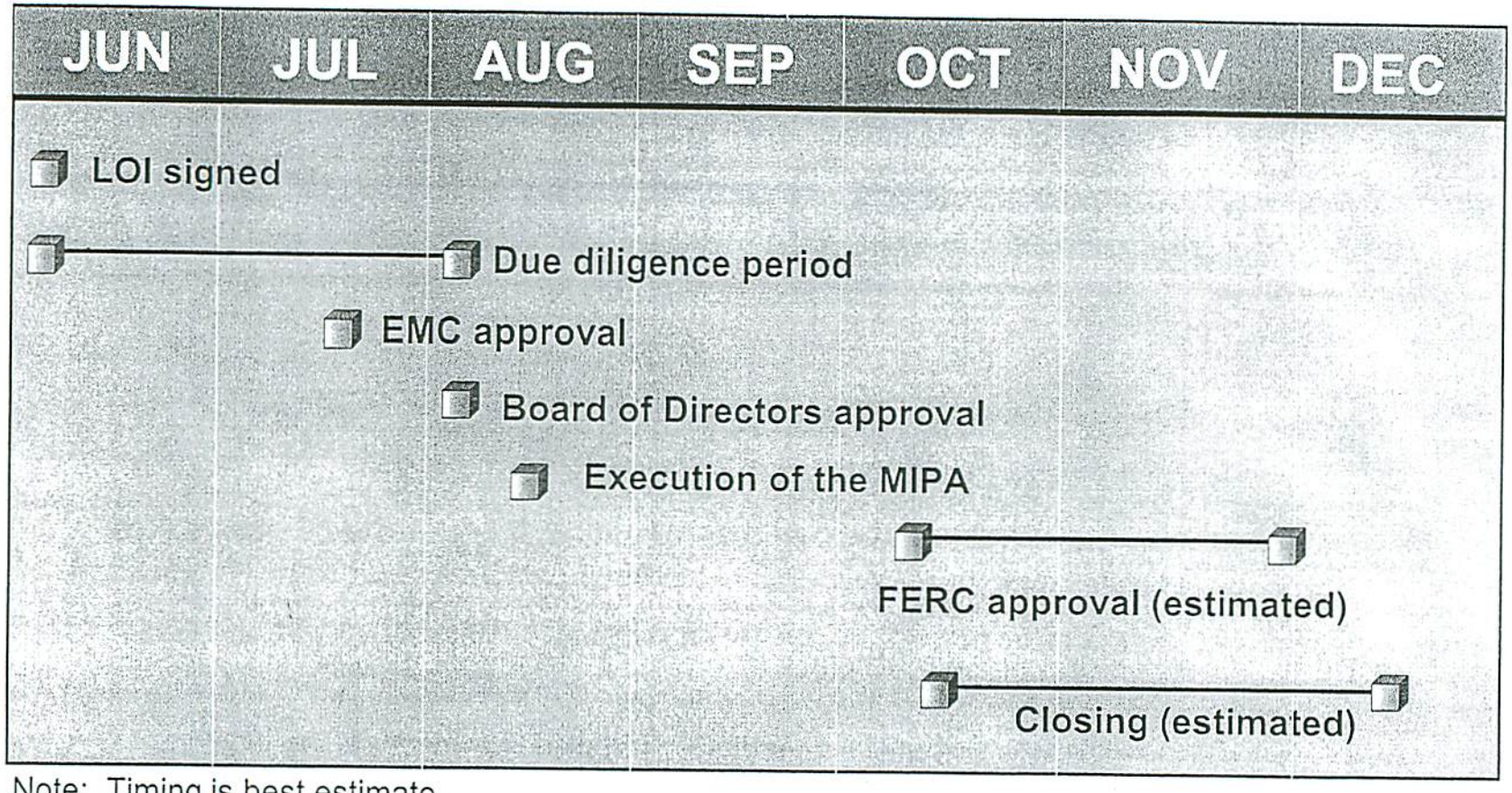
Acquisition Timeline



Note: Timing is best estimate.

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Regulatory Filings/Rate and Accounting Treatment

- Regulatory Filing
  - FERC 203 application will be filed August 2008
  - Hart-Scott-Rodino will be filed August 2008
- Rate Treatment and Cost Recovery
  - Deferred accounting petition filed concurrent with transaction close
    - Accounting petition filed with WUTC to request 1) deferral of all fixed costs (similar to Goldendale), and 2) deferral of variable cost in excess of power cost rates
    - Absent deferral, unrecovered costs are estimated to be $54MM if deferral is 13 months through December 2009, (amounts could be significantly higher if higher gas prices)
  - Possible General Rate Case filing in early 2009
  - Estimated rate impact: 3.0% increase

Next Steps

- Complete due diligence
- Complete negotiation of definitive agreements and execute
- File FERC 203 application, Hart-Scott-Rodino application, and deferred accounting petition

Appendix

Facility Overview

Online Date	January 2008
Location	11.42-acre site located in the Mint Farm Industrial Park, Longview, Washington
Capacity	311 MW - nominal 260 MW base load; 297 MW with duct firing; 311 with steam augmentation
Heat Rate	[redacted] Btu/kWh at baseload
Technology	1x1 combined cycle power plant using GE 7FA combustion gas turbine; Fuji KN electric steam turbine generator; Foster Wheeler HRSG ; evaporative cooling tower with water-cooled steam condenser
O&M	Long Term Service Agreement ("LTSA") with GE for gas turbine
Water Supply	Water supply: 1) service agreement with Weyerhaeuser mill; 2) two deep water wells on plant site Wastewater discharged to: 1) Weyerhaeuser treatment plant; 2) directly to the outfall to the Columbia River
Fuel	Fueled by natural gas only; gas requirements at baseload estimated at [redacted] Dth/d; [redacted] MMBtu/d with duct fire
Gas Transport	Project holds 15,000 MMBtu/d of firm transport on Cascade Natural Gas Corp.'s distribution system to the plant; no firm interstate gas transportation on NWPL
Transmission	Interconnected to BPA's Longview Substation; 293 MW BPA firm point-to-point contract to PSE's system
Levelized Cost	[redacted] MWh; capacity factor of 31%; [redacted] MMBtu levelized gas cost assumption (Proforma)

REDACTED VERSION

Total Acquisition Costs

Facility Purchase Price	$240,690,000
Real Estate Excise Tax (REET)	
Facility Improvements – Capital (1)	
Transaction and Due Diligence	
Property Taxes (2)	
Net Working Capital (estimated)	
"All In" Capital Costs	***$253,933,466***
Facility Improvements – Expense (1)	
Total Acquisition Costs	***$258,303,366***

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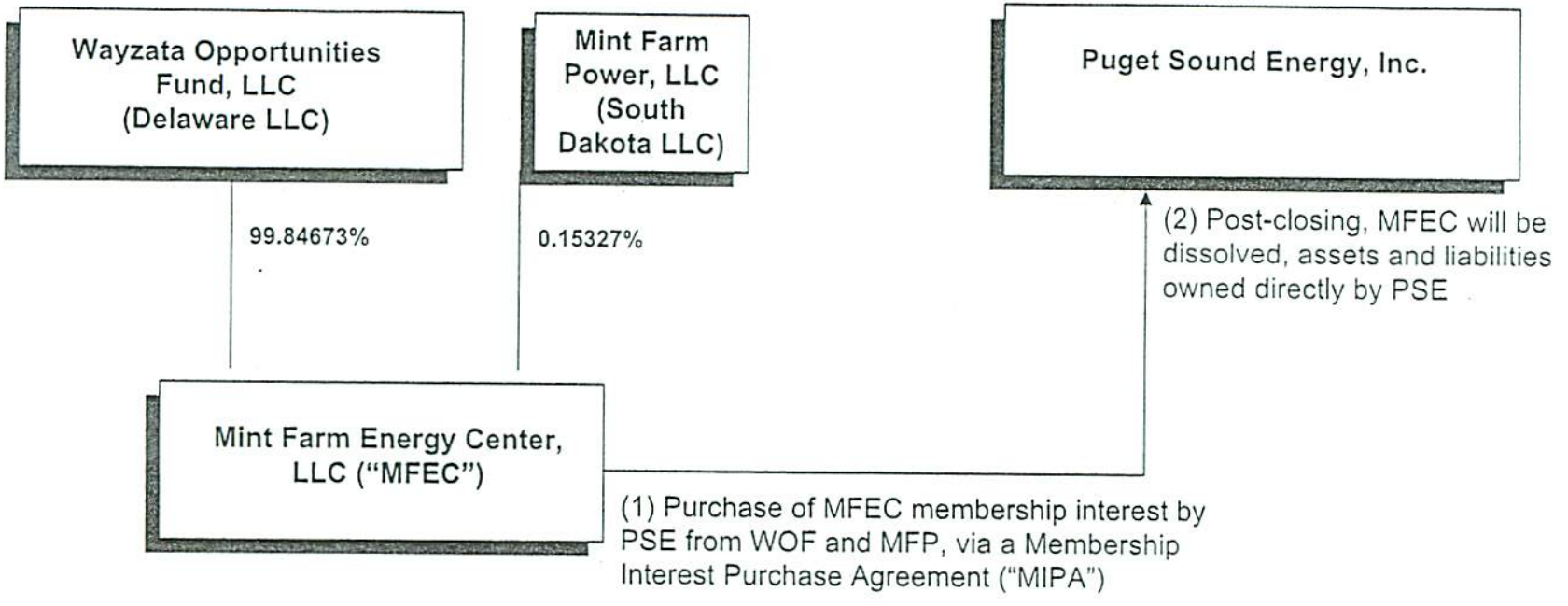
Notes:

(1) Further refinement of the allocation between capital and expense is ongoing.

Acquisition Transaction Structure



Qualitative Evaluation – Key Risk Issues

Project	Type	Capacity	Key Risk Issues
[redacted]	Toll	[redacted]	*Operational Risk:* Project will be approximately [redacted] by the start of the proposed toll in 2012, [redacted] may be a risk; higher heat rate than CCCT resulted in low dispatch of 12%. Plant's value may be greater for ancillary services and reliability.
	Own	162 MW	*Development/ Siting Risk:* Project requires PSE development to perform early development including permitting. [redacted] clearly offer superior operational flexibility; further evaluation of ancillary services required.
	Own	[redacted]	*Transmission and Execution Risk:* Transmission would not be available until 2015 at the earliest. Significant up front option payments required to lock in 2012 acquisition result in corresponding counterparty, default and bankruptcy risk.
Mint Farm Energy Center	Own	311 MW	*Execution Risk:* Commercial negotiations proceeding, few issues remain, not envisioned that any are deal breakers at this time.

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Note: Includes "Short-listed" and "Further Consideration" natural gas projects.

Value Proposition

Fit to Need	• Produces early surplus, but meets PSE need in longer term; generation can be shaped to meet PSE need reducing surpluses in spring and summer; commercially available
Cost Minimization	• $800/kW reasonable cost relative to new construction ($1,350/kW) • Attractive heat rate (<7,000 Btu/kWh); greater operating efficiencies • Maintenance and spare parts inventory synergies with Goldendale • Costs are known and quantifiable versus new construction where inflationary costs for EPC, skilled labor and raw materials have shown significant increases
Risk Management	• Transmission certainty with delivery to PSE's system • Avoids development/construction risk associated with new build projects • Gas capacity becoming increasingly more valuable with no new baseload generation being built
Public Benefits	• Located in industrial park, contributes to local tax base • Plant will be integrated into PSE's control area
Strategic/Financial	• Opportunistic purchase as MFEC i has no certain transmission prior to 2015

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MEMORANDUM

August 4, 2008

Privileged and Confidential Attorney - Client Communication

To: PSE Board of Directors

cc: Dewey & LeBoeuf LLP

From: Kimberly Harris

Subject: Proposed acquisition of 100% of the membership interests of Mint Farm Energy Center LLC, a Delaware limited liability company ("MFEC") that owns and operates an approximately 311 MW natural gas-fired combined cycle generating facility and the consolidation of those interests into PSE thereafter.

The purpose of this Memorandum is to describe:

The proposed transaction by which PSE will acquire a 100% interest in an approximately 311 MW (nominal) natural gas-fired combined cycle generating facility ("Facility") located at the Mint Farm Industrial Park in Longview, Washington that began commercial operation in January 2008 and is currently owned by Wayzata Opportunities Fund, LLC, a Delaware limited liability company ("WOF"), and Mint Farm Power LLC, a South Dakota limited liability company ("MFP"), together the "Sellers". (See **Exhibit 3,** "Transaction Structure".)

- The principal commercial terms and conditions of the proposed transaction and estimated schedule and timeline. (See **Exhibit 1,** "Summary of the Principal Agreements".)

- The need for, and benefits of, the proposed resource acquisition.

- The analyses supporting the selection by PSE of the proposed resource.

- Key risk factors related to the proposed transaction.

- The asset management plan describing the staffing plan and operational considerations of the transition to PSE ownership.

- The expected tax, accounting, and ratemaking treatments for the proposed transaction.

- The projected "stand-alone" financial pro forma[1] (income statement, cash flows and balance sheet) and the Facility's estimated impact on PSE's gross revenue requirements. (See **Exhibit 5**).

- Proposed financing arrangements for the acquisition cost of the Facility.

- Management's recommendation to PSE's Board of Directors for approval to complete due diligence and contract documentation, to execute and deliver the definitive agreements to close the transaction.

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[1] The Facility will be owned directly by PSE. For clarity of interpretation, the stand-alone pro forma illustrates the financial impacts of the Facility, separate and apart from PSE's financial statements, as if the Facility were held by a wholly-owned subsidiary of PSE.

Summary Project Description

The Facility is a 311 MW natural gas-fired combined cycle combustion turbine ("CCCT") generating facility. The baseload capacity is 260 MW plus 37 MW of duct fire capability. Under emergency circumstances, an incremental 14 MW can be produced through steam augmentation. The Facility is located on an approximately 11.42-acre site within the Mint Farm Industrial Park in Longview, Washington. Construction of the Facility was completed by JH Kelly, an industrial construction company in Longview, Washington. The Facility achieved commercial operation in January 2008.

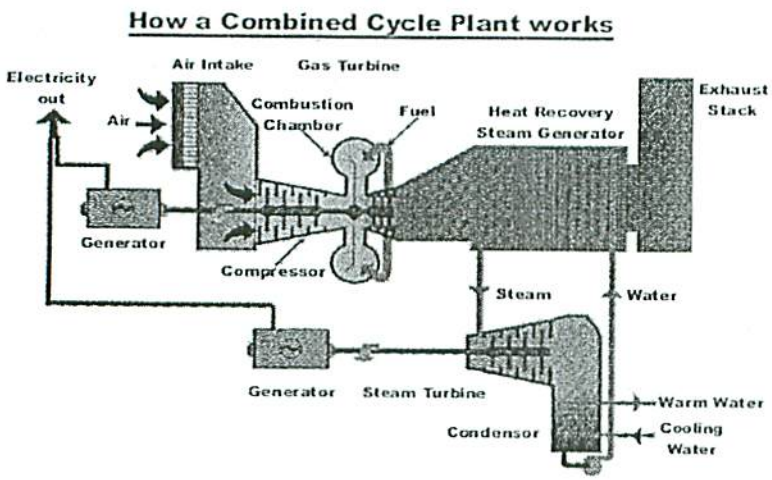
The site was originally developed by Avista Power in partnership with Steag AG, a large German power producer. Avista Power sold the development assets to Mirant Corp. in 2001. Construction was started in October 2001. In August 2002, construction on the partially completed facility was suspended due to Mirant's financial distress and ultimate bankruptcy. Invested capital up to that time had been about [redacted] The project was estimated to have been 34% complete. Wayzata Investment Partners, LLC, an affiliate of WOF, acquired the project from Mirant in 2005 through a bankruptcy auction process for [redacted] At time of acquisition by Wayzata, the assets had been laid up by Stone and Webster. Wayzata completed construction in 2007 and began commercial operation in January 2008.

The primary plant equipment consists of 1) a General Electric ("GE") Frame 7FA model combustion turbine and generator, 2) a Foster-Wheeler Heat Recovery Steam Generator ("HRSG"), 3) a Siemens-Fuji KN steam turbine and generator. With a heat rate below 7,000 Btu/kWh, Mint Farm is one of the most efficient generating facilities in the Western Energy Coordinating Council ("WECC") region.

The GE 7FA gas turbine is a mature, well understood machine with greater than one thousand units installed around the world providing power at 98 percent reliability and 93 percent availability. It is nearly identical in design and operation to the 7FA currently in use at PSE's Goldendale Generating Facility.

The Siemens-Fuji Steam Turbine Generator is not common in North America, but numerous units are in operation throughout the world. North American Energy Services ("NAES") operates a nearly identical unit at a facility in Calgary and has reported no maintenance concerns.

The overall conclusion of PSE's technical due diligence team is that the plant is clean, quiet, well designed, and in near new condition. While plant construction was interrupted for a period of approximately five years, components of the plant that had been installed were properly laid up to prevent corrosion.



The combined cycle process using a natural gas cycle and a steam cycle is a highly efficient process that results in greater operating efficiencies and lower fuel costs and emissions.

Figure 1. How a Natural Gas-Fired Combined Cycle Works

Electric Transmission

The Facility is interconnected to BPA at BPA's Longview Substation and holds 293 MW of long term firm point-to-point transmission service on BPA. Service under this contract began July 2008. The power is delivered directly to PSE's load center.

When fully duct-fired at 296.4 MW, there is a deficit of 3.4 MW of firm transmission service. PSE will utilize short-term firm transmission rights to meet this deficit until such time that additional firm transmission becomes available.

Station electrical service is provided by Cowlitz County PUD when the Facility is offline and to supply start-up power for the natural gas compressors and other station equipment until plant operations are sustained. This cost is included in the pro-forma.

The Facility's generation improves system reliability by providing voltage support for the region and it relieves stress on nearly all BPA flowgates.

Gas Transportation

The Facility is exclusively natural gas-fired. It does not have distillate oil back-up and there is no on-site fuel storage. The Facility is interconnected to the Northwest Pipeline ("NWP") system via Cascade Natural Gas Company's ("Cascade") distribution system, which provides natural gas service to many of the large industrial companies in the area.

After closing, PSE would need the Facility to hold firm transportation capacity on both NWP's interstate pipeline and Cascade's distribution system. The Facility currently holds 15,000 MMBtu/d of firm gas transportation on the Cascade system, which will be assigned to PSE. It does not hold any long-term firm transportation rights on NWP's interstate pipeline. At baseload, the Facility will require approximately [redacted] MMBtu/d and with duct-fire the Facility will require approximately [redacted] MMBtu/d. In order to

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serve the Facility, PSE will identify a long term solution for the additional transportation capacity needed on Cascade and the full amount of capacity needed on NWP's interstate pipeline.

PSE is currently evaluating options for the additional transportation capacity needed on Cascade's system. PSE has identified four options. First, PSE could acquire [redacted] MMBtu/d of capacity, requiring moderate upgrades to the NWP South Longview meter station. The upgrade costs, estimated between $1.5 million and $3 million, should be fully recoverable through Cascade rates and will require six to twelve months to complete.

A second option would combine the NWP meter station upgrade in option number 1, with an upgrade to Cascade's distribution system, involving the replacement of approximately 2.5 miles of distribution pipeline. This would raise the delivery pressure to 400 psig at the Facility, which would reduce the gas compression needed at the Facility. In order for this option to be feasible, PSE would have to compare the economics of the pipeline costs with the savings garnered from substantially reducing the cost of gas compression at the Facility.

Third, PSE could procure Cascade firm service from other long-term customers by assignment. PSE understands that some large industrial customers hold more capacity on Cascade's system than they need and might be willing to assign their capacity to PSE.

The fourth option would require Cascade to purchase and operate a line owned by Weyerhaeuser. This line connects directly to NWP's system and runs very near the Facility. This line could possibly facilitate a delivery pressure of 400 psig. However, this option would require fairly complicated negotiations and should be considered a long-shot at best.

For purposes of the pro forma, PSE has modeled the first option. However, in the near term, there is existing non-firm capacity on Cascade's distribution system that will allow PSE to serve the plant until a long-term solution is finalized.

To address the transportation capacity needed on NWPs interstate pipeline, PSE may need to use a multi-pronged approach. In the near term, the Facility would be served with discounted capacity on NWP from British Columbia and any surplus capacity from PSE's core gas book. There are also potential opportunities to acquire short-term firm transportation from NWP shippers through release or assignment on NWP's system. PSE recently acquired [redacted] of long-term NWP transportation capacity from Sumas to Stanfield which can be used to serve the plant, in part, beginning in April 2009. For the longer term, PSE recently signed a Precedent Agreement with NWP to purchase [redacted] of pipeline capacity on the proposed Blue Bridge pipeline expansion, which could serve the Facility after 2011.

Fuel Supply

Through Cascade's distribution system, the Facility has the potential to access gas from British Columbia via NWP. If the proposed Blue Bridge pipeline project moves forward, PSE will be able to access Alberta supply, and possibly Rockies. Upon PSE ownership, this resource would be integrated into PSE's gas supply hedging program.

Water Supply and Wastewater Treatment

Raw water for the Facility is supplied by its on-site wells, but can be supplied from the Weyerhaeuser Longview mill or the City of Longview. The last two options are the least attractive as the Facility would be charged for any water used from such sources. Accordingly, these alternatives are considered backup or redundant supply sources to be used only if necessary. The two on-site wells produce in excess of the necessary volume to supply the Facility.

Under a services agreement with the Weyerhaeuser mill, the Facility sends its wastewater to Weyerhaeuser's water treatment facility, which is then treated and discharged to the Columbia River through Weyerhaeuser's outfall. The Facility has applied for permission from the state Department of Ecology to bypass the Weyerhaeuser treatment system and discharge the wastewater directly to the Columbia River. Approval of the permit would result in reduced service charges that the Facility now pays to Weyerhaeuser under the agreement as the Facility would no longer require use of Weyerhaeuser's treatment system.

Summary of the Acquisition and Operation

Background

Based on PSE's identified need in its May 2007 Integrated Resource Plan ("IRP"), PSE issued a Request for Proposals ("RFP") from all generation sources in January 2008. Interested parties were asked to respond by February 29, 2008. PSE received 31 proposals; included was the offer for the sale of MFEC by Wayzata Investment Partners, LLC ("Wayzata").

At the conclusion of Phase I of the RFP evaluation process, in May 2008, PSE selected a "candidate" short list. These thirteen candidate proposals, including MFEC, moved to Phase II of the evaluation process for portfolio evaluation and additional due diligence. (See **Exhibit 6** for the Candidate Short List.)

Given the intense competition for both renewable and natural gas resources, the reluctance by sellers to hold open their offers for very long became apparent during the Phase I review. There were a number of proposals that required action by PSE by a date certain; some occurring within the Phase II evaluation timeline. Among the earliest expirations was MFEC's, which required a letter of intent by May 2008.

Concurrent with the Phase II due diligence, PSE initiated discussions with Wayzata to begin exploring a letter of intent and term sheet, mindful of the ongoing evaluation of the other resource alternatives.

At the conclusion of Phase II, most all of the candidate projects continued to evaluate well quantitatively in the evaluation scenario analysis results. Those projects identified as having the lowest reasonable risk included MFEC, together with two wind power purchase agreements ("PPA"), and a short-term system PPA.

Acquisition Program

A non-binding Letter of Intent ("LOI") and Term Sheet to acquire MFEC was executed with Wayzata Opportunities Fund, LLC on June 5, 2008 (see **Exhibit 2**). Such LOI formed the basic terms upon which PSE would be willing to proceed to negotiate Definitive Agreements.

A detailed summary of the definitive purchase agreements is attached as **Exhibit 1.** The principal commercial terms of the proposed transaction are briefly summarized below:

- Pursuant to a ***Membership Interest Purchase Agreement ("MIPA")***, PSE will acquire on the closing date (estimated to be approximately November 15, 2008) 100% of the limited liability company interests of MFEC including all rights, liabilities, permits, licenses and real, personal and intangible property owned or held by MFEC relating to the Facility as of the closing date. Immediately following the acquisition of the membership interests, PSE will dissolve MFEC and all assets and obligations under MFEC will become those of PSE, including obligations arising under the contracts to with MFEC is currently a party.

- PSE's purchase price for the sale and transfer of the purchased interests is

$240,690,000[2] payable at closing. PSE's obligations under the Membership Interest Purchase Agreement are not subject to a financing contingency. The MIPA is expected to be executed on or about August 15, 2008.

- Closing will occur after receipt by the parties of all consents, authorizations and approvals, satisfaction or waiver of conditions precedent specified in the MIPA.
- The closing date will depend upon, among other things, the timely filing and receipt of all required regulatory approvals including FERC, Hart-Scott-Rodino, and any applicable third party consents regarding assignment of contracts and permits.

Need for Additional Supply Resources and Resource Solicitation Process

PSE's May 2007 Integrated Resource Plan ("IRP") analyzed and documented its projected energy load and resource needs. The IRP incorporated a comprehensive assessment of available conservation resources and a fully-integrated portfolio analysis that evaluated both conservation and supply resources. The IRP identified a need for additional electric energy resources based upon the "B2" planning standard as adopted by PSE's Board of Directors in 2002. Such standard requires that energy be added to meet PSE's highest deficit month. In 2008, PSE's most energy deficit month was expected to be January with a shortfall of 412 average megawatts. By winter 2014-2015, PSE's shortfall is expected to grow to more than 1,300 average megawatts.

To meet PSE's growing need, PSE identified a long-term resource strategy that included aggressive investment in energy efficiency, increased development of wind power to

[2] Subject to the net working capital closing statement which will be completed within 45 days following the closing date. Net working capital for the facility as of May 31, 2008 was approximately $950,000, net of cash. This may fluctuate with operations until the closing date.

meet the renewable portfolio standards and gas-fired generation to reliably meet the balance of PSE's energy needs. By 2015, PSE will need to acquire an additional 550 MW of wind capacity and 1,234 MW of natural gas-fired combined cycle generation. Such requirements mean one wind project every 18 months beginning in 2010 and a new 250 MW gas plant every eighteen months to two years or the equivalent amount of purchased power. (See **Exhibit 6** for **PSE's 2007 IRP Resource Strategy.)**

Following its 2007 IRP, PSE described its resource needs in its draft Request for Proposals from All Generation Sources (the "All-Source RFP") and for Energy Efficiency programs that PSE issued on October 12, 2007. These RFPs were reviewed and approved by the Washington Utility and Transportation Commission ("WUTC") in an order issued on December 27, 2007 after which PSE then issued the final RFPs. Proposals were received at the end of February 2008 and evaluations commenced.

In response to its All-Source RFP, PSE received over 100 different offers from among 31 proposals. Of the 31 proposals, there were five proposals for efficient natural gas-fired combined cycle generation ("CCCT") of which three offered power purchase agreements and two were ownership offers - Mint Farm (311 MW) and Grays Harbor (625 MW).

Additionally, PSE received six proposals outside of the formal RFP process which were also evaluated in parallel. PSE has an ongoing obligation to consider all bona fide offers submitted for consideration.

Energy Market Context

The market continues to experience significantly higher capital costs across all technologies fueled by the continued rise in global energy and commodity costs.

Dramatically increased demand from the rapidly developing BRIC nations (Brazil, India and China) has driven up the price of oil and core construction commodities such as steel and copper. The effect on energy supply is a marked increase in both fuel costs and costs of new construction. PSE's resource cost comparison provides a look at the 20-year levelized cost at PSE's 2004, 2006 and 2008 RFPs. PSE's 2008 RFP has seen levelized cost increases of 39 percent on average for gas projects proposed compared to those proposed in the 2006 RFP (See **Figure 2**). Accordingly, the risk of cost escalation of future generating capacity is extremely high.

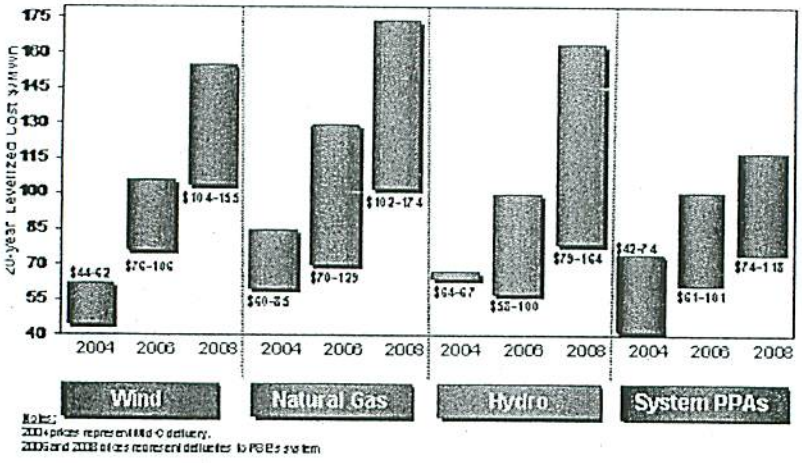

Figure 2: 20-Year Levelized Cost (source: PSE RFP proposals)

As illustrated in Figure 2, the incremental cost of power, calculated as a 20-year levelized cost metric is two to three times the Company's current embedded power costs of about $65 per MWh.

Adding to rising commodity prices is the increased demand for electric generation capacity. Not only are BRIC nations driving demand, but even in the U.S., many utilities are entering a phase of capacity need for both fossil and renewable generation. This

demand for the end product, has given manufacturers ample leverage to push prices and boost margins. This has also caused a rush to acquire the few available modern merchant projects left at prices discounted from new construction. In Washington State, the recent acquisition of the Chehalis project by PacifiCorp leaves only Mint Farm and Grays Harbor in the hands of temporary owners.

As the price of new generating capacity increases, so too does the price of existing capacity, particularly more modern, efficient power projects such as Mint Farm. This trend has not escaped the eye of private equity and hedge funds. These entities have become aggressive acquirers of capacity, particularly distressed projects resulting from independent power producer ("IPP") bankruptcies in the early 2000s. Such owners pursue different business objectives than the typical IPP or utility owner in that they have a much shorter ownership time horizon.

The shift in demand to cleaner and greener generation has also played an important role in shaping energy markets. The key driver of this evolution is the heightened awareness around carbon emissions and climate change. In the U.S., federal climate change policy is yet to be determined, however, both 2008 presidential candidates have voiced support for a national greenhouse gas trading system.

In the meantime, the states have taken the lead on policy action to combat climate change. Such policies include increases in renewable portfolio standards, energy efficiency and even regional greenhouse gas trading regimes. To date 32 states have adopted Renewable Portfolio Standards (RPS), including Initiative 937 in Washington State which calls for 15% renewable generation by 2020. California has adopted an even more aggressive RPS calling for 20% by 2010. This has caused a great deal of competition for scarce renewable assets in the Northwest. As California utilities look beyond their borders to acquire wind projects, they will continue to look to Washington and Oregon which will inevitably have an upward impact on prices.

The rise in wind generation as a result of these policies has been dramatic. Many turbine manufacturers are sold out through 2011. In addition to rising demand and commodity costs, the continued fall of the dollar has increased prices as most wind turbine components are manufactured overseas. Only now are we beginning to see manufacturers locate some of the production in the U.S. According to the U.S. Department of Energy, the price of wind turbines dropped dramatically from the 1980s, but since 2001, prices have increased significantly.

While renewable generation continues to gain market share, many proposed coal projects have been delayed or abandoned. In some states, including California and Washington, legislation prohibits the construction of any new generation with carbon emissions exceeding modern combined cycle gas turbines. From a practical standpoint, this makes the construction of standard coal-fired power plants illegal in these states.

In other states, some coal projects continue to be proposed, but many are being withdrawn due to environmental pressures. Even in the historically coal friendly Midwest, projects are meeting opposition. In a landmark 2007 decision, the Kansas Department of Health and Environment denied an air permit for two 700 MW coal projects proposed by Sunflower Electric Power Corp based on the project's contribution to climate change. While legal appeals persist on this decision, the signal is clear that developers of coal-fired projects have an uphill battle.

With the decline in new coal projects and a lack of feasible new large-scale hydro generation projects, new sources of baseload generation will become more and more important. A great deal of conversation around new nuclear projects is occurring, but enormous licensing and financing challenges confront such projects. In the mid-term, natural gas-fired combined cycle plants like Mint Farm, will be relied upon more and more to provide baseload generation.

Cost of Certain Natural Gas Generation Projects is Still Competitive

PSE follows a structured evaluation process to assess the merits of each proposal with regard to meeting its needs. PSE considers both quantitative and qualitative factors. As part of its quantitative analysis, PSE utilizes three key quantitative metrics to compare and evaluate electric resources. These are: 1) 20-Year Levelized Cost, 2) the Portfolio Benefit and 3) the Portfolio Benefit Ratio. Four proposals were selected for the short list including two wind PPAs, one short-term system PPA and Mint Farm.[3] Three projects were not selected, but were of sufficient interest to PSE to warrant "continuing investigation".[4] Both the short-listed and continuing investigation proposals are shown in the chart below.

The resource comparisons below are relative to their respective technologies. However, among the selected gas projects, it is difficult to compare the quantitative metrics when taking into account vintage, heat rate and operating characteristics among these resources. When compared to like resources, Mint Farm and [redacted] evaluate similarly, as shown in the graphs below. (The portfolio benefit for [redacted] is [redacted] the size of Mint Farm due to it being over [redacted] the capacity of Mint Farm.) Neither the [redacted] plant nor the [redacted] project is a reasonable comparison to Mint Farm. [redacted] with a higher heat rate and provides system reliability benefits, whereas the [redacted] project's operating characteristics are better suited to provide ancillary services and integrating wind resources.

Mint Farm's Portfolio Benefit is approximately $45 million, the Levelized Cost is

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[3] The short-listed projects include 1) [redacted] a 50 MW wind pre-pay power purchase agreement ("PPA") offered by [redacted] 2) [redacted] a 200 MW PPA offered by [redacted] 3) a short-term PPA offered by Barclays Bank and 4) Mint Farm.

[4] The continuing investigation list includes: 1) a 15-year gas toll from [redacted] 2) a 162 MW capacity resource using [redacted] and 3) the [redacted] plant.

approximately [redacted] MWh and the Benefit Ratio is positive at 0.05.

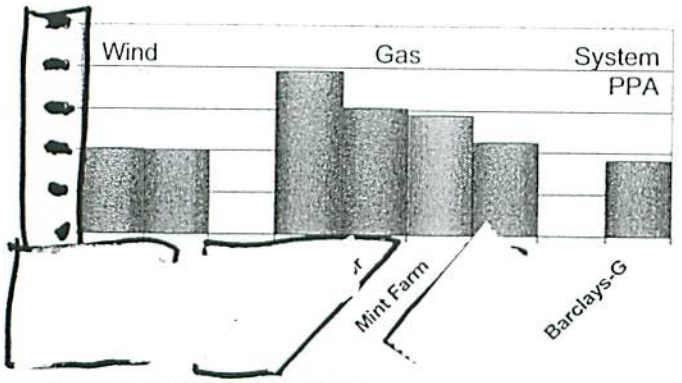

Figure 3. 20-Year Levelized Cost

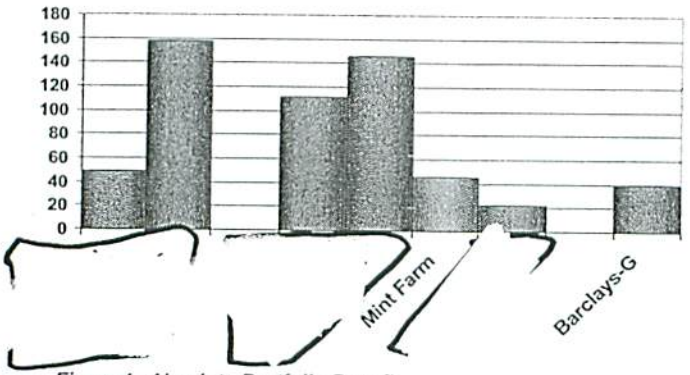

Figure 4. Absolute Portfolio Benefit

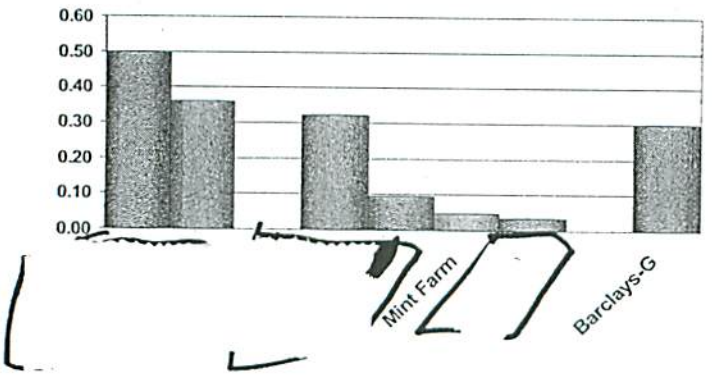

Figure 5. Portfolio Benefit Ratio

REDACTED VERSION

With both Mint Farm and Grays Harbor as the remaining merchant plants, it may be instructive to consider what new construction costs are in comparison. Earlier this year, in April, PSE undertook a survey to update capital cost assumption for its evaluation models. As there has been no new construction of gas-fired generation in the Pacific Northwest since early 2000, except for PGE's completion of Port Westward, there was no readily available market data from which PSE could rely. In order to gather the needed information, PSE contacted and interviewed utilities, IPPs, and consultants. After completing the exercise, PSE identified a range of costs for 2008/2009 projects of $1100-$2000/kW depending on location and size as well as many other variables. After taking all of the information into account, PSE determined a cost of $1350/kW as reasonable for new construction. Shortly thereafter, PSE met with the Shaw Group and learned that many EPC contractors were unwilling to even provide firm offers until the point at which the project proponent was ready to immediately issue a notice to proceed. This exercise provided additional insight, which further supports Mint Farm as a competitive generation resource given its capital costs of approximately $800/kW.

Portfolio Analysis Demonstrates Project Benefits

To assure consideration of a wide range of possible market futures, PSE's portfolio analysis evaluates the individual resources and portfolios of resources under five different futures or risk scenarios. These are: 1) Current Trends (PSE's expected future case), 2) Green World (many environmental constraints and, consequently, a high gas price), 3) Low Growth (PSE's load growth is much lower than expected), 4) High capital costs (capital costs for new construction adjusted by more rapid inflation rates) and 5) Low Capital Costs (capital costs for new construction are held to a slower inflation level). Such scenarios establish the bookends of future market outcomes.

The analysis, as seen in Figure 6, shows a very narrow range of potential outcomes for Mint Farm suggesting that it would perform similarly in a wide variety of potential future

scenarios, thus demonstrating low risk. [redacted] and [redacted] show higher benefit ratios in these scenarios; however, when the qualitative evaluation is taken into account, none of these projects would be selected to the short list

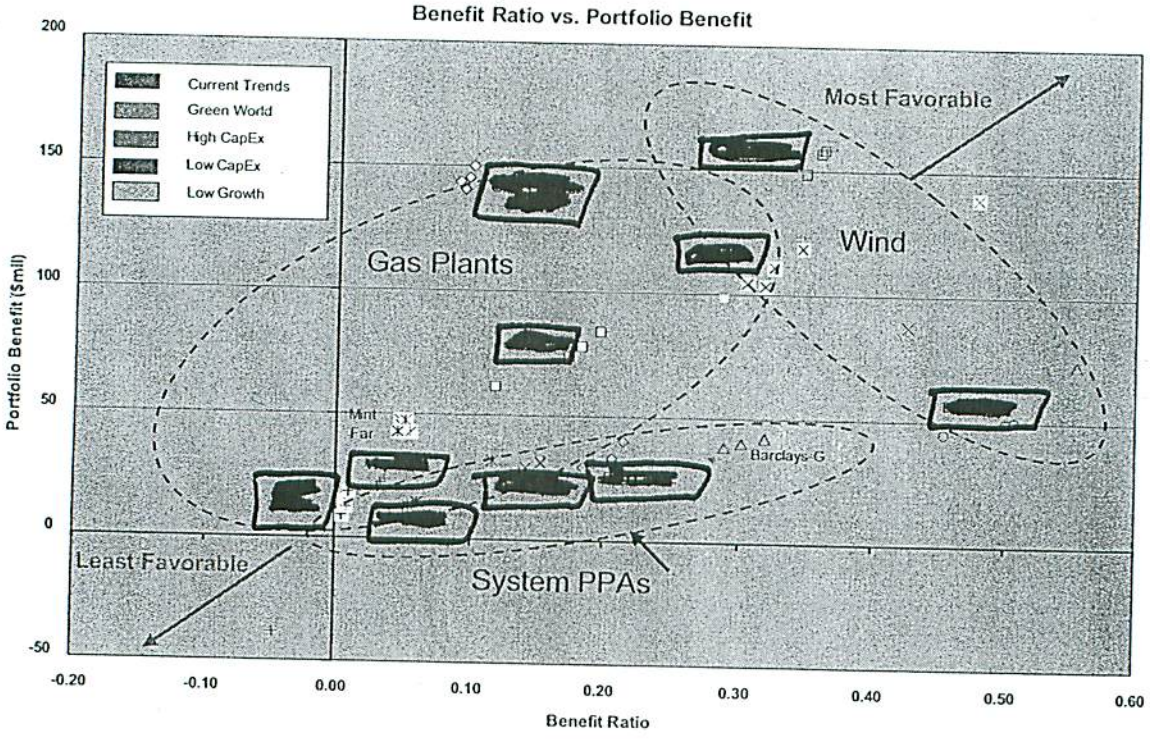

Figure 6: Scenario Analysis Results

Qualitative Evaluation Favors Mint Farm

In addition to the quantitative evaluation, PSE conducts an extensive qualitative analysis of the projects to assess risk and other key variables that economic modeling cannot capture. Defined qualitative criteria and due diligence findings provide the basis for such professional judgment.

During Phase II of the evaluation, PSE evaluated the candidate short list against five key project/commercial risks: transmission risk, price risk, development/siting risk, execution risk and operational flexibility. (See **Exhibit 6** for Qualitative Risk Evaluation Matrix.)

While PSE compared all the projects, the relative comparison is within the project's technology. Within the natural gas technology, Mint Farm and new construction were considered relative comparables. The results of this analysis show Mint Farm as most favorable across all five key dimensions.

Transmission Risk

With respect to transmission, PSE learned in Phase II of its due diligence that would have difficulty getting transmission by 2012. Further, in discussions with BPA, it appears that it is not likely that firm transmission rights could be secured until at least 2015 when BPA plans to upgrade lines along the I-5 corridor. Similarly, a new construction option would present immediate challenges with regard to securing transmission. Mint Farm's long-term firm, point-to-point contract provides a secure path directly to PSE's system.

Price Risk

The price of Mint Farm is quite certain whereas the price o if acquired in 2012, presents some escalation uncertainty. New construction has clear uncertainty around pricing as the market pricing for new power capacity continues to escalate at a rapid rate.

Development/Siting Risk

Mint Farm and [redacted] are very low risk while a new construction project poses a number of potential development risks including permitting, transmission and gas transportation.

Execution Risk

This risk captures all of the potential risk presented by a project that might prevent PSE from ultimately acquiring the project. Execution risk for Mint Farm was identified as being low due in large part to commercial negotiations being substantially complete. Although there are still a few significant issues, both parties appear committed to reaching a successful outcome. [redacted] exhibits significant risk on this dimension owing to the option-based structure required to secure the asset until 2012 along with collateral from the counterparty to secure such option payments. [redacted] engaged in a dispute, [redacted] If this dispute is settled in favor of [redacted] the potential owner would need to take this into consideration. New construction would clearly show a high risk as there are typically a number of barriers standing in the way of full development of a new project.

Operational Flexibility

With PSE's need to add a substantial amount of wind generation, operational flexibility is becoming increasingly important for wind integration. At the most beneficial end of this spectrum are [redacted] proposed to PSE by [redacted] At the opposite end of the spectrum are the [redacted] and [redacted] tolling offers where the plants are either [redacted] or do not offer the operational flexibility desired by PSE to optimally dispatch based on system conditions [redacted] Both Mint Farm and [redacted] offer greater flexibility for load following and wind integration, assuming they are

running. They do not have the quick-start capability benefit of the [redacted]

Overall, when price, transmission, development and execution risk are considered along with operational flexibility, Mint Farm's risk profile presents a very attractive option.

PSE Current Market Assessment Confirms Mint Farm

The Facility is one of two remaining merchant gas plants from the early 2001-2002 construction boom of CCCT plants in the Pacific Northwest. Over the last year, the other surplus projects have been absorbed by other investor-owned utilities. Concurrent with PSE's RFP were RFP solicitations by other investor-owned utilities, such as B.C. Hydro, Idaho Power, PGE, PacifiCorp, SoCal Edison and PG&E. The implications of their resource needs indicate that competition for resources will go unabated for some time. Existing capacity will be absorbed and new construction will be the next phase for combined cycle projects.

Evidence of this is PacifiCorp's announced purchase of the Chehalis Generating Facility, a 520 MW natural gas-fired combined cycle plant. New natural gas generating capacity is being developed in California. In September 2007, Calpine received approval from the California Energy Commission to construct a 600-megawatt combined cycle plant, the output of which will be sold to PG&E.

As the need for capacity is becoming increasingly more valuable, these remaining assets are not likely to be available in the near future. PSE is seeing renewed developer interest in the Pacific Northwest with regard to the purchase of existing plants as well as looking at potential new builds. Since the selection of the RFP short list, PSE

has continued to meet with developers and to accept and evaluate proposals for other projects and PPAs; although, no new gas projects have been offered since the RFP evaluation process was completed in July.

In parallel with our RFP acquisition activity, PSE has continued to work toward a joint development agreement with RES Americas to jointly develop approximately 1200 megawatts of wind generation in Columbia and Garfield counties. Those negotiations are progressing and PSE envisions a possible agreement may be executed later this summer.

Conclusion

The Facility is an attractive resource among the evaluated proposals. Its cost and risk are reasonable. It helps reduce PSE's reduce need. The Facility adds 311 MW of capacity and 247 aMW of winter energy, which is a significant contribution to meeting PSE's 2012 January energy need of 700 aMW, and brings PSE closer to meeting its longer term energy need of 1,161 aMW[5] identified in 2015. As a result of this large need, this acquisition would not preclude PSE from acquiring additional resources that are now under consideration.

Additional Generation Resource Opportunities (Highly Confidential)

In addition to the short-listed projects, in which PSE is engaged in negotiations, or is soon to be engaged, PSE continues to look at other resource opportunities and is currently evaluating the following:

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[5] The 1,161 aMW need is taken from the 2008 RFP analysis updated to include Sumas and is after conservation.

- An approximately 46 MW self-build expansion of the Wild Horse Wind project to be completed by the end of 2010
- 1200 MW joint development agreement with RES Americas for wind development in Columbia and Garfield counties
- 900 MW wind development project with [redacted] located in [redacted] of which PSE would own approximately 400 MW
- Additionally, PSE is continuing to look toward the future, developing a long-term strategy for renewable diversity looking at battery storage and potential solar development in eastern Washington.

Management and Operation of the Project

At closing, estimated to be November 15, 2008, PSE will own 100% of the Facility. PSE is in the process of developing an Asset Management Plan. Currently, the Facility is operated under an O&M Agreement with GE to provide employees that operate and maintain the plant. PSE plans to terminate that agreement, likely within the first year after closing, and operate the plant with PSE employees.

Staffing Plan

Once PSE has closed on the Facility, PSE will work with GE to move toward termination of the O&M Agreement. In order to successfully operate the plant without the GE agreement, PSE will have to transition: 1) GE employees that may be interested in continuing at the plant under PSE ownership, 2) all software and vendor contracts, and 3) the operations and maintenance policies and procedures of the Facility.

Subsequent to closing and with GE permission, PSE will perform interviews with current

staff. Upon completion of these interviews, PSE will extend contingent offers to successful candidates. At contract termination, GE employees who have accepted the contingent offers will become PSE employees. To provide for the likelihood that not all of the current GE employees will transition to PSE or that additional employees may be required, PSE has identified companies that provide temporary staffing services to fill this short-term need.

PSE's Power Generation department plans to staff the plant in a way that is similar to the current staffing except that the labor force would transition into the union, IBEW Local 77, pursuant to PSE Human Resources labor relations protocol. Corporate support will be required from the Power Generation, Information Technology and Materials Management departments for on-going plant support and to facilitate integration of the asset into PSE's existing portfolio.

Details of the Asset Management Plan are discussed in **Exhibit 10.**

Environmental Matters

No significant environmental issues were identified during the environmental due diligence. The Facility appears to be properly sited and constructed and in good condition. There are programs in place to address air emissions, wastewater discharge, stormwater discharges, solid waste management, hazardous materials handling and hazardous waste management.

For air emissions the Facility is currently operating under a Final Air Discharge Permit and is registered under the U.S. EPA acid rain program. A Title V Operating Permit application will become due by November 2008, one year after initial operation by MFEC. The purpose of the Title V permit will be to consolidate all federally-enforceable

permit conditions and establish compliance monitoring, recordkeeping and reporting requirements for each applicable requirement. The Title V process is not intended to change applicable requirements or related permit restrictions unless a change in regulatory requirements has occurred since the current air permit was issued. Previous Best Available Control Technology ("BACT") determinations for the current permit should remain unchanged.

Additional detail about environmental matters is provided in **Exhibit 8**.

Other Due Diligence

Geological and Subsurface Conditions

The Facility is located on the Columbia River floodplain approximately one-half mile northeast of the river at an elevation of 15 feet above mean sea level placing it approximately two feet above Columbia River's elevation near the site. There is a low to moderate exposure to flooding dependent on a 100-year rated dike that separates the site from the river.

The Facility is located on geo-technically very poor soil conditions. The design of the plant utilized significantly more conservative earthquake modeling as compared to that required by the Uniform Building Code ("UBC") in the design of the plant. Fourteen hundred (1,400) twelve-inch pilings were driven to a depth of 160 to 200 feet to stabilize the soil.

All foundations with even minimal load are seated on piles utilizing minimum 3000 psi concrete. Additionally, no noteworthy foundation settling appears to have occurred over the five-year project intermission. Earthquake risk is rated as low

Real Estate

The Facility is located on two contiguous parcels of property within the Mint Farm Industrial Park in the city of Longview, Washington. One parcel is 5.46 acres in size, the other is 5.96 acres. A 2.5 acre parcel, owned by the city of Longview abuts in a triangular fashion between the two aforementioned parcels. This 2.5 acre parcel is utilized as a storm water discharge pond for both the Facility as well as other industrial properties within the Mint Farm Industrial Park. (**Exhibit 8** provides additional Real Estate detail.)

Insurance

PSE plans to add the Facility to its permanent property insurance program with an insured replacement value of $196 million. The deductibles will be $2.5 million for the combustion turbine, $1 million for combined all risk, and $1 million or 2% of the total insurable value of each location involved in a loss, whichever is greater, for earth movement coverage.

In order to provide insurance coverage, PSE's insurer has required that PSE implement the recommendations from two key GE Technical Information Letters (TILs). Both TILs address concerns about the liberation of blades during operation.

The insurance providers also recommended certain ongoing maintenance practices including gas turbine compressor shim mapping and dissolved gas analysis. As well, the insurer's fire protection engineer made minor recommendations for fire prevention purposes, which will be implemented.

Tax Benefits/Considerations

The proposed transaction, as described in **Exhibit 1** to this Memorandum, has been structured to reduce the taxes imposed on the transaction, in particular to eliminate sales and use taxes imposed on the acquisition.

Rate and Accounting Issues

Deferred Accounting Petition

Concurrent with closing, PSE will file an accounting petition with the WUTC to request deferral of (1) all fixed costs and (2) all variable costs in excess of embedded power cost rates. Cost deferral is needed because the existing Power Cost Adjustment ("PCA") tracker limits the allowed cost of new resources to the lesser of the actual variable costs or the PCA baseline rate. Actual variable operating costs will be substantially in excess of the baseline rate. Accordingly, PSE will seek permission from the WUTC to defer costs of the Facility for recovery to begin once the rate case order is issued. Absent WUTC approval for cost deferral, PSE will incur unrecovered costs. The amount of these costs depends upon when rates go into effect, but assuming a rate filing in early 2009, the unrecovered costs are estimated to be approximately $54 million for the 13 months ending December 2009.

PSE received deferral accounting for the fixed operating costs of Goldendale prior to the effective date of PCORC rates. There is no precedent for requesting recovery of actual variable costs in excess of the baseline rate.

Rate Treatment and Cost Recovery

PSE will seek rate recovery for the acquisition of the Facility in a filing made early 2009 with the Washington Utilities and Transportation Commission ("WUTC"). The filing will

likely be a General Rate Case ("GRC"). State regulatory approval of the rates is anticipated eleven months thereafter.

General Accounting Treatment

The proposed transaction will be accounted for pursuant to the applicable accounting rules of the FERC and WUTC. For modeling purposes and valuation, the overall useful book life of the Facility is 30 years. Because the operational characteristics of a combined cycle are very different from that of a simple cycle, PSE will define units of property for this Facility, consistent with the units of property defined for Goldendale.

Income Statement Effects

Provided the WUTC approves the deferred accounting and rate treatments proposed with respect to the Facility and as described above, PSE expects to recognize income for financial reporting purposes substantially as described in the stand-alone pro forma. (See **Exhibit 5**.) (Rate and accounting treatments are discussed in **Exhibit 14**.)

A Discussion of Financing Program

The cash requirements are included in PSE's updated 2008 Capital Forecast and Mult-Year Financial Plan, and will be funded as a component of PSE's overall 2008 financing program which may include a combination of securities such as bank loans, first mortgage bonds and equity.

Risk Factors

PSE's risks associated with the acquisition of the Facility vary in nature and extent based on the phase of the acquisition process. Such phases include:

- Pre-Closing
- Post-Closing

PSE has prepared a detailed description of the principal risks and identified mitigation plans (see **Exhibit 9**). A summary description of these risks follows:

- The Pre-Closing Phase extends until the closing of the MIPA. The principal risks are that the proposed transaction will not be consummated due to 1) failure to resolve the outstanding commercial terms open between parties and 2) any outstanding due diligence remaining that may uncover risk that would be unacceptable to PSE.
- The financial exposure to PSE in the event of a failure to close is principally the risk that transaction costs incurred to date in the amount of approximately $300,000 would be expensed.
- In the Closing Phase, the failure to obtain deferred accounting treatment could create unrecovered costs of $54 million between December 1, 2008 and December 31, 2009.
- The other principal risk of the Post-Closing Phase is ensuring the technical and financial performance of the asset. Upon closing, PSE's thermal asset group will undertake a three-week planned outage to implement the recommended actions by GE for the turbine/generator to bring the plant to the necessary standard operating level and reduce operational risk. A contractual services agreement will be negotiated with GE between signing and closing. PSE's power supply operations has an established plan to manage power and gas prices at the portfolio level by

hedging portfolio power and positions up to three years forward. These hedges reduce exposure and help optimize the resource's performance (see **Exhibit 12**).

Closing and Schedule

PSE and Wayzata have targeted the execution of the MIPA ("Definitive Documents"), to occur in August upon completion of negotiations and following approval of PSE's board of directors and approval by Wayzata's general partners. The transaction would close within 90 days following the date of the execution of the Definitive Agreements conditioned upon receipt of all regulatory and other approvals, with an extension of up to 45 days only if the FERC 203 approval has not yet been received or if the waiting period for the antitrust approval has not expired. The estimated closing date for the transaction is November 15, 2008, and should be no later than December 14, 2008. (See **Board of Directors' Presentation** for the acquisition timeline.)

FERC 203 Approval

Acquisition of the Facility requires the approval of FERC under Section 203 of the Federal Power Act. PSE intends to file the Section 203 application with FERC in August 2008. In reviewing filings under Section 203, FERC must determine whether the proposed transaction is in the public interest. This determination requires an evaluation of the effect of the proposed transaction on competition under a market concentration screening test. Indicative analysis has been performed to examine the effect of the acquisition on PSE's market concentration. Results of this analysis indicate that PSE passes the screens that FERC weighs most; although, there are some areas of uncertainty. PSE will meet with FERC staff on July 25 to obtain some indication as to

how the addition of the Facility would be viewed. PSE anticipates receipt of FERC's ruling on its Section 203 application within two to three months after filing.

Summary of Project Benefits

Together with the acquisition of planned energy efficiency resources, the acquisition of Mint Farm of approximately 311 MW (247 aMW) of resource will reduce PSE's projected energy shortfall from 700 aMW[6] to approximately 453 aMW in January 2012 when PSE is projected to lose a significant amount of existing resources.

The principal benefits of this new resource would be as follows:

- At approximately $800/kW, the Facility is comparable to  and is favorable as compared to new construction of $1,350/kW;
- Mint Farm is one of two remaining CCCT projects available in the Pacific Northwest - it is likely that new construction will be required within the next five years;
- The Facility's generation and projected power costs add estimated portfolio value of approximately $45 million, when compared to PSE's current portfolio as modified by generic resources of PPAs, CCCTs, biomass and wind plants;
- The Facility is an existing operating plant with known and quantifiable costs which eliminates potential construction or inflationary cost risk of new resource builds;
- The Facility has secure long-term, firm transmission

[6] A 700 aMW deficit for the January 2012 was projected in the 2007 Integrated Resource Plan after conservation is taken into account and as updated to reflect the Sumas acquisition projected to close by the end of July 2008.

- The Facility represents an opportunistic purchase of an asset from a private equity investor;
- The Facility is a dispatchable resource with ability to support wind integration;
- The Facility utilizes proven technology, among the most efficient gas turbine technologies by a world-class manufacturer, GE;
- Potential synergies may be realized with spare parts inventory management with PSE's similar Goldendale plant; and
- The acquisition represents an incremental addition that leaves open options for additional renewable and thermal resources during the next decade.

Recommendation

Based on the described benefits of the proposed transaction, management recommends that the Board of Directors approve the transaction as proposed. (See **Board Resolutions**.)

GUIDE TO ACRONYMS AND SHORTENED TERMS

Abbreviation/Term	Meaning
BACT	Best Available Control Technology
BPA	Bonneville Power Administration
Cascade	Cascade Natural Gas Company
CCCT	Combined-Cycle Combustion Turbine
EPC	Engineering, Procurement and Construction
ESA	Environmental Site Assessment
FERC	Federal Energy Regulatory Commission
Facility	Mint Farm Energy Center, LLC
GE	General Electric
GRC	General Rate Case
HRSG	Heat Recovery Steam Generator
IPP	Independent Power Producer
IRP	Integrated Resource Plan
kW	Kilowatt
LOI	Letter of Intent
MFEC	Mint Farm Energy Center LLC
MFP	Mint Farm Power LLC
MIPA	Membership Interest Purchase Agreement
MMBtu	Million British Thermal Unit
MW	Megawatt
NAES	North American Energy Services
NWP	Northwest Pipeline Corporation
O&M	Operation and Maintenance
PCA	Power Cost Adjustment
PCORC	Power Cost Only Rate Case
PPA	Power Purchase Agreement
RFP	Request for Proposal
RPS	Renewable Portfolio Standards

GUIDE TO ACRONYMS AND SHORTENED TERMS

Abbreviation/Term	Meaning
TIL	Technical Information Letter
UBC	Uniform Building Code
Wayzata	Wayzata Investment Partners, LLC
WECC	Western Electric Coordinating Council
WOF	Wayzata Opportunities Fund, LLC
WUTC	Washington Utility and Transportation Commission

List of Exhibits

1. Summary of Principal Agreements
2. Letter of Intent, June 5, 2008
3. Transaction Structure
4. Facility Description
5. Facility Stand-Alone Financial Pro Forma
6. Comparative Analysis (RFP Evaluation)
7. Risk Comparison – Short-listed Natural Gas Projects
8. Key Due Diligence Findings
9. Transaction Risk Analysis
10. Asset Management Plan
11. Gas Transportation Plan
12. Gas Supply Hedging Strategy
13. Transmission Plan
14. Regulatory and Accounting Issues

Exhibit 1

Summary of Principal Agreement

Acquisition of the Mint Farm Combined Cycle Generation Facility

- PSE will acquire all of the membership interests of Mint Farm Energy Center, LLC ("MFEC"), which is owned by Wayzata Opportunities Fund, LLC and by Mint Farm Power, LLC (collectively, the "Sellers"), and which is an affiliate of Wayzata Investment Partners LLC ("Wayzata").[1] MFEC's activities and assets relate to a 311 MW natural gas-fired electric generation facility situated on approximately 11 acres of land in the Mint Farm Industrial Park, Longview, Washington, and include associated gas delivery facilities, an electrical switchyard, and other related facilities (collectively, the "Mint Farm Facility").

- Pursuant to a ***Membership Interest Purchase Agreement ("MIPA")***, PSE will acquire sole ownership of all limited liability company membership interests of MFEC, thereby acquiring all rights and liabilities, permits, licenses and real, personal and intangible property owned or held by MFEC relating to the Mint Farm Facility as of the closing date (estimated to be approximately November 15, 2008). PSE's purchase price for MFEC is approximately $241,000,000 (the "Purchase Price"), payable upon closing. PSE is not obligated to close until after approvals and satisfaction or waiver of conditions precedent specified in the MIPA.

- Set forth below is a synopsis of the principal terms of the MIPA, based on the status of parties' negotiations as of July 22, 2008. Such negotiation is ongoing.

Membership Interest Purchase Agreement

- The MIPA sets out the structure by which the proposed transaction will take place and the terms and conditions with respect to its consummation.

[1] Between the Sellers, Wayzata Opportunities Fund, LLC owns 99.84673% of MFEC's membership interests, while Mint Farm Power, LLC holds only 0.15327% of such membership interests. Wayzata Investment Partners LLC serves as the manager of Wayzata Opportunities Fund, LLC.

- Transaction Structure. The MIPA contemplates that, at the closing, the Sellers as the sole holders of membership interests of MFEC will sell, and PSE will purchase, all issued and outstanding membership interests of MFEC. Immediately after closing, MFEC will be dissolved and all of its assets and obligations will become those of PSE.

- Purchase Price. Pursuant to the terms of the MIPA, PSE will pay a purchase price of $240,690,000 (the "Purchase Price"), payable upon closing.

- All Assets Transferred and All Liabilities Assumed. As an entity purchase, PSE will acquire all assets and assume all liabilities of MFEC, which will be formally dissolved immediately after closing.

- Representations and Warranties. The MIPA contains representations and warranties typical for transactions of this type. Among other things, each of the Sellers represent and warrant to PSE with respect to:
  - Organization of each of the Sellers and enforceability of the MIPA;
  - The fact that the MIPA does not violate or breach any agreement by which either of the Sellers is bound and that each Seller is in material compliance with all applicable laws; and
  - The consents required by each Seller to consummate the transaction.

  Further, MFEC represents and warrants to PSE with respect to:
  - Organization of MFEC and authority to enter into the MIPA;
  - MFEC's capitalization and its financial statements;
  - The material contracts to which MFEC is a party;
  - The material permits obtained by MFEC;
  - Environmental matters, tax matters and employee matters;
  - The real property and personal property owned by MFEC and intellectual property owned or held by MFEC;

- MFEC's compliance with regulatory rules and regulations, including those promulgated by the Federal Energy Regulatory Commission.

Among other things, PSE represents and warrants to the Sellers with respect to:

- Organization of PSE and enforceability of the MIPA;
- The fact that the MIPA does not violate or breach any agreement by which PSE is bound;
- The fact that PSE will have funds sufficient to consummate the transaction at closing;
- The adequacy of PSE's analysis, due diligence and review of the assets and liabilities to be acquired in the transaction;
- The consents required by PSE to consummate the transaction.

- Covenants. The parties have agreed to various covenants in the MIPA. Among others, the parties have agreed to:
  - Use commercially reasonable efforts to obtain all regulatory approvals and third-party consents necessary to consummate the transaction.

In addition to the foregoing, the Sellers have covenanted, as follows, to:

- Cause MFEC to conduct and operate its business in the ordinary course, preserve its business and perform all scheduled maintenance to the Mint Farm Facility;
- Not make, without PSE's prior consent, any material changes to MFEC or the assets to be purchased, incur or permit to exist any liens on the assets to be purchased, amend any material terms of any contract or similar agreement, or enter into any material transaction other than in the ordinary course;
- Provide PSE with reasonable access to its books and records and to the Mint Farm Facility prior to closing;

- Furnish financial and plant accounting data sufficient to enable PSE to comply with applicable FERC accounting requirements;
- Cause MFEC to provide PSE access to General Electric International, Inc. ("GE") personnel, who pursuant to an existing operations and maintenance agreement between MFEC and GE operate the Mint Farm Facility, in order to permit PSE to prepare for and conduct interviews for potential offers of employment; and
- Deliver to PSE a survey of each parcel of real property and a title policy.

- Tax Matters

  The parties have agreed that with respect to any real estate excise tax ("REET") imposed on the sale of the MFEC membership interests shall be shared [redacted] between PSE, on the one hand, and the Sellers, on the other hand, provided that PSE's maximum amount payable will be [redacted] with any remaining REET liability to be paid by the Sellers.

- Conditions to Closing.

The MIPA contains several conditions to closing in favor of PSE and/or the Sellers. Conditions to closing in favor of all parties include that:

- The representations and warranties of the other party or parties are true and correct in all material respects as of the closing;
- Each other party has performed its obligations under the MIPA in all material respects;
- No orders or laws shall be in effect restraining or prohibiting the transaction; and
- The applicable waiting period for the transaction under applicable antitrust laws shall have expired or terminated.

In addition to the foregoing, the MIPA contains conditions to closing that run in favor of the Sellers, including that:

- PSE shall have delivered the purchase price and the other deliverables required of it.

Further, the MIPA contains conditions to closing that run in favor of PSE, including that:

- PSE shall have received from the Federal Energy Regulatory Commission authorization of the transfer of the Mint Farm Facility under Section 203 of the Federal Power Act;
- All consents and approvals required in connection with the purchase and sale of MFEC and its subsequent dissolution shall have been received; and
- PSE shall have received a final title report and a title insurance policy shall be in full force and effect..

The closing is not conditioned on the prior approval of the acquisition by the WUTC.

- Indemnification. Although the MIPA provides a right of indemnification to all parties with respect to claims arising out of the transaction contemplated by the MIPA, the survival of such indemnification obligation is limited in most circumstances to Indemnification for claims arising from a breach of representations and warranties relating to employees, taxes and environmental matters may survive for up to
- Limitations on Liability. The MIPA provides that a party seeking indemnification will have no reimbursable claim for indemnification until having incurred losses exceeding Further, the maximum aggregate liability that Sellers could face may not exceed of the Purchase Price except for claims arising from a breach of authorization or enforceability, where such cap will equal the

- Termination. In addition to voluntary termination provisions, the MIPA provides that it may be terminated under certain circumstances, including the following: (1) by either party, if the closing has not occurred by the date that is [redacted] the execution date, which date shall be extended by [redacted] if the closing has not occurred solely because the waiting period for antitrust approval has not expired or the FERC Section 203 approval has not been obtained; and (2) by one or either party under certain other limited circumstances.

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PUGET SOUND ENERGY

CONFIDENTIAL

June 5, 2008

Wayzata Opportunities Fund, LLC
c/o Wayzata Investment Partners LLC
701 East Lake Street Suite 300
Wayzata, MN 55391

Attention: Blake Carlson, Partner

Dear Blake:

As you are aware, Puget Sound Energy, Inc. ("PSE") and Wayzata Investment Partners LLC ("Wayzata"), acting on behalf of Wayzata Opportunities Fund, LLC (the "Fund"), have held various discussions in connection with the possible acquisition by PSE of the Mint Farm Energy Center, an approximately 311 MW (nominal) gas-fired combined cycle generating facility located at the Mint Farm Industrial Park in Longview, Washington (the "Facility") owned and operated by a wholly owned subsidiary of the Fund, Mint Farm Energy Center LLC ("MFEC"). This letter of intent (including the non-binding term sheet (the "Term Sheet") attached hereto as Exhibit A, this "LOI") is intended to outline the basic terms upon which PSE would be willing to proceed to negotiate Definitive Agreements (as defined in the Term Sheet) pursuant to which PSE would acquire the Facility through its purchase of all of the membership interests in MFEC (the "Proposed Transaction"). PSE and Wayzata are sometimes hereinafter referred to individually as a "Party" and collectively as the "Parties." Capitalized terms used but not separately defined herein shall have the meanings ascribed to them in the Term Sheet.

1. It is our expectation and desire that, should Wayzata choose to move forward with negotiations with PSE regarding the Proposed Transaction, the Parties would employ commercially reasonable efforts to seek to complete the negotiation, execution and delivery of mutually acceptable Definitive Agreements on or prior to sixty (60) days following the date hereof.

2. In consideration of the foregoing, Wayzata, on behalf of itself and its affiliates, including the Fund and MFEC (collectively, the "Wayzata Parties"), agrees that from the date of this LOI until the earliest of (i) the termination of this LOI without execution and delivery of Definitive Agreements between the Parties or (ii) the termination of the Definitive Agreements, if executed, in accordance with the terms thereof, neither the Wayzata Parties shall engage in any activity, directly or indirectly, the purpose, intent, or foreseeable effect or result of which would be the solicitation, offer or negotiation of or agreement to terms and conditions, whether binding or non-binding, regarding any direct or indirect sale, transfer, conveyance or disposition of the Facility (or any interest therein), or the right, title and interest of the Wayzata Parties in any of them, with or to any person other than PSE.

3. The Wayzata Parties acknowledge that PSE is in the process of integrated resource planning and is considering alternative arrangements for the procurement or construction of electric or other energy resources, and this LOI shall not be interpreted so as to limit or restrict PSE in any way, now or in the future (including during the period this LOI is in effect), in the conduct of such planning process or the implementation of any plan or program of resource procurement, including, but not limited to, engaging in negotiations or effecting a transaction or transactions with parties other than the Wayzata Parties to acquire generation or gas resources or facilities, including resources associated with or attributable to projects ultimately operating in the same general vicinity as the Facility.

4. This LOI, upon execution by Wayzata and delivery to PSE, shall remain in effect until the earliest of (a) sixty (60) days from delivery hereof to PSE; (b) the date of execution and delivery of the Definitive Agreements; or (c) the termination of this LOI by either Wayzata or PSE in the sole discretion of either Party at any time, effective upon written notice to the other (the "Effective Period"). Termination of this LOI without execution and delivery of the Definitive Agreements will release the Wayzata Parties from the exclusivity provisions hereof.

5. During the Effective Period, PSE shall be entitled to conduct a due diligence review of the Facility and MFEC, including, but not limited to, the technical, construction, engineering, transmission and operation arrangements and agreements relating to the Facility, as well as legal, information systems, human resources, insurance and regulatory aspects (including the availability and terms of all required real estate rights, permits and licenses) associated with the ownership, operation and maintenance of the Facility. PSE shall also be entitled to conduct a due diligence review of the governing documents of the Fund to the extent reasonable and appropriate with respect to any obligations of the Fund to, or affecting, PSE in respect of the Fund's sale of the membership interests in MFEC to PSE. The Wayzata Parties shall reasonably cooperate with PSE to facilitate PSE's due diligence review and, subject to reasonable advance notice from PSE, afford PSE representatives the opportunity to obtain information pertaining to the Facility and perform on-site inspection and due diligence with respect thereto during normal business hours.

6. This LOI and the proposed terms contained herein shall be subject to the terms of the Mutual Confidentiality Agreement, dated February 12, 2008, executed by MFEC and PSE. Wayzata shall cause the other Wayzata Parties to comply with the terms and conditions of such agreement as if they were parties thereto.

7. Except to the extent expressly otherwise provided in the Definitive Agreements, each Party shall bear its own legal, accounting, consulting, regulatory, tax

and other professional fees and expenses and other transaction costs, regardless of whether the Proposed Transaction is consummated.

8. This LOI shall be governed by the laws of the State of Washington, without regard to principles of conflict of laws that would call for the application of any laws other than the laws of the State of Washington.

9. This LOI (including the attached Term Sheet) (a) is not an offer or a commitment on the part of either Party with respect to the Proposed Transaction, but rather constitutes a non-binding statement of such Parties' current intentions with respect to the Proposed Transaction, (b) does not contain all matters upon which agreement would need to be reached in order for the Proposed Transaction to be consummated and (c) may be withdrawn by either Party at any time upon prior written notice to the other Party. A binding agreement with respect to the Proposed Transaction shall arise only upon the execution by the Parties of mutually acceptable Definitive Agreements, subject to prior receipt of necessary or appropriate approvals, including, approvals of the management and board of PSE, Wayzata and the Fund, and no binding agreement or commitment shall arise prior thereto even if the Parties reach some understanding(s) or agreement(s) in principle as part of their discussions. The consummation of any such transaction shall be contingent upon receipt of all required governmental approvals and such other conditions precedent to the closing as shall be set forth in the Definitive Agreements. Any actions taken by a Party in reliance on the non-binding terms expressed herein or on statements made during negotiations of the Definitive Agreements shall be at that Party's own risk, and this LOI (including the attached Term Sheet) shall not be the basis for a contract by estoppel, implied contract or any other legal theory with respect to the Proposed Transaction.

10. Notwithstanding the non-binding nature of the Proposed Transaction, the provisions of paragraphs 1 through 10 of this LOI (but specifically excluding the Term Sheet and the other provisions outlining or describing the Proposed Transaction or the terms and conditions thereof) are intended to, and upon mutual execution hereof shall, create a binding agreement between the Parties as set forth above and Wayzata confirms that MFEC and the Fund shall also be bound by the terms hereof.

If the foregoing is satisfactory to you and reflects your understanding with respect to the matters referred to in this LOI, please sign and date the enclosed copy of this LOI where indicated and return such copy, as so signed and dated, to the undersigned on or before June 6, 2008. If this LOI is not executed by Wayzata and delivered to PSE on or prior to June 6, 2008, it shall be null and void. We look forward to working with you towards a successful transaction.

Very truly yours,

Roger Garratt
Director, Resource Acquisition

Accepted and Agreed:

WAYZATA OPPORTUNITIES FUND, LLC

By: Wayzata Investment Partners LLC, its manager

By: _____
Name: Blake Carlson
Title: Authorized Signatory

Dated: June 5, 2008

Exhibit A

Term Sheet for
Proposed Acquisition of
Mint Farm Energy Center

Principal Structure of Proposed Transaction

Closing

Purchase Price

Excluded Assets and Liabilities

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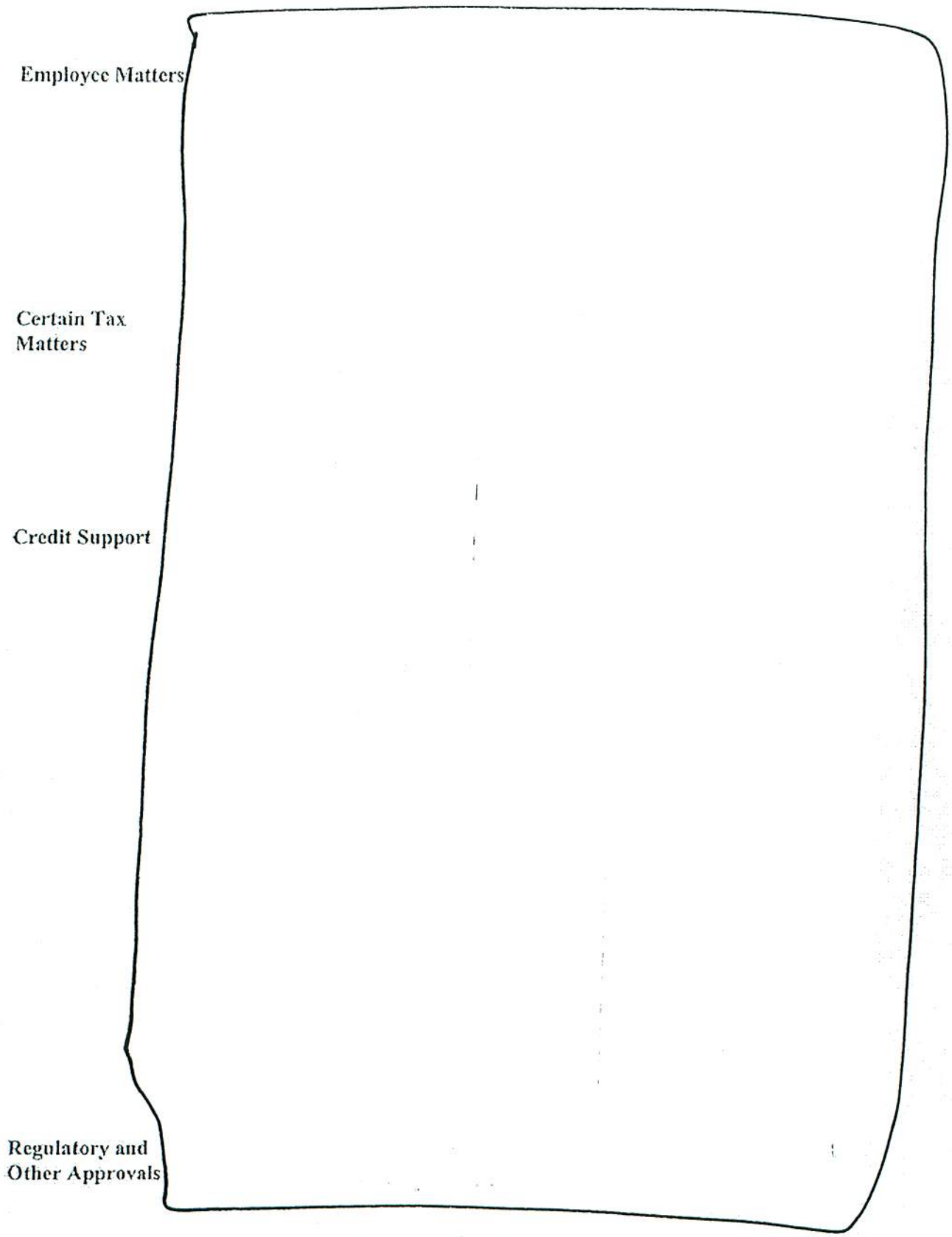

Exhibit A – Page 2

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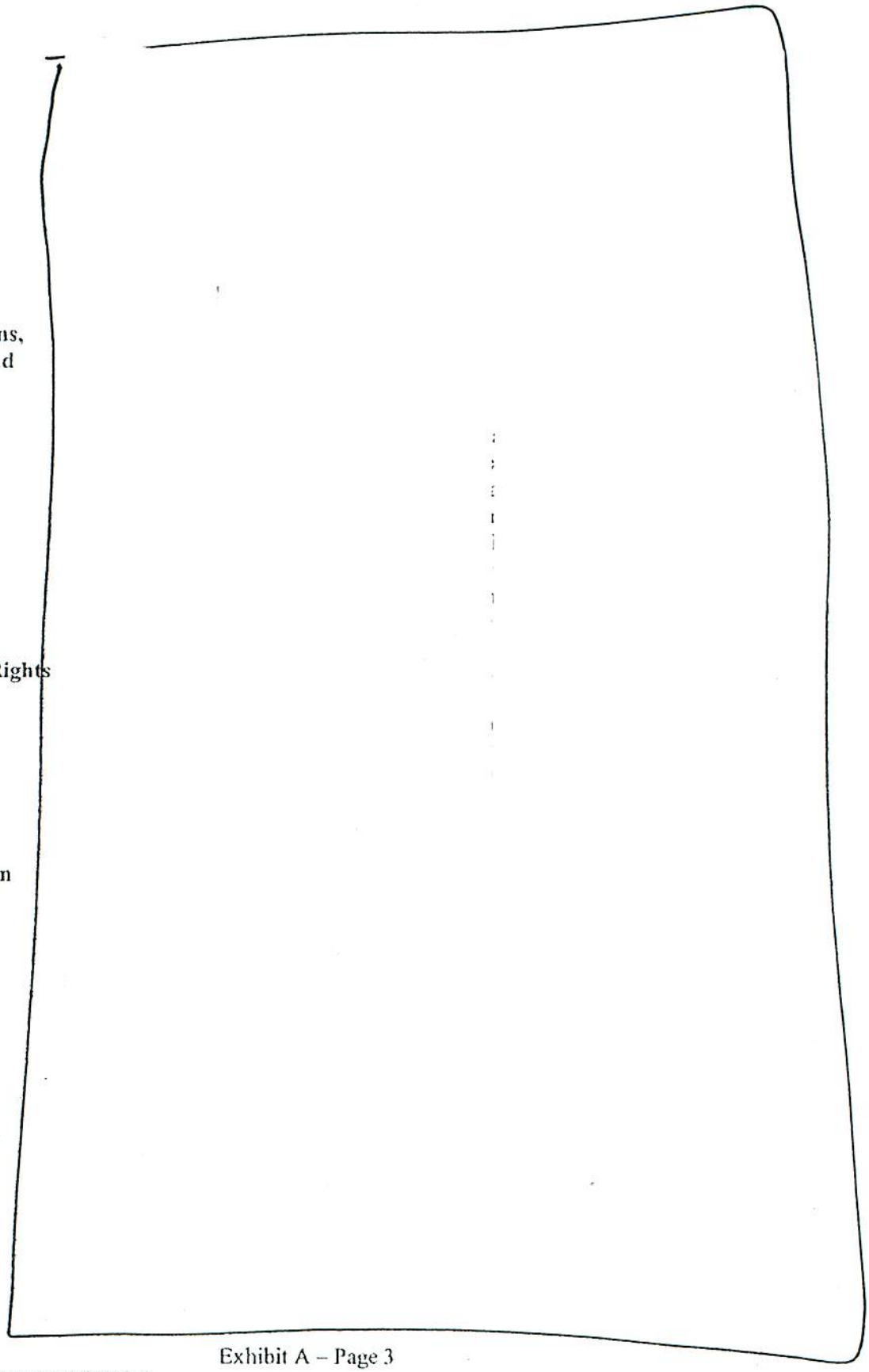
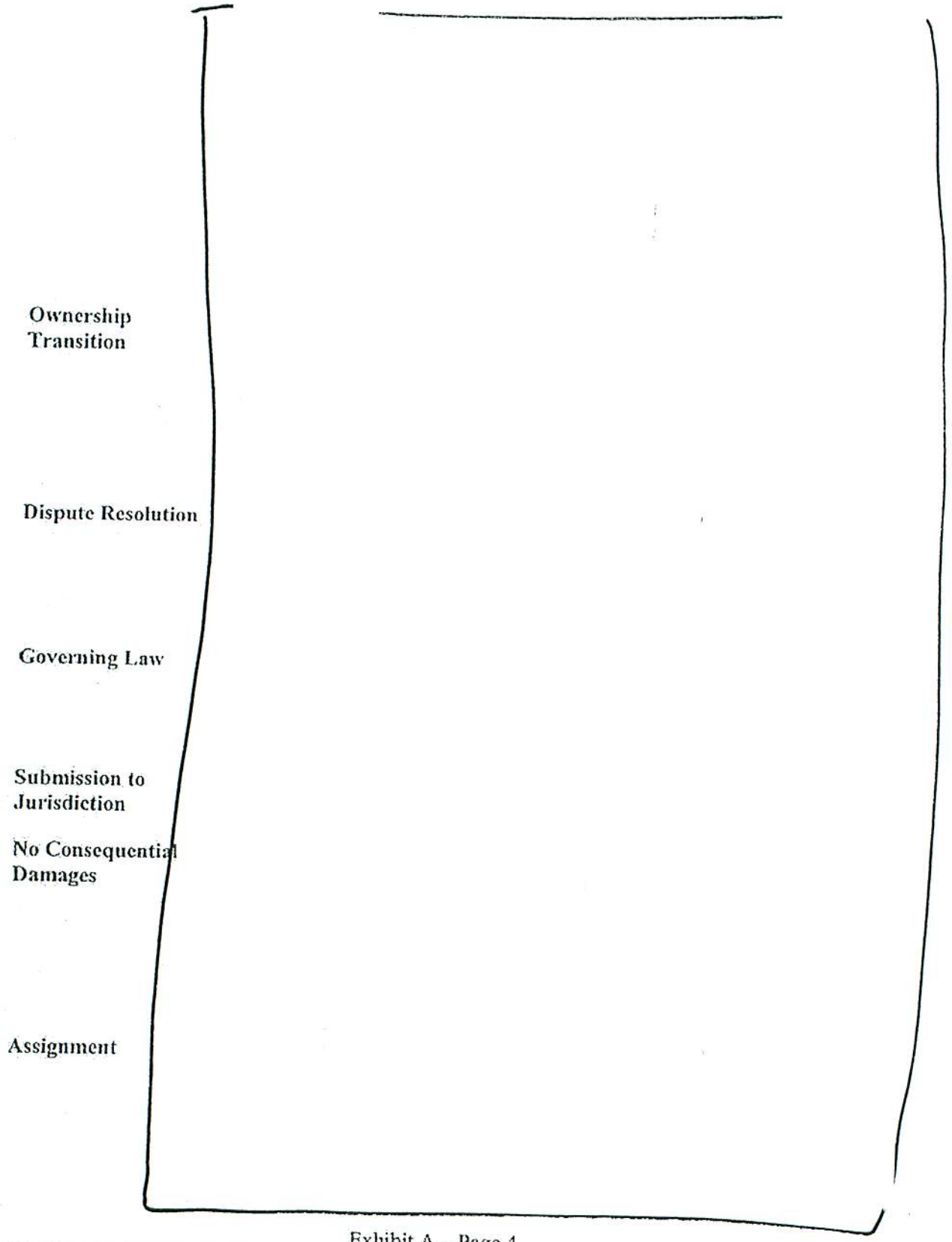


Representations, Warranties and Covenants

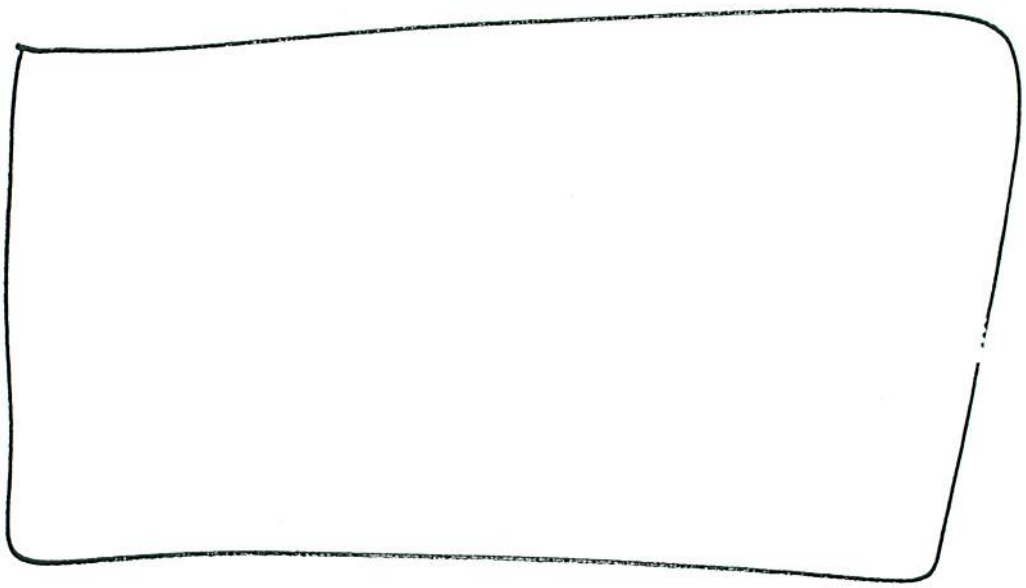
Conditions to Closing

Termination Rights

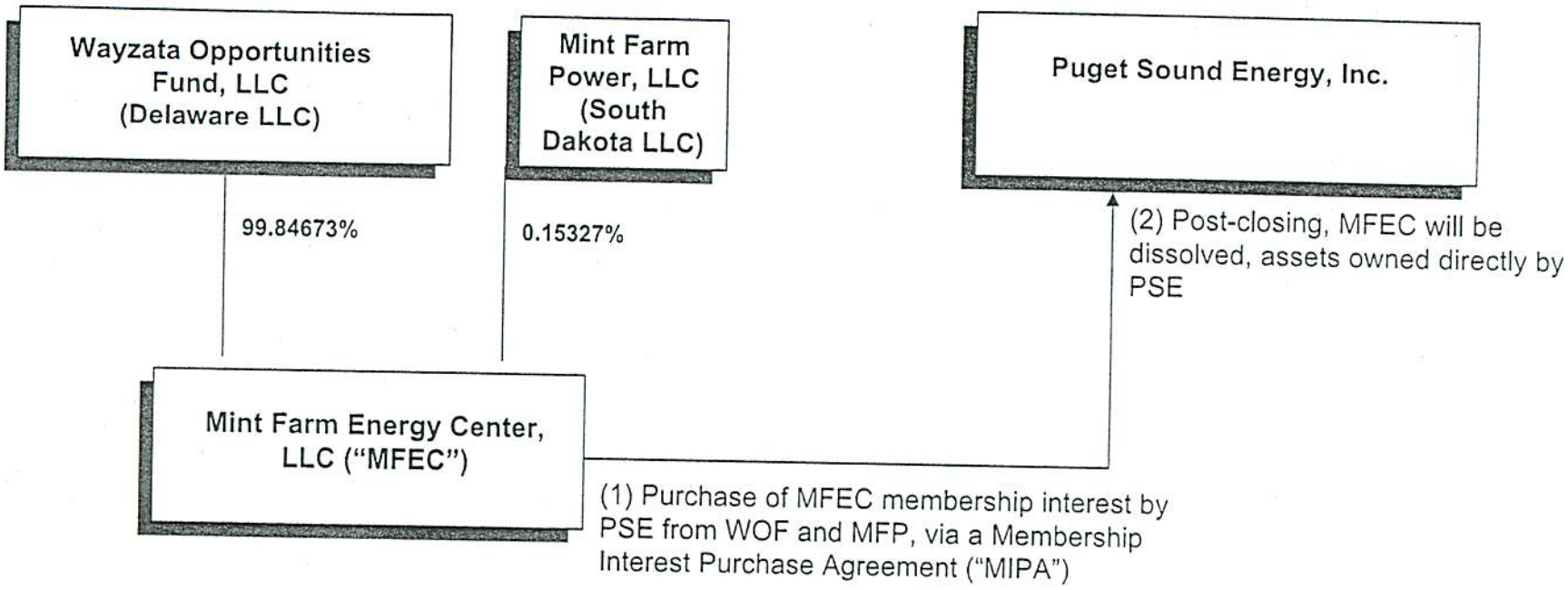
Indemnification



Letter of Intent

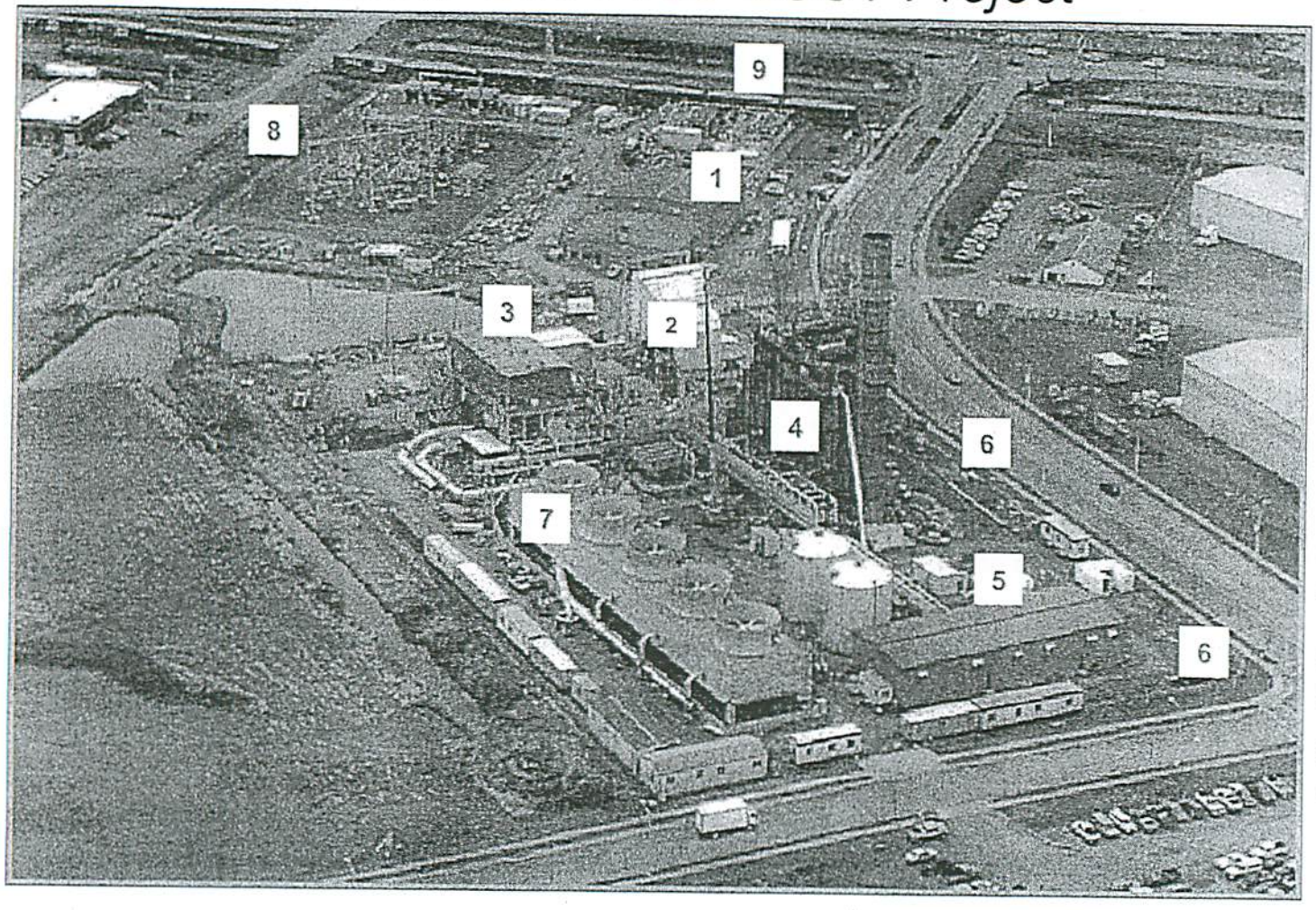


Acquisition Transaction Structure



Mint Farm Energy Center - Longview, WA

311 MW Natural Gas-Fired CCCT Project



1. Administration Building
2. Gas Turbine and Generator
3. Steam Turbine and Generator
4. HRSG
5. Water Treatment Bldg
6. Water wells
7. Wet Cooling Tower
8. Transformers & Switchyard
9. Gas Compressors

Facility Overview

Online Date	January 2008
Location	11.42-acre site located in the Mint Farm Industrial Park, Longview, Washington
Capacity	311 MW - nominal 260 MW base load; 297 MW with duct firing; 311 with steam augmentation
Heat Rate	[redacted] Btu/kWh at baseload
Technology	1x1 combined cycle power plant using GE 7FA combustion gas turbine; Fuji KN electric steam turbine generator; Foster Wheeler HRSG ; evaporative cooling tower with water-cooled steam condenser
O&M	Long Term Service Agreement ("LTSA") with GE for gas turbine
Water Supply	Water supply: 1) service agreement with Weyerhaeuser mill; 2) two deep water wells on plant site Wastewater discharged to: 1) Weyerhaeuser treatment plant; 2) directly to the outfall to the Columbia River
Fuel	Fueled by natural gas only; gas requirements at baseload estimated at [redacted] Dth/d; [redacted] MMBtu/d with duct fire
Gas Transport	Project holds 15,000 MMBtu/d of firm transport on Cascade Natural Gas Corp.'s distribution system to the plant; no firm interstate gas transportation on NWPL
Transmission	Interconnected to BPA's Longview Substation; 293 MW BPA firm point-to-point contract to PSE's system
Levelized Cost	[redacted] MWh; capacity factor of 31%; [redacted] MMBtu levelized gas cost assumption (Proforma)

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Exhibit 5

Mint Farm Energy Center Facility Stand-Alone Financial Pro Forma

Facility Description:

The Facility, to be described further herein, consists of the permits, real estate rights, interconnection agreements, and other necessary rights and agreements to own and operate a 311 MW GE 7FA combined cycle combustion turbine (the "Facility") located in Longview, WA. The all-in cost to acquire the Facility is approximately $259 million.

Facility and Transaction: Basic Assumptions and Definitions:

Facility:	The Mint Farm Energy Center 311 MW Combined Cycle Combustion Turbine Generation Facility located in Cowlitz County within the City of Longview ("the Facility")
Sellers:	Wayzata Opportunities Fund, LLC and Mint Farm Power, LLC. (the "Sellers")
Owner:	PSE (after Closing)
Entity:	Mint Farm Energy Center LLC. ("Entity")
Timing and Nature of Acquisition:	PSE is negotiating a binding Membership Interest Purchase Agreement ("MIPA") with the Sellers. Assuming execution of the MIPA, PSE would acquire all of the ownership interests in the Entity at Closing. Immediately after Closing, the Entity will be dissolved and all of its assets and obligations will become those of PSE.
Closing:	December 1, 2008 (estimated date)

Description of Plant:

COD:	January 2008
Location:	In the City of Longview, WA in the Mint Farm Industrial Park in Cowlitz County, WA.
Net Output:	260 MW combined cycle plant with an incremental 37 MW duct fire capability and 14 MW of steam augmentation (for emergency use only and is not modeled).
Capacity Factor:	Approximately 31% as determined using the AURORA Model
Technology:	One (1) 174 MW GE 7FA+e combustion turbine (Model PG7241) with GE generator (Model 7FH2) One (1) Foster-Wheeler Heat Recovery Steam Generator ("HRSG") with duct burners One (1) 134 MW Fuji steam turbine (Type KN) with Siemens generator (Model GTLR 1544/60.2) Marley wet counter flow cooling system with five-cell tower
Heat Rate:	Primary Firing: [redacted] Btu/kWh (degraded) Duct Firing: 9,559 Btu/kWh (incremental basis)
Gas Requirements:	[redacted] MMBtu/d; [redacted] MMBtu/d (with duct fire)
Gas Transportation:	Firm capacity will be purchased for the primary firing and the duct firing requirement.
Transmission:	Transmission from the Facility to PSE's service territory has one transmission wheel: 1) 293 MW from BPA Longview to PSE Central Contiguous (contract term 2008-2028 plus renewal rights). Short term firm and non-firm transmission will be used for generation in excess of 293 MW.
Water Supply and Wastewater Disposal:	Raw water is supplied to the facility from two on-site wells. Under a services agreement with the Weyerhaeuser mill, the Facility sends its wastewater to Weyerhaeuser's water treatment facility, which is then treated and discharged to the Columbia River through Weyerhaeuser's outfall.
Operation to Date:	At Closing it is assumed the Facility will have 4,469 hours of operation.

Real Estate: The Mint Farm Energy Center is constructed upon two (2) contiguous parcels of property. One parcel is 5.46 acres in size; the other parcel is 5.96 acres. The project is within the city limits of Longview, within the Mint Farm Industrial Park. A 2.5 acre parcel of property, owned by the City of Longview, abuts in a triangular fashion, between the two Facility parcels. The 2.5 acre parcel is utilized as a storm water discharge facility for both Facility parcels as well as for other industrial properties within the Mint Farm Industrial Park.

Easements for two (2) twelve inch (12") pipelines, which are appurtenant to the Facility parcel, extend south and east of the power plant. The easements establish rights for the installation, operation and maintenance of pipelines which are used for the transmission of industrial cooling water and cooling effluent from Facility operations. The cooling water and cooling effluent discharge to Weyerhaeuser's property where they are treated within their treatment system.

The Projection:

This document and its exhibits (the "Projection") illustrate the projection of financial results to PSE from its investment in the Facility. Included in the Projection are pro forma financial statements illustrating operation of the Facility through the year 2027 and a description of the data and assumptions used to derive them. Although the Facility will be acquired and owned by PSE directly, the financial statements are presented for clarity as though the Facility were a wholly-owned subsidiary that would be consolidated on PSE's books.

PSE Board of Directors
August 4, 2008

Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

Acquisition Cost – Summary

Capital Expenditures	Value
Facility Purchase Price	$ 240,690,000
Real Estate Excise Tax (REET)	
Facility Improvements	
Turbine/Plant Upgrade	
Continuous Emissions Monitoring Specialist System	
Air Permit, NPDES and City	
Support Structures & Spill Prevention	
HRSG Repairs	
Insurance Upgrades	
IT Integration	
Security Infrastructure	
Transaction & Due Diligence	
Documentation	
Permitting (Title V)	
Real Estate Due Diligence	
Technical Due Diligence	
Environmental Due Diligence	
PSE Labor	
Hart-Scott Rodino filing	
Alta Survey	
Title Insurance	
Property Taxes	
Spare Parts / Net Working Capital	
Total Capital Expense	$ 253,933,466

Facility Improvement Expenses	Value
Turbine/Plant Upgrade	
Continuous Emissions Monitoring Specialist System	
Air Permit, NPDES and City	
Support Structures & Spill Prevention	
HRSG Re-inspection	
Insurance Upgrades	
IT Infrastructure	
Total 2009/2010 Expenses	$ 4,369,900
Total Acquistion Cost	$ 258,303,366

Facility Purchase Price: PSE will acquire all assets and obligations of the Entity.

Real Estate The Real Estate Excise Tax ("REET") is a Washington State tax levied on

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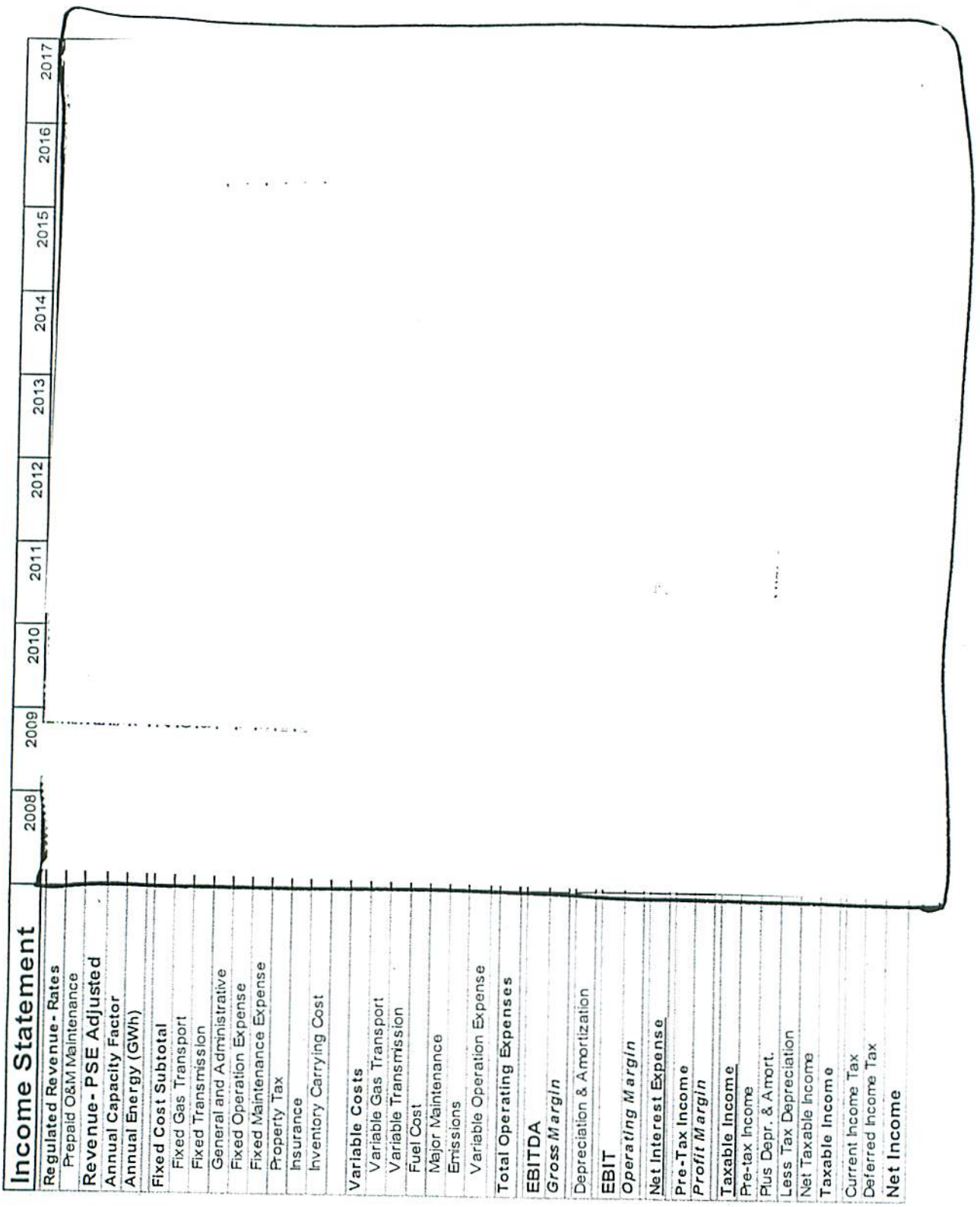
Excise Tax:	the portion of property classified as "real" in which a controlling interest of the property is transferred. The combined tax rate for Cowlitz County and Washington State is 1.53%. PSE and the Sellers will each bear 50% of this cost; however PSE's share of the cost, contractually, will not exceed
Facility Improvements:	Facility improvements are to bring the Facility up to the standards the Company requires for reliable operations. The following have been identified during due diligence as improvements: combustion turbine upgrade to bring the plant up to PSE operating standards, replacement of the Continuous Emissions Monitoring System, application for Title V permit, support structures and spill prevention upgrades, potential HRSG repairs, vegetation management with the city, a computer maintenance and management system ("CMMS"), upgrades for insurance purposes, and integration with PSE's IT infrastructure.
Transaction and Due Diligence:	Transaction and due diligence costs are PSE's internal costs for due diligence and negotiations, title insurance, third party expert consultants and legal fees associated with the transaction.
Property Tax:	In Washington State, property is assessed at the end of each calendar year with taxes paid in April and October of the following year, in arrears. It is customary in real estate transactions in Washington for property taxes to be prorated based on taxes payable in the year of closing. Since PSE utilizes accrual accounting, the property taxes paid by it subject to the proration as well as those taxes in the following calendar year, attributed to the period until one year from closing, are capitalized.

PSE Board of Directors
August 4, 2008

Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma



Income Statement	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Regulated Revenue - Rates										
Prepaid O&M Maintenance										
Revenue - PSE Adjusted										
Annual Capacity Factor										
Annual Energy (GWh)										
Fixed Cost Subtotal										
Fixed Gas Transport										
Fixed Transmission										
General and Administrative										
Fixed Operation Expense										
Fixed Maintenance Expense										
Property Tax										
Insurance										
Inventory Carrying Cost										
Variable Costs										
Variable Gas Transport										
Variable Transmission										
Fuel Cost										
Major Maintenance										
Emissions										
Variable Operation Expense										
Total Operating Expenses										
EBITDA										
Gross Margin										
Depreciation & Amortization										
EBIT										
Operating Margin										
Net Interest Expense										
Pre-Tax Income										
Profit Margin										
Taxable Income										
Pre-tax Income										
Plus Depr. & Amort.										
Less Tax Depreciation										
Net Taxable Income										
Taxable Income										
Current Income Tax										
Deferred Income Tax										
Net Income										

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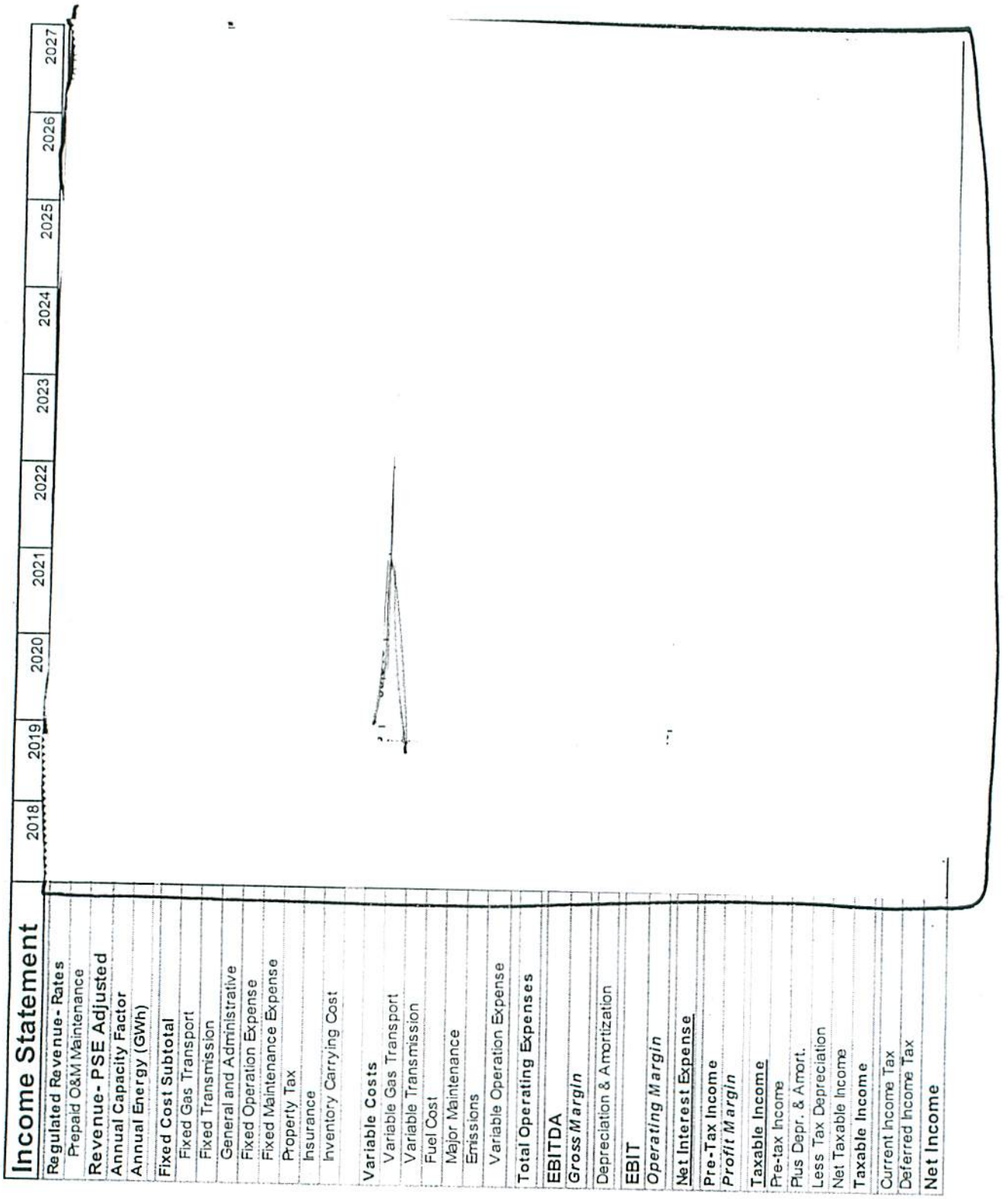
PSE Board of Directors
August 4, 2008

Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma



Income Statement	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Regulated Revenue - Rates										
Prepaid O&M Maintenance										
Revenue - PSE Adjusted										
Annual Capacity Factor										
Annual Energy (GWh)										
Fixed Cost Subtotal										
Fixed Gas Transport										
Fixed Transmission										
General and Administrative										
Fixed Operation Expense										
Fixed Maintenance Expense										
Property Tax										
Insurance										
Inventory Carrying Cost										
Variable Costs										
Variable Gas Transport										
Variable Transmission										
Fuel Cost										
Major Maintenance										
Emissions										
Variable Operation Expense										
Total Operating Expenses										
EBITDA										
Gross Margin										
Depreciation & Amortization										
EBIT										
Operating Margin										
Net Interest Expense										
Pre-Tax Income										
Profit Margin										
Taxable Income										
Pre-tax Income										
Plus Depr. & Amort.										
Less Tax Depreciation										
Net Taxable Income										
Taxable Income										
Current Income Tax										
Deferred Income Tax										
Net Income										

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Revenues:

Revenue Requirement: The Projection calculates revenues required to recover Facility costs, including return on assets included in the rate base, as well as fixed and variable operating expenses. Recovery of major maintenance expenses is calculated by dividing the total nominal cost of maintenance by the total generation of the Facility. This rate, calculated at $ 1.14 /MWh, is multiplied by the annual generation. Thus for the 20 year life of the Facility, both the major maintenance expense and the major maintenance recovery equal $ [redacted] million, but on a year-to-year basis, PSE may under collect or over collect. This methodology is consistent with that used on the Frederickson 1 and Goldendale combined cycle plants.

The revenue requirement calculation assumes complete cost recovery and no regulatory lag. At the same time as its rate recovery filing, PSE may ask for an accounting order to defer costs from Closing until completion of the rate case, so as to minimize regulatory lag.

Annual Capacity Factor: The Projection uses the AURORA model in its "Current Trends" scenario as developed for the 2008 RFP Phase II to derive plant capacity factor. The 20 year average capacity factor is 31%. The underlying gas price projection for 2009 through 2013 uses a three month (February 2008 – April 2008) average of forward market gas prices for the five-year strip. The gas price projection in 2014 through 2027 is the same as used in the "Current Trends" scenario of the 2007 RFP Phase II evaluation. Dispatch related (variable) costs from the Projection drive the dispatch decision, which compares the marginal cost to fire the plant to the market price for power. If the plant is "in the money" during a given hour, it will dispatch at full capacity. Market power prices are calculated using PSE's Aurora model. The Projection also takes into account forced outage rates, estimated at 2.5% in AURORA.

Annual Energy: Annual Energy is equal to the Net Capacity Factor multiplied by the Capacity multiplied by 8760 (365 x 24) hours.

Fixed Costs:

Inflation: Both fixed and variable costs are escalated over time by using Global Insight's projected inflation. Global Insight is a well respected firm providing macro economic data to the power industry and is also used in PSE's IRP and load growth estimations. Global Insight's inflation projection is as follows:

Year	Annual Inflation	Inflation Factor	Wage Inflation	Wage Inflation Factor
2008				
2009				
2010				
2011				
2012				
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				

Fixed Gas Transportation: The Facility is an exclusive natural gas facility. Distillate back-up is not an option and there is no on-site fuel storage. Gas and transportation requirement is [redacted] MMBtu/day for 260 MW baseload and up to [redacted] MMBtu/day for the additional 37 MW of duct-fire and supplemental capacity. The Facility is interconnected to the Northwest Pipeline ("NWP") system by Cascade Natural Gas's ("Cascade") distribution system. Through Cascade's connection to NWP, the Project has the potential to access gas from British Columbia (via NWP), the Rockies (via the proposed Sunstone Pipeline and NWP's Blue Bridge expansion) or Alberta (via NOVA, Foothills, GTN and NWP's Blue Bridge market expansion). The Facility does not hold any long-term firm transportation rights on NWP's interstate pipeline. Upon PSE ownership, this resource would be integrated into PSE's rolling three-year supply hedging program.

In the near term, the Facility would be served with a combination of

excess PSE gas book capacity and discounted capacity from British Columbia (2-3 years). For the longer-term, additional capacity would be required, which for this Projection is assumed to be Sumas gas, supplied through an assumed expansion of the Northwest Pipeline.

	Fixed Gas Transport	2009	2020
A	Firm Gas Capacity (MMBtu/d)	[redacted]	[redacted]
B	Firm Gas Demand Charge ($/MMBtu)	$ 0.47	$ 0.60
C	Dispatching Services Charge	$ 6,000	$ 6,000
	Total Fixed Gas Transport Expense (A * B) * 365	**$ 8,899,752**	**$ 11,359,726**

Demand Charge is estimate of Interstate Pipeline Rate + Cascade Rate

Fixed Transmission:

Transmission from the Facility to PSE's service territory has one transmission wheel:

1) 293 MW from BPA Longview to PSE Central Contiguous (contract term 2008-2028 plus renewal rights). Short term firm and non-firm transmission will be used for generation in excess of 293 MW.

All transmission expenses are escalated annually at Global Insight's projected inflation rates. Below is a breakdown of all fixed transmission costs for 2009:

	Fixed Transmission Details	$ / kW year	2009 Expense
A	BPA PTP ($ / kW Month)	$ 15.66	$ 4,587,518
B	BPA Schedule ($ / kW Month)	$ 2.45	$ 717,462
C	BPA Reactive ($ / kW Month)	$ 0.05	$ 14,137
	Total Fixed Transmission Cost	$ 18.2	$ 5,319,117

Current Rates expire 9/30/09- Expense shown assumes escalated rate for Q4

Fixed Operations Expense:

Operations expenses are shown below for a typical operating year. These expenses are escalated annually at Global Insight's projected inflation rates.

Fixed Operations Expense	2009

Fixed Maintenance Expense:

Operations expenses are shown below for a typical operating year. These expenses are escalated annually at Global Insight's projected inflation rates.

Maintenance Expenses	2009

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Property Tax: The Washington Department of Revenue ("DOR") combines three methods to arrive at PSE's annual tax on personal property, two of which involve evaluating PSE's market value based on stock price and PSE's earnings, respectively. Since it is not possible to estimate PSE's future financial or stock performance, the method used in the Projection applies DOR's discount factor approach which divides PSE assessed value of personal property by the original book value. The result is an annually varying discount factor, set at 46% for personal property in the Projection.

The personal property tax is calculated by multiplying this discount factor by the Cowlitz County estimated mil rate of $10.79 per $1,000 of assessed value. The real property tax is calculated by multiplying Cowlitz County's real property adjustment of 84% by the mil. The acquisition cost of $240,690,000 is estimated to be comprised of $216,621,000 (90%) in personal property and $24,069,000 (10%) in real property.[1]

Property is assessed on December 31st, with payment due the following year in two equal installments, in the months of April and October. The Projection illustrates property taxes on an accrual basis, consistent with PSE's accounting practices.

Cost calculation for a typical year:

Real Property	$	24,069,000
Cowlitz Cty Real Property Adjustment		84%
Cowlitz Cty Prop Tax Mil Rate ($ / $1000)	$	10.79
Real Property Tax	$	217,871
Personal Property	$	216,621,000
PSE Centrally Assessed Personal Property Discount Factor		46%
Cowlitz Cty Prop Tax Mil Rate ($ / $1000)	$	10.79
Personal Property Tax	$	1,077,624
Total Property Tax	**$**	**1,295,495**

Insurance: PSE would add the Facility to its permanent property insurance program with an insured replacement value of $196 million. The deductibles will be $2.5 million for the combustion turbine, $1 million

[1] This allocation results from the inclusion of most of the major equipment into the personal-property category. This characterization is consistent with PSE's treatment for its other combustion facilities.

for combined all risk, and $1 million or 2% of the total insurable value of each location involved in a loss, whichever is greater, for earth movement coverage. The estimated insurance rate in 2009 is at a premium of [redacted] per $100, for the first three months under the existing policy at a rate of [redacted] per $100 and under PSE's permanent insurance program at a rate of [redacted] per $100. Additionally, PSE projects a $10,000 increase in premium by its excess general liability carrier for the new plant. Both costs are escalated with Global Insight's predicted inflation.

Insurance Expense	2009
Insured Value	$
Premium Per $100 of Insured Value	$
General Excess Liability	$
Total Insurance Expense	$

Inventory Carrying Cost: Inventory Carrying Cost covers the expense of holding major component parts and Balance of Plant ("BOP") items in inventory.

Personnel: There will be 26 full time employees ("FTEs"):

Plant (21 FTEs)
One (1) Plant Manager
One (1) Supervisor - O&M
One (1) Operating Clerk
Two (2) CT Technician
Twelve (12) CT Journey worker VI
Two (2) Apprentice
One (1) Planner
One (1) Plant Engineer-Consulting

Corporate Support (5 FTEs)
One (1) ERG Analyst
One (1) Engineering Specialist
One (1) Compliance Staff
One (1) Warehouse Staff
One (1) IT Consultant SAP CMMS

Variable Costs:

Variable Gas Transportation: Variable gas transportation is charged based on the quantity of gas (measured in MMBtu) actually used and has three components.
1) Fuel Adder: The value of the gas that PSE must give to Cascade and NWP to compress and move PSE's gas. It is expected to be 2.4% for the life of the Facility.
2) Commodity Charge: This is the variable component of the NWP tariff. This charge is escalated at Global Insight's projected inflation.
3) Use Tax: A Washington State tax charged on the Average Fuel Cost expected to be 3.852% for the life of the Facility.

Cost calculation for a typical year:

	Variable Fuel Transport Details	2009
A	Gas Use (MMbtu/year)	
B	Fuel Adder of 2.4% ($/MMBtu)	
C	Commodity Charge, ACA, GRI ($/MMBtu	
D	Use Tax on Gas of 3.852% ($/MMBtu)	
	Total Variable Fuel Transport A * (B+C+D)	

Variable Transmission: Variable transmission costs are comprised of four components as described below. If Mint Farm is brought into the PSE control area, the cost of these services will no longer be based on BPA tariff rates, but would rather be based on PSE's overall portfolio costs for variable transmission.
1) Energy Imbalance: The cost of providing or taking the energy difference between the scheduled and the actual delivery of energy over a single hour. Surplus energy is sold to BPA at market minus a premium; short energy is purchased from BPA at market plus a premium. The actual premium depends on the severity of the imbalance.
2) Spinning Reserves: The cost to serve load immediately in the event of a system contingency.
3) Supplemental: The cost to serve load within a short period of time in the event of a system contingency.
4) Losses: The cost of the power lost due to resistance in transmission lines. Losses are purchased from BPA.

Cost calculation for a typical year:

Variable Transmission Details		2009
Energy Imbalance ($/MWh)	$	36,302
Spin / Sched Var ($/MWh)	$	201,514
Suppl / React Var ($/MWh)	$	201,514
Losses ($/MWh of losses)	$	827,694
Variable Transmission	$	**1,230,722**

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Fuel Cost:

Fuel expenses are calculated by multiplying the applicable Facility Output by the applicable Facility Heat Rate by the fuel price and by the estimated operating hours per year. Fuel prices are based on monthly estimates from the October 2007 Global Insight projection. Fuel expense is a function of plant capacity factor, and the associated annual dispatch rates are calculated using AURORA. The underlying yearly average gas price forecast and fuel expenses are as follows:

Year	Avg. Annual Fuel Cost ($ / MMBtu)	Fuel Expense
2008		
2009		
2010		
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		

Major Maintenance:

Major Maintenance expense is the cost of part refurbishment, labor, crane rental and consumable items. The Facility includes an existing Long Term Service Agreement ("LTSA") with General Electric that provides for service through total operation of approximately 96,000 fired hours. PSE would like to convert the LTSA to a Contractual Service Agreement ("CSA") similar to the one the Company has for its Goldendale facility and, as such, the proforma models a CSA approach. Over the 20 year horizon of the Projection, the average major maintenance expense rate is $ per MWh.

In a CSA like Goldendale's, the fee structure is made up of three components. The first is a monthly fee for current maintenance. The second is a variable fee for major maintenance tied to run hours of the

generator, which is made as prepayments for the major maintenance work. The third type of payment is also tied to the run hours of the generator and paid on 24,000 hour intervals when the major maintenance occurs. The monthly fees for current maintenance are expensed as paid. The portion of the variable fees associated with capital component of major maintenance is debited to a prepaid asset when paid. The payments for capital parts are recorded as inventory and transferred to capital when the work is completed. The O&M portion of the variable payments will debited to a prepaid asset as paid and expensed at the time the work is completed.

Emissions: Emissions costs reflect the purchase of NO_x and SO_2 allowances and, starting in 2012, CO_2 emission allowances presuming that the Facility is not "grand-fathered" into free allowances. The costs of emissions allowances in 2012 are as follows.

Emissions	2013 $ / T	2013 Annual Payment
Carbon Dioxide (CO_2)	$ 11	$ 5,620,577
Nitrous Oxides (NO_x)	$ 349	$ 18,650
Sulfur Dioxide (SO_2)	$ 1,149	$ 512
Total Emissions Expense		$ 5,639,739

Variable Operations: The variable operating costs for a typical year are as follows. The costs are escalated using Global Insight's projected inflation.

Variable Operations Expense	2008
Cowlitz PUD- Electric generation	
Wastewater	
Water	
Chemicals	
Total Variable Operations	

EBITDA: Earnings before interest, taxes, depreciation and amortization ("EBITDA") are calculated as revenues less all expenses.

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Depreciation and Amortization:

The Projection assumes the following depreciable lives for book and tax purposes.

	Book Depreciation	Tax / MACRS	
Turbine & Equipment	29	20	MACRS
Transmission line	29	15	MACRS
Fuel Nzls / Trans Pcs / Cap	29	20	MACRS
Liners	29	20	MACRS
1&2 Stg Shrouds / Nozzles	29	20	MACRS
3rd Stg Shrouds / Nozzles, All Buckets	29	20	MACRS
Structures	29	20	MACRS
Land	NA	NA	
Gas Transport	29	13	SL

Major parts for the combustion turbine (items or sets of items greater than $500,000 in 2008 dollars) are capitalized and depreciated over the remaining book life of the plant, which is 29 years. All new capital expenditures will be capitalized over the remaining book life, until the Company's next depreciation study which will determine book depreciation going forward.

EBIT: Earnings before interest and taxes are equal to EBITDA less Depreciation and Amortization.

Interest Expense: Interest Expense is calculated based on PSE's mid-year pro forma rate base multiplied by the assumed debt percentage in the capital structure. This method is consistent with conventions used by regulated utilities. The Projection assumes a rate of return of 8.40% and a debt percentage of 56% at a weighted pretax cost of 6.82%.

Pretax Income: Pretax income is equal to EBIT less Interest Expense.

Net Taxable Income: Net Taxable Income is equal to Pretax Income plus Book Depreciation and amortization, less Tax Depreciation.

Income Taxes Paid: Income Taxes paid are calculated as Net Taxable Income multiplied by the Federal corporate income tax rate of 35%.

Deferred Income Taxes: Deferred Income Taxes are calculated as the difference between book and tax depreciation expenses multiplied by the Federal corporate income tax rate of 35%.

PSE Board of Directors
August 4, 2008

Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

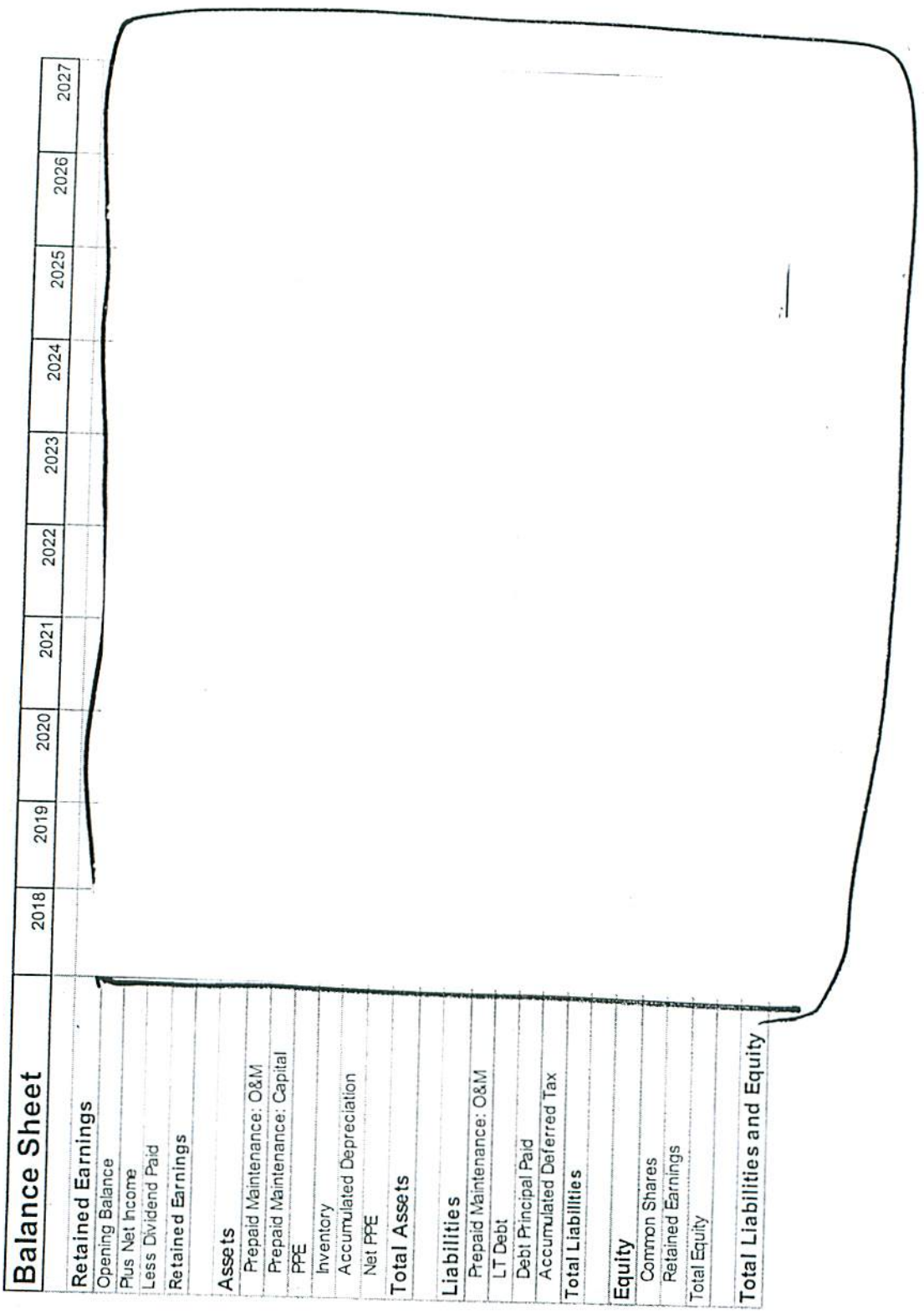
Balance Sheet – Assumptions

Balance Sheet	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Retained Earnings										
Opening Balance										
Plus Net Income										
Less Dividend Paid										
Retained Earnings										
Assets										
Prepaid Maintenance: O&M										
Prepaid Maintenance: Capital										
PPE										
Inventory										
Accumulated Depreciation										
Net PPE										
Total Assets										
Liabilities										
Prepaid Maintenance: O&M										
LT Debt										
Debt Principal Paid										
Accumulated Deferred Tax										
Total Liabilities										
Equity										
Common Shares										
Retained Earnings										
Total Equity										
Total Liabilities and Equity										

REDACTED VERSION

PSE Board of Directors
August 4, 2008

Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma



Balance Sheet	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Retained Earnings										
Opening Balance										
Plus Net Income										
Less Dividend Paid										
Retained Earnings										
Assets										
Prepaid Maintenance: O&M										
Prepaid Maintenance: Capital										
PPE										
Inventory										
Accumulated Depreciation										
Net PPE										
Total Assets										
Liabilities										
Prepaid Maintenance: O&M										
LT Debt										
Debt Principal Paid										
Accumulated Deferred Tax										
Total Liabilities										
Equity										
Common Shares										
Retained Earnings										
Total Equity										
Total Liabilities and Equity										

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VERSION

Retained Earnings:	Retained Earnings are calculated as the previous year's Retained Earnings balance plus Net Income, less Dividends Paid. The balance sheet contains no line items for cash or short-term debt, and the Projection assumes that any cash shortfalls or surpluses are financed with debt.
Asset: Prepaid Maintenance: O&M	PSE pays a variable fee for major maintenance tied to run hours of the generator. This fee is paid annually and represents a prepayment for future major maintenance expense. When the major maintenance occurs, the prepaid asset is reduced by the accumulated amount PSE prepaid for the service.
Asset: Prepaid Maintenance: Capital	PSE pays a variable fee for major maintenance tied to run hours of the generator. This fee is paid annually and represents a prepayment for future major maintenance capital parts. When major maintenance occurs, the prepaid asset is reduced by the accumulated amount PSE prepaid.
Property Plant and Equipment:	For book purposes, the value of the plant reflects capitalization of all Facility capital costs.
Inventory:	Inventory captures the value of major component parts and Balance of Plant ("BOP") items.
Liability: Prepaid Maintenance: O&M	PSE collects from customers annually the expense portion of the variable fee for major maintenance. These revenues are deferred in a prepaid liability account and are reversed when the major maintenance occurs to match the timing of revenues with expense.
Long Term Debt:	Based on a capital structure of 56% debt at a long-term rate of 6.82%, PSE will incur new long-term debt obligations. Consistent with regulated utility modeling methods, debt is repaid in a fashion that allows the Projection to maintain PSE's equity/debt split on the Balance Sheet throughout the life of the Facility. This is accomplished by equating debt payment to the sum of depreciation, deferred tax, and working capital multiplied by the PSE debt percent.
Accumulated Deferred Taxes:	Accumulated Deferred Taxes is calculated as the deferred tax balance from previous year plus/less the deferred tax balance from current year.
Common Shares:	Common Shares is the cumulative capital contributions from equity holders.
Total Shareholders' Equity:	Total Shareholders' Equity is calculated as the Common Shares balance plus/less Retained Earnings balance.

PSE Board of Directors
August 4, 2008

Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma

Cash Flow – Assumptions

Cash Flow	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating Cash Flow										
Net Income										
O&M Major Maintenance - Customers										
O&M Major Maintenance- GE										
Depreciation										
Deferred Taxes										
Changes in Current Accounts										
Total Operating Cash										
Investment Cash Flow										
Capital Investment in Plant										
Investment-Pre-Paid Asset										
Total Investment Cash										
Financing Cash Flow										
New Equity										
New Debt										
Total Financing Cash										
Net Cash Flow / Max Dividend										

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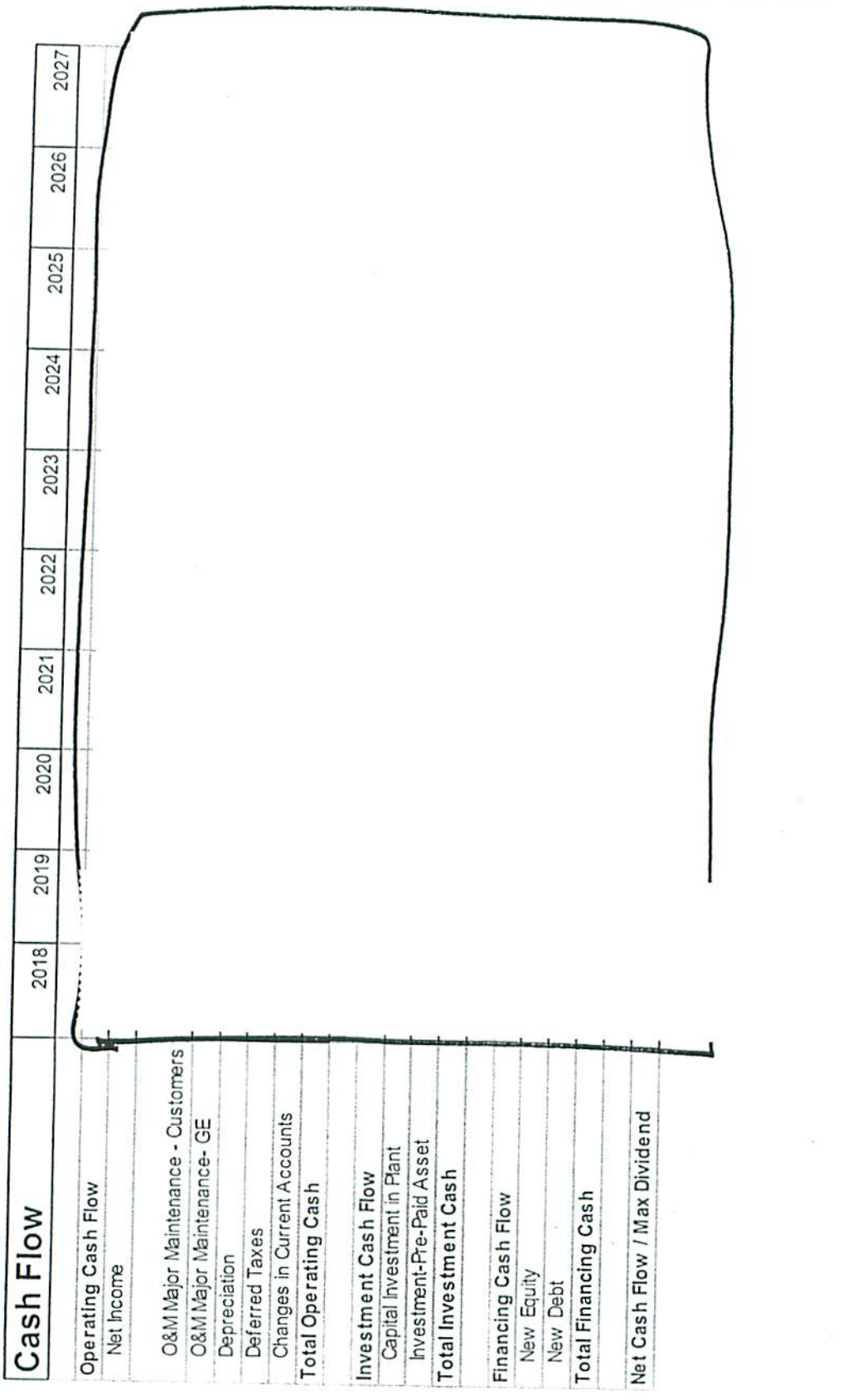
PSE Board of Directors
August 4, 2008

Exhibit 5, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma



Cash Flow	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Operating Cash Flow										
Net Income										
O&M Major Maintenance - Customers										
O&M Major Maintenance- GE										
Depreciation										
Deferred Taxes										
Changes in Current Accounts										
Total Operating Cash										
Investment Cash Flow										
Capital Investment in Plant										
Investment-Pre-Paid Asset										
Total Investment Cash										
Financing Cash Flow										
New Equity										
New Debt										
Total Financing Cash										
Net Cash Flow / Max Dividend										

REDACTED VERSION

Operating Cash Flow:	Operating Cash Flow is calculated as the sum of After Tax Net Income and depreciation from the Income Statement plus the change from the previous year in Deferred Taxes and working capital balance from the Balance Sheet.
O&M Major Maintenance: Customers	PSE collects from customers, annually, the variable fee for O&M major maintenance tied to run hours of the generator. This is added to the Net Income as the revenue collected from customers for the variable fee is deferred and therefore not included in the Net Income until the major maintenance event occurs.
O&M Major Maintenance: GE	PSE pays GE the CSA variable fee for major maintenance expense, which is tied to run hours of the generator. This fee is paid annually with the cash collected from customers. This is subtracted from Net Income because the associated expense is deferred until the major maintenance work is completed.
Investment Cash Flow:	Investment Cash Flow is calculated as the capital expenditures net of any gain/loss on investments.
Investment Prepaid Asset:	PSE pays GE the CSA variable fee for the capital portion of major maintenance, which is tied to run hours of the generator. This fee is paid annually for future major maintenance work and is paid before cash is collected from customers. Once the capital work is completed, the capital is booked to plant and placed into rate base.
Financing Cash Flow:	Cash from Financing is cash received from/paid to debt holders, and cash received from equity holders. Debt is repaid in a fashion that allows the Projection to maintain PSE's capital structure ratio on the balance sheet throughout the life of the Facility. This is accomplished by equating debt payment to the sum of book depreciation, deferred tax, and working capital, multiplied by the debt percent assumed for PSE's capital structure.
Max Dividend:	All available Cash from Operations is distributed to equity holders net of the debt repayment. This cash distribution methodology results in the Projection showing negative cumulative retained earnings.

Comparative Analysis
(2008 RFP Evaluation)

PUGET SOUND ENERGY
The Energy To Do Great Things

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RFP Results - Final Selections*

Final Short List

Project	Owner /Developer	Location	MW	Levelized Cost $/MWh	Portfolio Benefit $MM	Benefit Ratio	Status	Commercial Operation Date
			200		$49.31	0.50		
			50		$158.30	0.36		
Mint Farm Energy Center CCCT (ownership)	Wayzata Investment Partners	Longview, WA	310		$44.97	0.05	Operating	2009
Fixed Price PPA, 4-year, winter, ATC	Barclays Bank PLC	n/a	25-275*		$39.97	0.30	ATC	11/1/2011 to 3/31/2015

REDACTED VERSION

Continuing Investigation List

Project	Owner /Developer	Location	MW	Levelized Cost $/MWh	Portfolio Benefit	Benefit Ratio	Status	Commercial Operation Date
					$111.36	0.32		
					$21.90	0.03		
					$145.48	0.10		

*Does not include PSE development projects that did not come through the RFP projects.

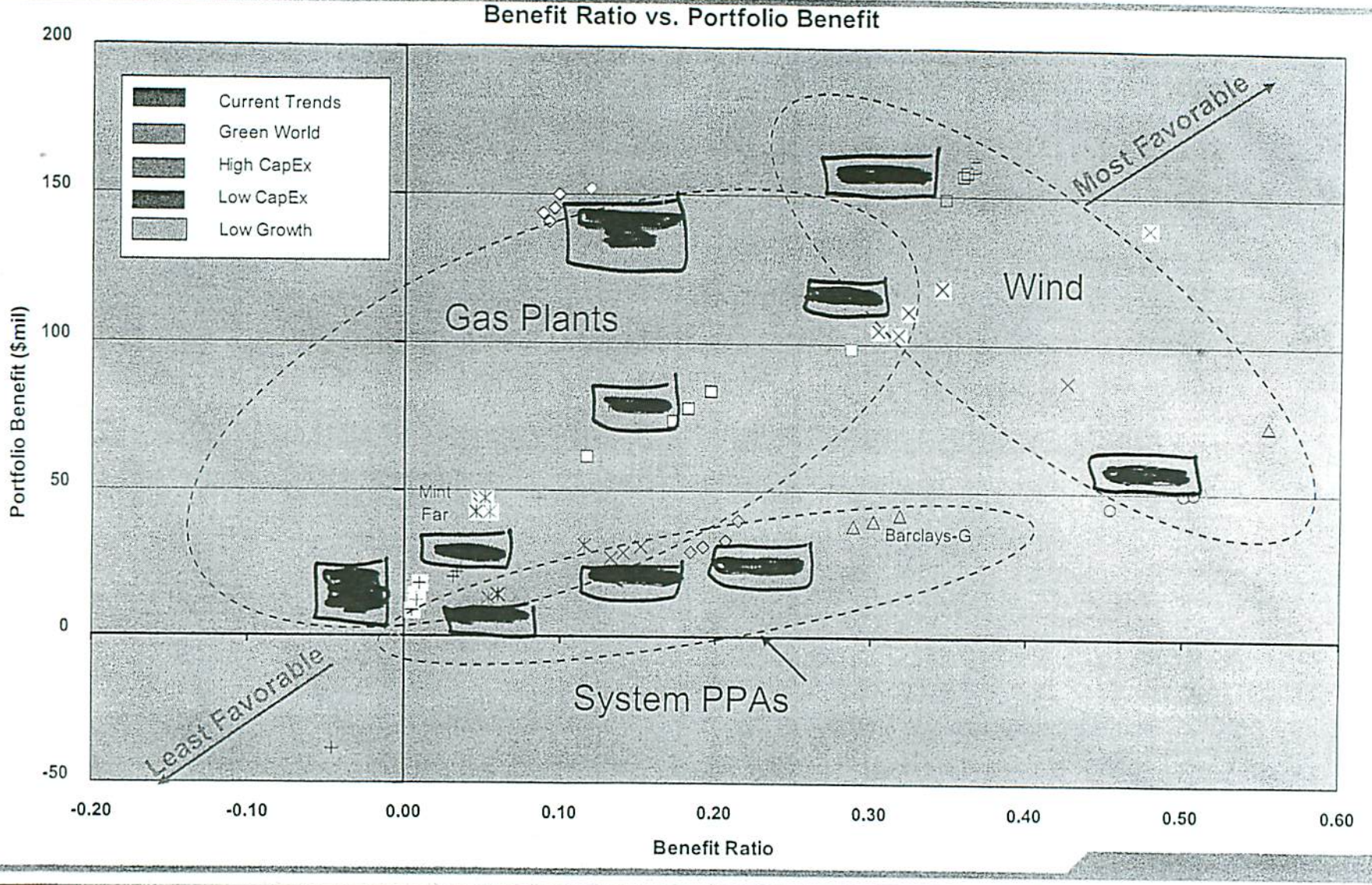
Market Observations

- 2008 RFP produced fewer proposals with less resource diversity than past RFPs
- New build capital costs continue to rise
- Proposal expirations warrant moving quickly
  - RFP offers began expiring in May 2008
  - Competing RFPs in the Pacific Northwest
  - Competition from California for renewable resources (20% by 2010)
  - Price pressure
- Capacity market is tightening
- More wind power purchase agreements (PPAs) versus ownership opportunities
- Wind offers predicated on extension of Production Tax Credits
- Regional transmission solutions for some projects

Key Takeaways

- Quantitatively, everything on the Phase I Candidate Short List evaluated favorably
- Qualitative analysis of risks and benefits complements the quantitative evaluation
- Projects selected for the Final Short List are executable and minimize risk

All projects are favorable, need to look at risk



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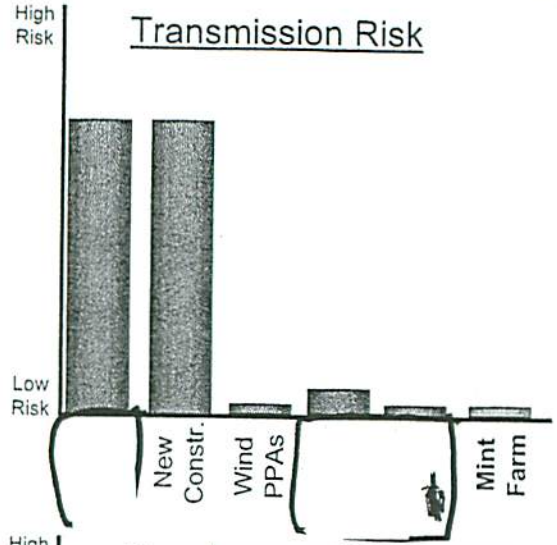
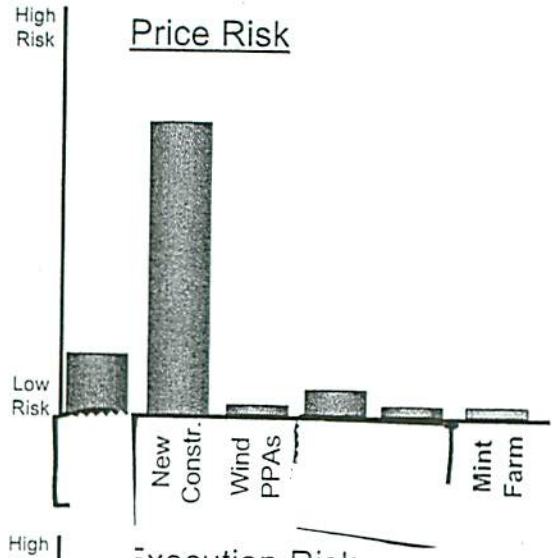
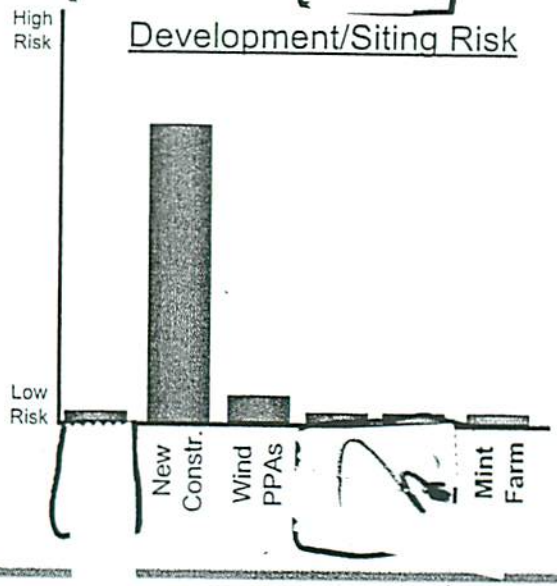
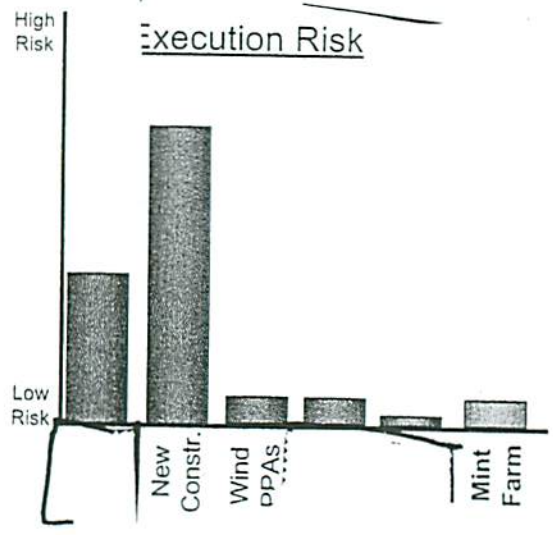
Qualitative Evaluation – Key Risks









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Qualitative Evaluation – Natural Gas

Project/Counterparty	Price/Commercial Risk	Development/Siting Risk	Transmission Issues	Execution Risk	Operational Flexibility
[redacted]	[redacted] · Pricing is attractive · Gas supply is BC with no alternative option Low capacity factor - project	· Project is fully operational	· Requires [redacted] a new interconnection request · Directly connected to PSE's system	[redacted]	· Dispath less frequently than 7FAs Potential to provide load following or other ancillary services, reliability to system?
	· Trade floor has concern about complexity of structure, may be difficult to dispatch appropriately · Price is difficult to model appropriately · PSE pays for transport and maintenance with no optimization benefit. May be some flexibility in this but	· Project is fully operational	[redacted] has indicated that they can deliver to PSE BUT, premium for seasonal transmission has not been determined.	· Agreement could be put in place but would require further negotiation of gas transport, transmission and other pricing modifications May require credit support	· No intrahour dispatchability which will be necessary for wind integration No ability to control resource, required 50% capacity factor
	· Dual fuel capability makes firm gas transport unnecessary · Some price uncertainty given exchange rates and inflation · Requires PSE to perform	· Potential concerns around air permitting possibilities in Tacoma non-attainment area	· Economics assume PSE interconnection/ transmission	· Internal PSE resources will be stretched to evaluate project before deadline · Would require PSE development	· Flexibility is best in class · But PSE needs to better understand and value the wind following flexibility
	· Lack of clarity around how option payments would be secured during option period · Some price uncertainty due to inflation	· No firm transportation held on [redacted] could use gas book to supply [redacted] but would need an additional [redacted] MMBtu/d (w/duct fire)	· Transmission not likely to be available until 2015 at earliest	[redacted] · Concern about counterparty ability to provide security	· Dispachable resources to meet PSE's need provide intrahour flexibility
834 Mint Farm CCCT	· Some post acquisition preventative maintenance required · GE O&M agreement can be cancelled for nominal fee · GE LTSA can be	· No firm transportation held on Northwest Pipeline; could use gas book to supply requirements until 2012 · 3 Solutions for Cascade transport	· 293 MW to PSE Contiguous	· Due diligence in advanced stages	· Dispachable resources to meet PSE's need provide intrahour flexibility

REDACTED VERSION

Qualitative Evaluation - Wind

Project/Counterparty	Price/Commercial Risk	Development/Siting Risk	Transmission Issues	Execution Risk
[redacted]	· Some possibility for co-ownership but not likely · PPA price attractive	· GEC analysis reduced net CF to [redacted] · Late stages of development but not permitted.	· Interconnection request approved · Transmission request in top of queue, likely approval	[redacted] planning to use Clipper turbines. Tech risk would be mitigated in a PPA however.
[redacted]	· Turbines not allocated to project for 09 · PSE's interest in project would influence turbine allocation	· Some analysis remaining to understand P99 percentage of P50 · GEC reduced Net CF to [redacted]	· Transmission requests at top of queue and likely. · Interconnection also likely or usage of [redacted] interconnection	· Turbines not yet selected but eventual choice will be important given the prepay structure
[redacted]	· Project 1 has been pulled from the list of possibilities			

Legend
Favorable Status
Some Risk
Substantial Risk

REDACTED VERSION

Appendix

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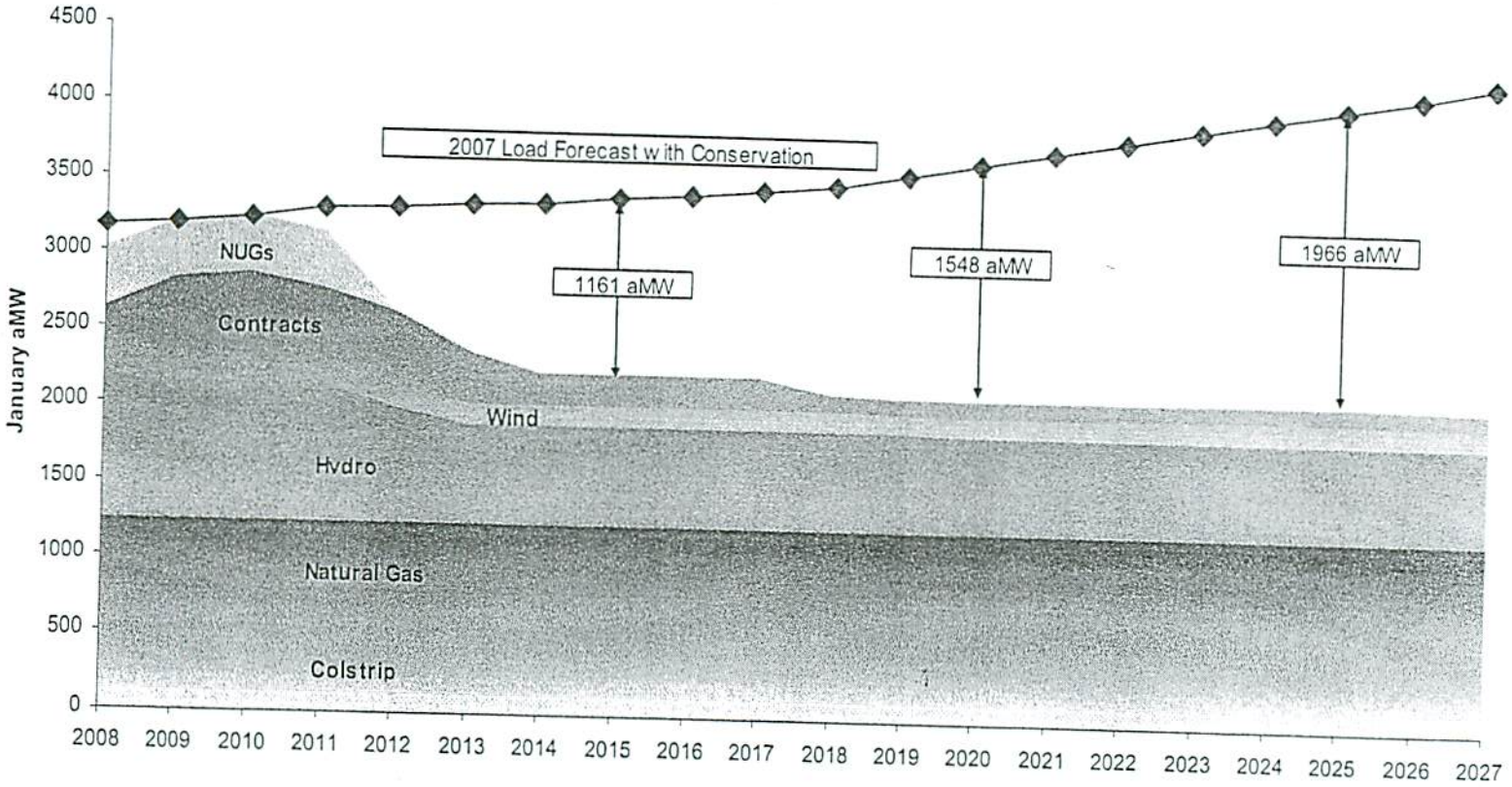
Appendix

- RFP Process
  - Phase I
    - Qualitative
    - Quantitative
    - Candidate Short List
  - Phase II
    - Qualitative
    - Quantitative
    - Short List

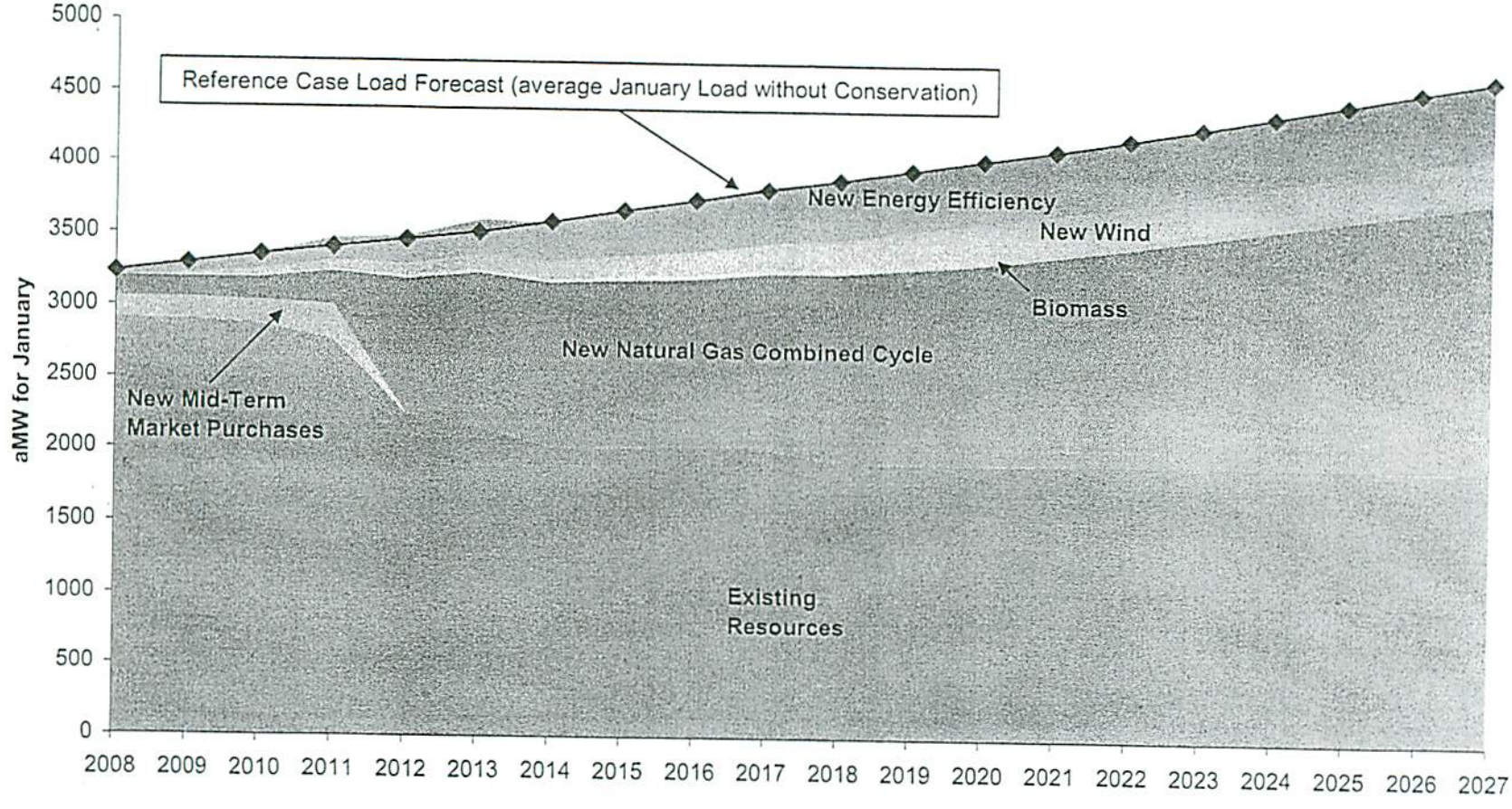
PSE has a significant energy need

Draft as of 1/07/08



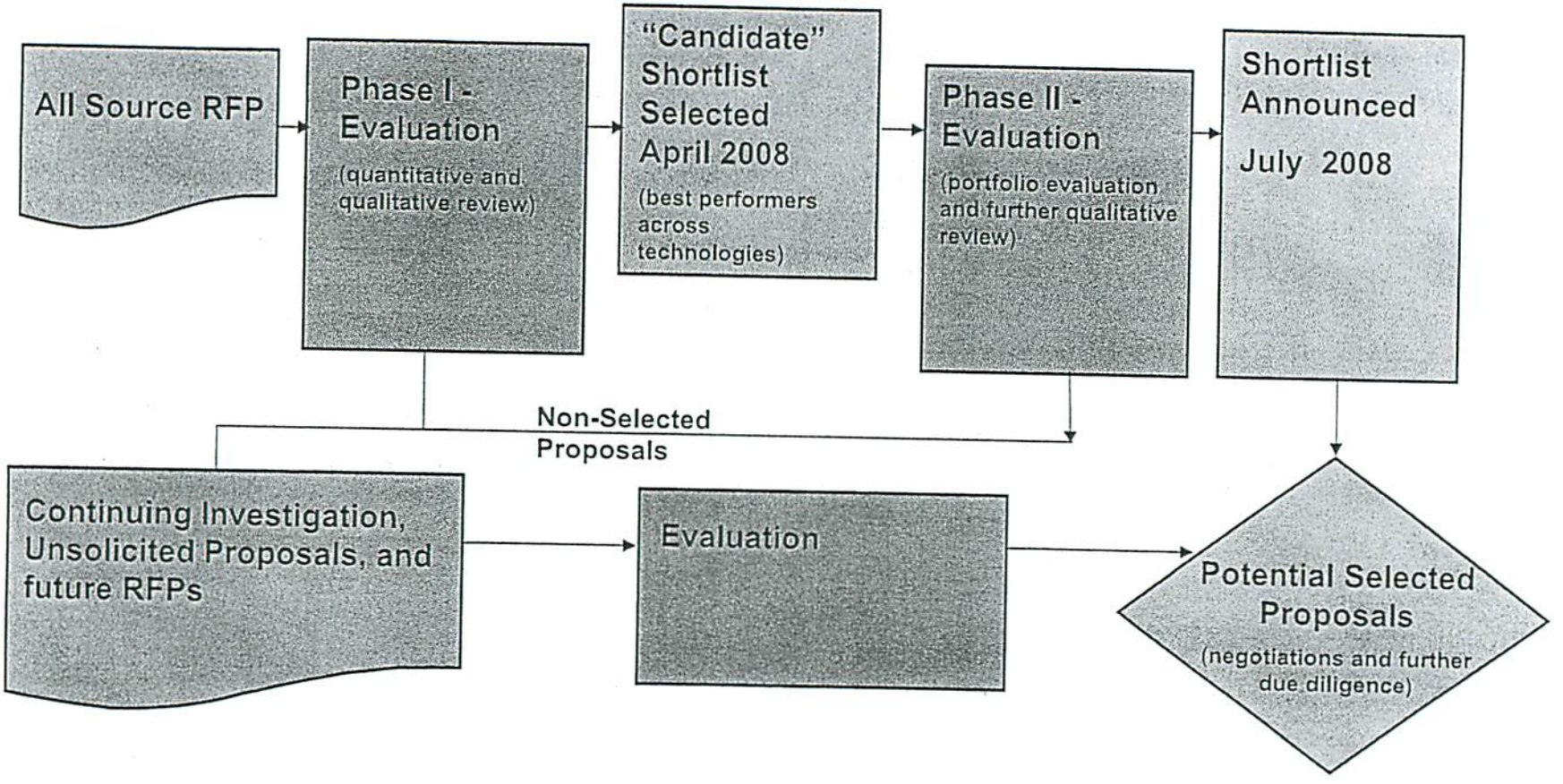
*Energy need after conservation, includes new contracts, new wind and hydro shapes, and Sumas

Our resource strategy calls for renewables and gas



*Lowest Reasonable Cost Resource Portfolio, from May 2007 Integrated Resource Plan

2008 RFP Evaluation Process



Quantitative Review

Phase 1

Phase 2

All Bids Evaluated– Initial Bid Screen

- Portfolio Benefit
- Benefit Ratio
- Levelized Cost

Candidate Short List Identified

Best performers across technologies

Candidate Short List

- Projects
- Contracts
- Emergent Opportunities

Portfolios, Existing Plant plus

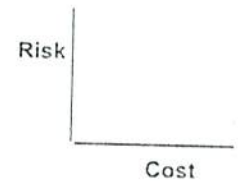
- All Generic
- Individual Resource
- Combination of candidates

Portfolios Tested Against Different Risk Scenarios

- Current Trends Scenario
- Green World Scenario
- Low Growth Scenario
- Low Technology Cost Scenario
- High Technology Cost Scenario

Monte Carlo Simulation Evaluates Cost and Risk of Each Candidate and Several Combinations

Short Listed Respondents Will Be Thoroughly Evaluated



Candidates by Scenario

- Portfolio Benefit
- Benefit Ratio
- Levelized Cost

Quantitative Analysis Tools

- AURORA

  PSE uses the AURORA model to forecast long-term power prices. The forecast is updated periodically to reflect changes in resource costs, natural gas prices, coal prices, and energy policies both at the national and state levels. Ultimately these changes will affect the long-term regional generation resource supply, both in magnitude and resource mix.

- KWI

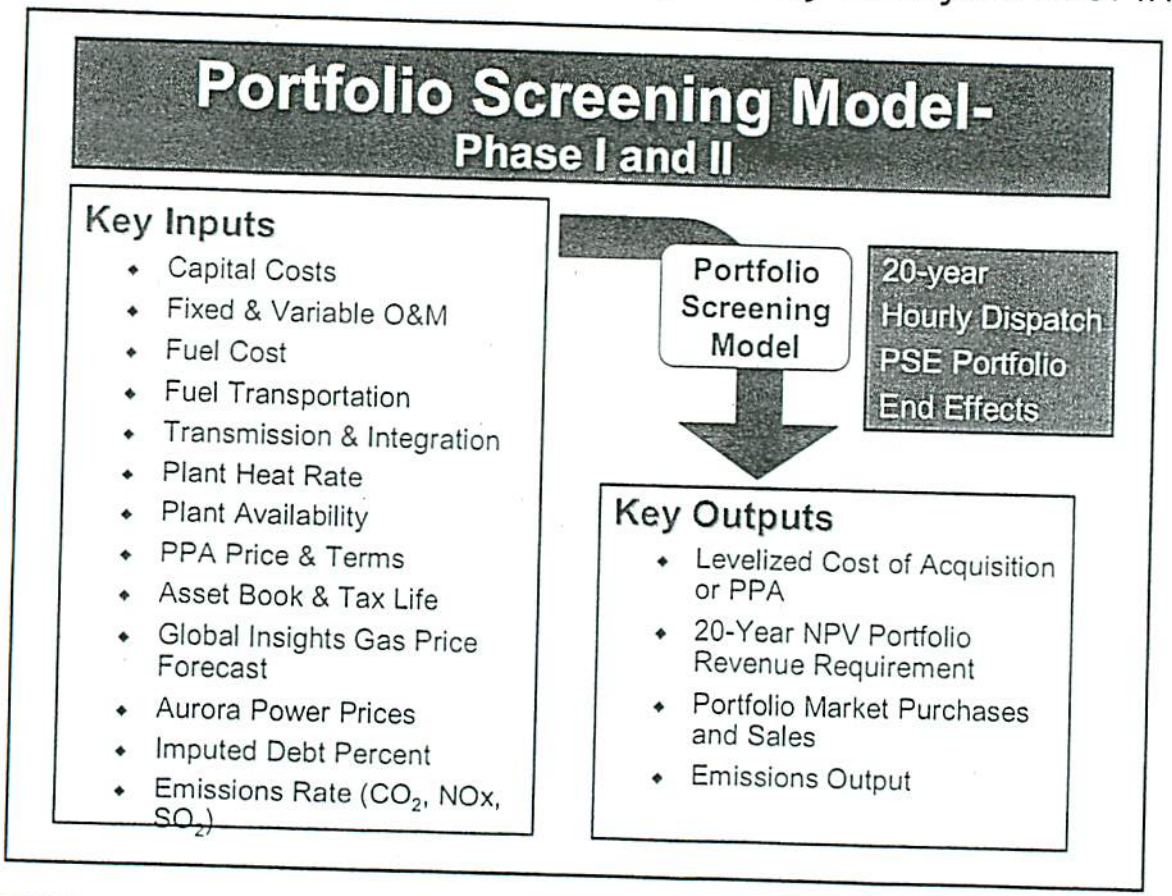
  PSE's Energy Risk group assisted in the RFP evaluation and used the KWI Model to forecast portfolio risk in the one month to three year time frame. KWI was used to evaluate quantitative risk of short-term system PPAs

- Portfolio Screening Model (PSM)

  (see following slide)

Quantitative Analysis Tools, cont.

- **Portfolio Screening Model** (PSM) is a proprietary model built for PSE and designed to simulate 20-year dispatch and the resulting levelized and portfolio costs. PSM was the primary analysis tool in the RFP.



Analysis Method - Phase I

Interdisciplinary team - PSE employees

- Business / Commercial
- Quantitative
- Technical / Operations
- Transmission & Integration
- Fuel Supply
- Environmental
- Real Estate
- Community Impacts
- Credit, Finance and Accounting
- Legal
- Human Resources
- Information Technology
- Insurance

Evaluation Criteria

- Compatibility with Need
- Cost Minimization
- Risk Management
- Public Benefits
- Strategic and Financial

Analysis Methods – Phase II

- Information requests and more in-depth qualitative analysis was performed on the Candidate Short List of projects.
- Projects were analyzed in four additional PSM scenarios:

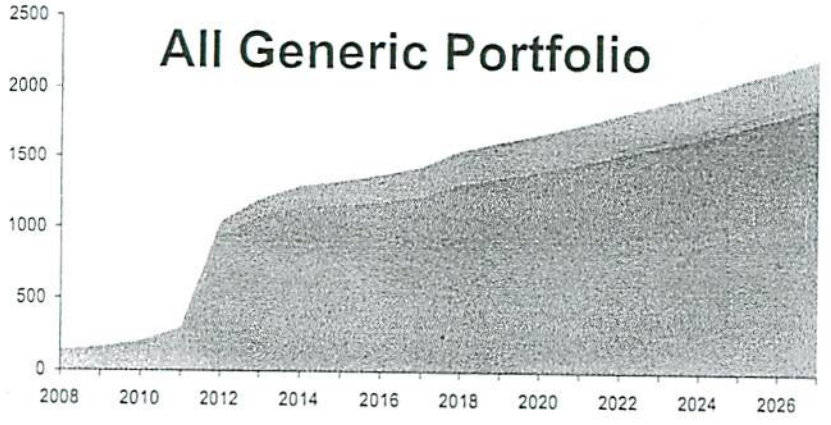
  Green World, High Capital Costs, Low Capital Costs, and Low Growth.
- Eight portfolios of projects were run in PSM to analyze their potential effect on each other.
- Monte Carlo (dynamic) analysis was used to evaluate risk by adjusting variables within PSM, including hydro and wind conditions.
  - Risk was evaluated as an average of the 10 worst trials from the 100 trials analyzed.

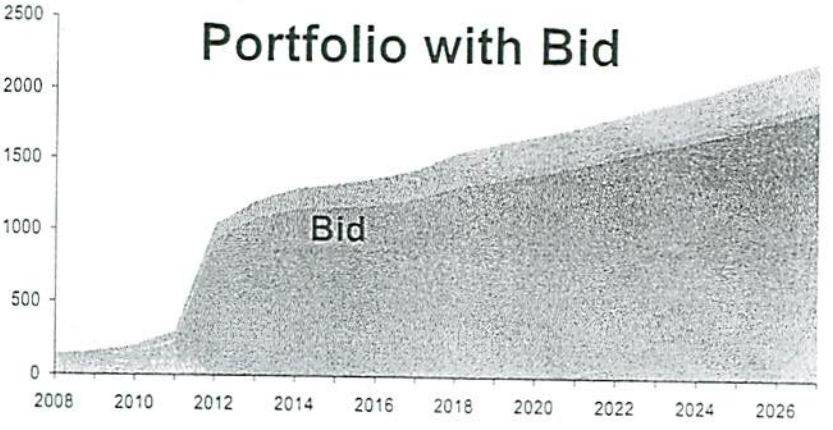
PSM Updates - Phase II

- Generic resource capital costs
  - Wind: ~$2,100/ kW (Phase I) to ~$2,764/ kW in 2010 (Phase II), based on PSE's market knowledge
  - CCGT: ~$1,000/ kW (Phase I) to ~$1,330/ kW in 2010 (Phase II), based on PSE market surveys of Engineering firms, IOUs, and CCGT Developers.
- Imputed Debt
  - S&P modified the way it assesses imputed debt to a PPA. The modification lowers imputed debt costs applied to PPAs.
- Aurora Fundamentals Electric Market Price Forecast runs
  - Updated with most recent forward gas prices forecasts
- O&M Costs for Wind
- BPA Wind Integration Transmission Tariffs
- Emissions logic in PSM

PSM Bid Evaluation Process

- Stand-Alone Analysis
- Portfolio Analysis
- RPS bids replace generic wind
- End-effects





Favorable characteristics:

- Winter energy matching need and hourly shape matching load
- Efficient dispatch with low variable cost of fuel and transmission
- Cost effective in price scenarios

PSM Scenarios Used in 2008 RFP Phase II

PSM Scenarios						
		Current Trends (Reference)	Green World	Low Growth	Low Capital Cost	High Capital Cost
PSE Demand w/ Cons		Base: 1.5%	Low: 1.3%	Low: 1.3%	Reference	Reference
Gas Price		Forward Marks for 2008-2012, and Global Insight's long run fundamental forecast	Forward Marks for 2008- and Global Insight's long run high forecast	Forward marks for and Global Insight's long run low forecast	Reference	Reference
Coal Price		Global Insight	Reference	Reference	Reference	Reference
Power Price		Current Trends (Reference)	Green World	Low Growth	Reference	Reference
Generic Resource Cost $/KW		PSE market based estimates with constant real costs for 20 years, Wind, CCCT and DF from private study	Reference	Reference	Wind and CCCT capital cost increasing at lower rate	Wind and CCCT capital Cost increasing at higher rate
Emissions (Nominal $/Ton)	CO2	Lieberman-Warner Bill (ICF) Start in 2013 2013: $10.88 2020: $19.83 2027: $37.51	Lieberman-Warner Bill (MIT) Start in 2013 2013: $46.19 2020: $72.25 2027: $113.01	Reference	Reference	Reference
	SO2	"Clear Skies" (Bush) Start in 2010 2010: $978 2020: $2105 2027: $3306	"Clean Air Planning Act" (Carper) 2010: $1481 2020: $3191 2027: $5009	Reference	Reference	Reference
	Nox	"Clear Skies" (Bush) Start in 2010 2010: $297 2020: $640 2027: $1006	"Clean Air Planning Act" (Carper) 2010: $5742 2020: $1522 2027: $1809	Reference	Reference	Reference
Production Tax Credits ($/MWh)		$20: 2008-2010 $10: 2011-2013 For all eligible technologies	Reference	Reference	Reference	Reference
RPS		Meet Current State RPS through 2027	Reference	Reference	Reference	Reference
REC Value ($/MWh)		2008: $6 2009: $7 2010: 10% 2011-2027: Increase at same rate as wind capital cost	Reference	Reference	Reference	Reference

- PSM scenarios are based on the 2007 IRP Report.
- Data in blue background was updated for RFP Phase II from the 2007 IRP values.

Quantitative Selection Metrics

Levelized cost is the average annual cost per MWh produced during a 20-year period + end effects for each project.

Portfolio benefit is the 20-year present value of all portfolio benefits + end effects derived from each project in comparison to the 2007 IRP generic portfolio.

Portfolio benefit ratio is the present value of portfolio benefits divided by the present value of the project revenue requirements

PSE Discount Rate 8.4%

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Phase I Qualitative Results – Projects & Project PPAs

Project Name	MW	Business & Commercial	Transmission	Tech / Plant Ops	Fuel Supply	Enviro	Real Estate	Insurance	Power Supply Ops	Credit	Selected?
WIND											
[redacted]											n/a
		HIGH	HIGH	LOW	Phase 2 - GEC Review	HIGH	MED	Neutral	MED	HIGH	selected
		LOW	LOW	LOW	Phase 2 - GEC Review	MED-LOW	MED-LOW	Neutral	LOW	LOW	not selected
		HIGH	HIGH	LOW	Phase 2 - GEC Review	MED	MED	Neutral	MED	HIGH	selected
		HIGH	HIGH	LOW	Phase 2 - GEC Review	MED	LOW	Neutral	MED	HIGH	selected
		HIGH	MED	LOW	Phase 2 - GEC Review	MED	LOW	Neutral	MED	HIGH	not selected
		HIGH	HIGH	LOW	Phase 2 - GEC Review	MED	LOW	Neutral	MED	HIGH	not selected
		LOW	MED	MED	Phase 2 - GEC Review	HIGH	MED-HIGH	Neutral	MED	HIGH	not selected
		MED	LOW	LOW	Phase 2 - GEC Review	HIGH	MED-HIGH	Neutral/High	LOW	MED	own selected
NATURAL GAS											
[redacted]		HIGH	HIGH	HIGH	HIGH	HIGH	MED-HIGH	Neutral	MED	HIGH	selected
		MED	MED	MED	MED	MED-LOW	MED-LOW	Neutral	MED	HIGH	selected
		LOW	LOW	MED	HIGH	MED-HIGH	MED-LOW	Neutral	LOW	HIGH	not selected
		LOW	MED	MED	MED	MED	n/a	Neutral	MED	MED	not selected
		HIGH	HIGH	HIGH	HIGH	LOW	n/a (PSE is in)	HIGH	HIGH	MED	selected
		LOW	HIGH	MED	HIGH	HIGH	n/a	Neutral	MED	MED	not selected
		LOW (TOLL) / MED (OWN)	LOW	HIGH	HIGH	HIGH	MED-HIGH	MED	MED	HIGH	2012 own selected
		LOW	MED	MED	LOW	MED	MED	LOW	MED	HIGH	not selected
		LOW	LOW	LOW	HIGH	MED	MED-HIGH	MED	MED	MED	not selected
Mint Farm Energy Center	310	HIGH	HIGH	HIGH	MED	HIGH	MED-HIGH	MED	HIGH	MED	selected
COAL											
[redacted]	100	LOW	LOW	HIGH	HIGH	HIGH	LOW-MED	HIGH	LOW	HIGH	not selected
HYDRO											
[redacted]	90	LOW	MED	HIGH	LOW	LOW	LOW	Neutral	MED	HIGH	not selected
	15	LOW	LOW	LOW	LOW	MED	LOW	Neutral	MED	MED	not selected
	95	This is a general update to a proposal received during the 2005 RFP. No current offer, not enough data to evaluate as part of the 2008 RFP.									n/a

REDACTED VERSION

Phase I Qualitative Results – System PPAs

System PPAs (not project specific)							
			Qualitative				
Project Code	Project Name	MW	Business & Commercial	Power Supply Ops	Credit	Accounting	Selected?
875a	Fixed Price PPA, 2 yr, winter, ATC	[1]	HIGH	MED-HIGH	HIGH	Phase 2	not selected
875b	Fixed Price PPA, 3 yr, winter, ATC	[1]	HIGH	MED-HIGH	HIGH	Phase 2	not selected
875c	Fixed Price PPA, 2 yr, winter, on peak	[1]	HIGH	MED-HIGH	HIGH	Phase 2	not selected
875d	Fixed Price PPA, 3 yr, winter, on peak	[1]	HIGH	MED-HIGH	HIGH	Phase 2	not selected
875e	Fixed Price PPA, 6 yr, winter, ATC	[1]	HIGH	MED-HIGH	HIGH	Phase 2	selected
875f	Fixed Price PPA, 6 yr, year round, ATC	[1]	HIGH	MED-HIGH	HIGH	Phase 2	not selected
875g	Fixed Price PPA, 4 yr, winter, ATC	[1]	HIGH	MED-HIGH	HIGH	Phase 2	selected
875h	Fixed Price PPA, 4 yr, year round, ATC	[1]	HIGH	MED-HIGH	HIGH	Phase 2	selected
876a	Fixed Price PPA, 3 yr, winter, on peak	200	LOW	MED-HIGH	HIGH	Phase 2	not selected
876b	Fixed Price PPA, 3 yr, winter, on peak	200	LOW	MED-HIGH	HIGH	Phase 2	not selected
876c	Fixed Price PPA, 2yr, winter, superpeak		LOW	MED-HIGH	HIGH	Phase 2	not selected
876d	Fixed Price PPA, 2yr, winter, superpeak		LOW	MED-HIGH	HIGH	Phase 2	not selected
876e	- AGC. 1-3 yr		LOW	MED-HIGH	HIGH	Phase 2	not selected
877a	Fixed Price PPA, 3 yr, winter, ATC	100	LOW	LOW	MED	Phase 2	not selected
877b	Fixed Price PPA, 3 yr, winter, on peak	100	LOW	LOW	MED	Phase 2	not selected
878a	Daily Heat Rate Option, 2-yr, winter	150	LOW	LOW-MED	HIGH	Phase 2	not selected
878b	Daily Heat Rate Option, 2-yr, winter	150	LOW	LOW-MED	HIGH	Phase 2	not selected
878c	Daily Heat Rate Option, 3-yr, winter	150	LOW	LOW-MED	HIGH	Phase 2	not selected
878d	Daily Heat Rate Option, 3-yr, winter	150	LOW	LOW-MED	HIGH	Phase 2	not selected
878e	Fixed Price PPA, 2 yr, winter, ATC	150	LOW	LOW-MED	HIGH	Phase 2	not selected
878f	Fixed Price PPA, 3 yr, winter, ATC	150	LOW	LOW-MED	HIGH	Phase 2	not selected
879a	Fixed Price PPA, 5 yr, year round, on peak	[1]	LOW	MED	LOW	Phase 2	not selected
879b	Fixed Price PPA, 5 yr, year round, ATC	[1]	LOW	MED	LOW	Phase 2	not selected

Phase I Qualitative PPAs – System PPAs

System PPAs (not project specific)							
			Qualitative				
Project Code	Project Name	MW	Business & Commercial	Power Supply Ops	Credit	Accounting	Selected?
880a	Fixed Price PPA, 3 yr, winter, ATC	[2]	LOW	MED	LOW	Phase 2	not selected
880b	Fixed Price Call, 3 yr, winter, on peak	[2]	LOW	MED	LOW	Phase 2	not selected
881a	Fixed Price PPA, 5 yr, year round, ATC	100	HIGH	LOW	HIGH	Phase 2	not selected
881b	Fixed Price PPA, 5 yr, year round, on peak	100	HIGH	LOW	HIGH	Phase 2	not selected
881c	Fixed Price PPA, 5 yr, year round shaped, ATC	[1]	HIGH	LOW	HIGH	Phase 2	not selected
881d	Fixed Price PPA, 5 yr, year round shaped, on peak	[1]	HIGH	LOW	HIGH	Phase 2	not selected
881e	Fixed Price PPA, 5 yr, year round except May-July, ATC	[1]	HIGH	LOW	HIGH	Phase 2	selected
881f	Fixed Price PPA, 5 yr, year round except May-July, on peak	[1]	HIGH	LOW	HIGH	Phase 2	not selected
881g	Heat Rate Must Take, 5 yr, year round, ATC	100	HIGH	LOW	HIGH	Phase 2	not selected
881h	Heat Rate Must Take, 5 yr, year round, on peak	100	HIGH	LOW	HIGH	Phase 2	not selected
881i	Heat Rate Must Take, 5 yr, year round shaped, ATC	[1]	HIGH	LOW	HIGH	Phase 2	not selected
881j	Heat Rate Must Take, 5 yr, year round shaped, on peak	[1]	HIGH	LOW	HIGH	Phase 2	not selected
881k	Heat Rate Must Take, 5 yr, year round except May-July, ATC	[1]	HIGH	LOW	HIGH	Phase 2	not selected
881l	Heat Rate Must Take, 5 yr, year round except May-July, on peak	[1]	HIGH	LOW	HIGH	Phase 2	not selected
881m	Fixed Price & Heat Rate Must Take, 5 yr, year round, ATC	100	HIGH	LOW	HIGH	Phase 2	not selected
881n	Fixed Price & Heat Rate Must Take, 5 yr, year round, on peak	100	HIGH	LOW	HIGH	Phase 2	not selected
881o	Fixed Price & Heat Rate Must Take, 5 yr, year round shaped, ATC	[1]	HIGH	LOW	HIGH	Phase 2	not selected
881p	Fixed Price & Heat Rate Must Take, 5 yr, year round shaped, on peak	[1]	HIGH	LOW	HIGH	Phase 2	not selected
881q	Fixed Price & Heat Rate Must Take, 5 yr, year round except May-July, ATC	[1]	HIGH	LOW	HIGH	Phase 2	not selected
881r	Fixed Price & Heat Rate Must Take, 5 yr, year round except May-July, on peak	[1]	HIGH	LOW	HIGH	Phase 2	not selected

Phase I Qualitative Results – System PPAs

System PPAs (not project specific)							
			Qualitative				
Project Code	Project Name	MW	Business & Commercial	Power Supply Ops	Credit	Accounting	Selected?
882a	Fixed Price Daily Call, 1 yr, year round, on peak	100	LOW	LOW	HIGH	Phase 2	not selected
882b	Daily Heat Rate Option, 5 yr, year round, on peak	250	LOW	LOW	HIGH	Phase 2	not selected
882c	Fixed Price Daily Call, 5 yr, year round, on peak	250	LOW	LOW	HIGH	Phase 2	not selected
882d	Hrly Heat Rate Call, 5 yr, year round, on peak	50	LOW	LOW	HIGH	Phase 2	not selected
882e	Fixed Price PPA, 4 yr, winter, on peak	250	LOW	LOW	HIGH	Phase 2	not selected
882f	Fixed Price PPA, 4 yr, winter, on peak	50	LOW	LOW	HIGH	Phase 2	not selected
882g	Fixed Price PPA, 3 yr, summer, on peak	250	LOW	LOW	HIGH	Phase 2	not selected
883a	Fixed Price PPA, 5 yr, winter, on peak	250	MED	MED	HIGH	Phase 2	not selected
883b	Fixed Price PPA, 5 yr, winter, ATC	250	MED	MED	HIGH	Phase 2	not selected
883c	Fixed Price PPA, 3 yr, winter, on peak	250	MED	MED	HIGH	Phase 2	not selected
883d	Fixed Price PPA, 3 yr, winter, ATC	250	MED	MED	HIGH	Phase 2	not selected
883e	Tolling Option w Financial Gas, 5 yr, winter, on peak	250	MED	MED	HIGH	Phase 2	not selected
883f	Tolling Option w Financial Gas, 5 yr, winter, ATC	250	MED	MED	HIGH	Phase 2	not selected
883g	Tolling Option w Financial Gas, 3 yr, winter, on peak	250	MED	MED	HIGH	Phase 2	not selected
883h	Tolling Option w Financial Gas, 3 yr, winter, ATC	250	MED	MED	HIGH	Phase 2	not selected
883i	Fixed Price PPA, 5 yr, winter, on peak	[1]	MED	MED	HIGH	Phase 2	not selected
883j	Fixed Price PPA, 5 yr, winter, ATC	[1]	MED	MED	HIGH	Phase 2	not selected
883k	Tolling Option w Financial Gas, 5 yr, winter, on peak	[1]	MED	MED	HIGH	Phase 2	not selected
883l	Tolling Option w Financial Gas, 5 yr, winter, ATC	[1]	MED	MED	HIGH	Phase 2	not selected

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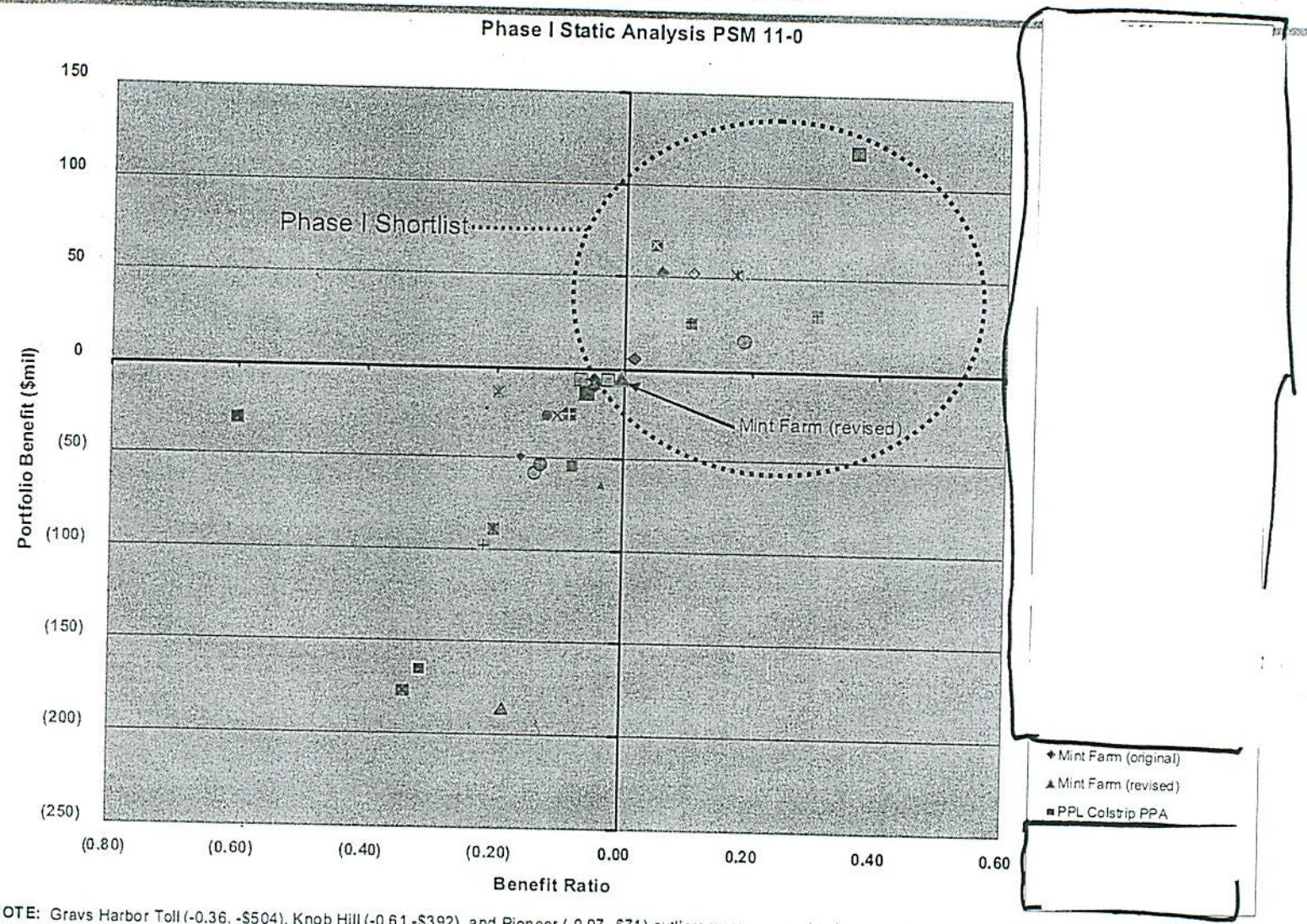
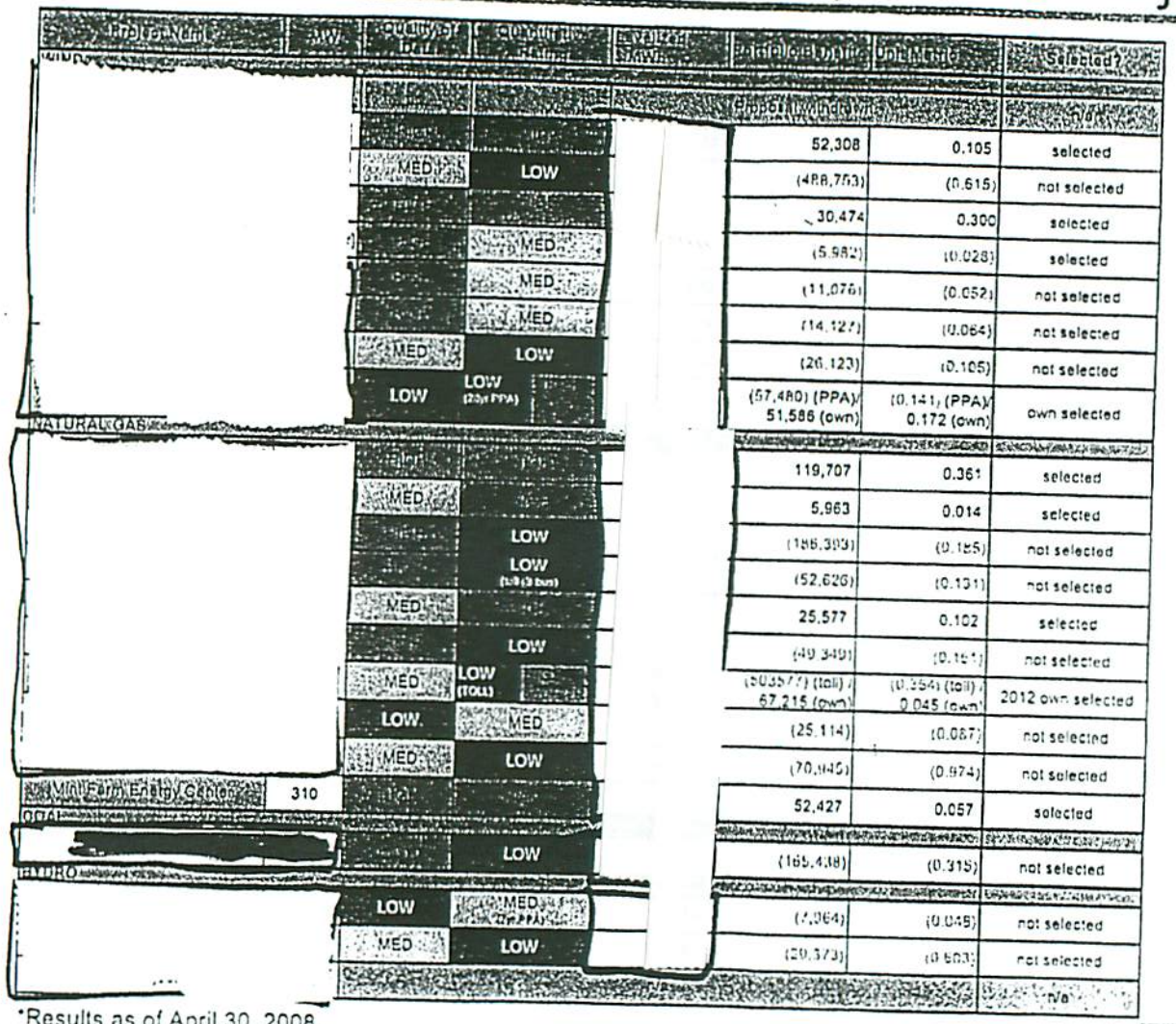
Phase I - Quantitative Results



NOTE: Gravs Harbor Toll (-0.36, -$504), Knob Hill (-0.61,-$392), and Pioneer (-0.97,-$71) outliers were removed to improve visibility of other projects.
Mint Farm Phase I results revised as of June 28, 2008, to reflect removal of Mint Farm Duct Firing from meeting energy need.

REDACTED VERSION

Phase I Quantitative Results: Projects & Project PPAs



								52,308	0.105	selected
	MED				LOW			(488,753)	(0.615)	not selected
								30,474	0.300	selected
			MED					(5,982)	(0.028)	selected
			MED					(11,076)	(0.052)	not selected
			MED					(14,127)	(0.064)	not selected
	MED				LOW			(26,123)	(0.105)	not selected
	LOW		LOW (23yr PPA)					(57,480) (PPA)/ 51,586 (own)	(0.141) (PPA)/ 0.172 (own)	own selected
NATURAL GAS										
								119,707	0.361	selected
	MED							5,963	0.014	selected
			LOW					(186,393)	(0.185)	not selected
			LOW (1x8 (3 bun)					(52,626)	(0.131)	not selected
	MED							25,577	0.102	selected
			LOW					(49,349)	(0.151)	not selected
	MED		LOW (TOLL)					(303577) (tall) / 67,215 (own)	(0.354) (tall) / 0.045 (own)	2012 own selected
	LOW.		MED					(25,114)	(0.087)	not selected
	MED		LOW					(70,945)	(0.974)	not selected
Multi-Firm Entity Option	310							52,427	0.057	selected
OCA										
			LOW					(165,438)	(0.315)	not selected
	LOW		MED					(7,364)	(0.045)	not selected
	MED		LOW					(20,373)	(0.603)	not selected
										n/a

*Results as of April 30, 2008.

Phase I Quantitative Results: System PPAs

REDACTED VERSION

System PPAs (not project specific)

			Quantitative (Long Term) 04-25-08					Quantitative (Short Term) 04-29-08				
Project Code	Project Name	MW	Overall rank (long & short)	Quant Rating (Long Term)	Levelized $/MWh	Portfolio Benefit	Unit Metric	Quant Rating (Short Term)	Change to Expected Power Costs/$ spent	Change to Imbalance Risk/$ spent	Strategy "fit" in portfolio	Selected?
875a	Fixed Price PPA, 2 yr, winter, ATC	[1]	LOW	LOW		($4,777)	(0.215)	MED	0.0210	0.3584	MED	not selected
875b	Fixed Price PPA, 3 yr, winter, ATC	[1]	LOW	LOW		($5,237)	(0.164)	MED	0.0304	0.3911	MED	not selected
875c	Fixed Price PPA, 2 yr, winter, on peak	[1]	LOW	LOW		($2,728)	(0.201)	MED	(0.0273)	0.3380	MED	not selected
875d	Fixed Price PPA, 3 yr, winter, on peak	[1]	LOW	LOW		($2,687)	(0.134)	MED	(0.0131)	0.3729	MED	not selected
875e	Fixed Price PPA, 6 yr, winter, ATC	[1]	HIGH	HIGH		$20,154	0.127	MED	(0.0172)	0.4565	HIGH	selected
875f	Fixed Price PPA, 6 yr, year round, ATC	[1]	MED	MED		($2,476)	(0.009)	LOW	(0.0459)	0.4500	LOW	not selected
875g	Fixed Price PPA, 4 yr, winter, ATC	[1]	HIGH	HIGH		$22,413	0.161	Evaluated by long-term quantitative team.				selected
875h	Fixed Price PPA, 4 yr, year round, ATC	[1]	HIGH	HIGH		$5,796	0.027	Evaluated by long-term quantitative team.				selected
876a	Fixed Price PPA, 3 yr, winter, on peak	200	n/a	n/e	n/e	n/e	n/e	MED	(0.0173)	0.4696	HIGH	not selected
876b	Fixed Price PPA, 3 yr, winter, on peak	200	n/a	n/e	n/e	n/e	n/e	MED	(0.0150)	0.4640	HIGH	not selected
876c	Fixed Price PPA, 2yr, winter, superpeak		LOW	LOW		($13,200)	(0.216)	MED	(0.1585)	0.3055	MED	not selected
876d	Fixed Price PPA, 2yr, winter, superpeak		LOW	LOW		($23,882)	(0.215)	MED	(0.1591)	0.2915	MED	not selected
876e	AGC, 1-3 yr		n/a	n/e	n/e	n/e	n/e	Evaluated by long-term quantitative team.				not selected
877a	Fixed Price PPA, 3 yr, winter, ATC	100	LOW	LOW		($17,711)	(0.141)	MED	0.0294	0.3803	LOW	not selected
877b	Fixed Price PPA, 3 yr, winter, on peak	100	LOW	LOW		($9,397)	(0.118)	LOW	(0.0134)	0.3679	LOW	not selected
878a	Daily Heat Rate Option, 2-yr, winter	150	LOW	LOW		($5,832)	(0.322)	Evaluated by long-term quantitative team.				not selected
878b	Daily Heat Rate Option, 2-yr, winter	150	LOW	LOW		($5,651)	(0.482)	Evaluated by long-term quantitative team.				not selected
878c	Daily Heat Rate Option, 3-yr, winter	150	LOW	LOW		($6,074)	(0.172)	Evaluated by long-term quantitative team.				not selected
878d	Daily Heat Rate Option, 3-yr, winter	150	LOW	LOW		($5,938)	(0.266)	Evaluated by long-term quantitative team.				not selected
878e	Fixed Price PPA, 2 yr, winter, ATC	150	LOW	LOW		($7,133)	(0.218)	MED	(0.0304)	0.4249	MED	not selected
878f	Fixed Price PPA, 3 yr, winter, ATC	150	LOW	LOW		($8,624)	(0.137)	MED	(0.0111)	0.4538	MED	not selected
879a	Fixed Price PPA, 5 yr, year round, on peak	[1]	LOW	LOW		($14,128)	(0.126)	MED	(0.0322)	0.3087	HIGH	not selected
879b	Fixed Price PPA, 5 yr, year round, ATC	[1]	LOW	LOW		($19,600)	(0.113)	HIGH	0.0463	0.3371	HIGH	not selected

Phase I Quantitative Results: System PPAs

System PPAs (not project specific)

			Quantitative (Long Term) 04-29-08					Quantitative (Short Term) 04-29-08				
Project Code	Project Name	MW	Overall rank (long & short)	Quant Rating (Long Term)	Levelized $/MWh	Portfolio Benefit	Unit Metric	Quant Rating (Short Term)	Change to Expected Power Costs/$ spent	Change to Imbalance Risk/$ spent	Strategy "fit" in portfolio	Selected?
880a	Fixed Price PPA, 3 yr, winter, ATC	[2]	MED	MED		($13,973)	(0.088)	HIGH	0.0296	0.4712	HIGH	not selected
880b	Fixed Price Call, 3 yr, winter, on peak	[2]	MED	MED		($6,593)	(0.068)	MED	(0.1267)	0.3158	HIGH	not selected
881a	Fixed Price PPA, 5 yr, year round, ATC	100	MED	MED		($15,355)	(0.068)	HIGH	0.0528	0.5023	HIGH	not selected
881b	Fixed Price PPA, 5 yr, year round, on peak	100	MED	MED		($12,453)	(0.086)	MED	(0.0188)	0.4776	HIGH	not selected
881c	Fixed Price PPA, 5 yr, year round shaped, ATC	[1]	MED	MED		($5,999)	(0.025)	HIGH	0.0099	0.4775	HIGH	not selected
881d	Fixed Price PPA, 5 yr, year round shaped, on peak	[1]	MED	MED		($5,795)	(0.039)	MED	(0.0608)	0.4518	HIGH	not selected
881e	Fixed Price PPA, 5 yr, year round except May-July, ATC	[1]	HIGH	MED		($1,790)	(0.007)	MED	(0.0171)	0.4648	HIGH	selected
881f	Fixed Price PPA, 5 yr, year round except May-July, on peak	[1]	MED	MED		($2,791)	(0.018)	MED	(0.0768)	0.4431	HIGH	not selected
881g	Heat Rate Must Take, 5 yr, year round, ATC	100	LOW	HIGH		$14,260	0.072	LOW	(0.0369)	(0.1340)	HIGH	not selected
881h	Heat Rate Must Take, 5 yr, year round, on peak	100	LOW	HIGH		$4,990	0.039	LOW	(0.0692)	(0.1272)	HIGH	not selected
881i	Heat Rate Must Take, 5 yr, year round shaped, ATC	[1]	LOW	HIGH		$24,872	0.122	LOW	(0.0457)	(0.1278)	HIGH	not selected
881j	Heat Rate Must Take, 5 yr, year round shaped, on peak	[1]	LOW	HIGH		$11,628	0.087	LOW	(0.0887)	(0.1200)	HIGH	not selected
881k	Heat Rate Must Take, 5 yr, year round except May-July, ATC	[1]	LOW	HIGH		$29,295	0.138	LOW	(0.0457)	(0.1278)	HIGH	not selected
881l	Heat Rate Must Take, 5 yr, year round except May-July, on peak	[1]	LOW	HIGH		$14,419	0.105	LOW	(0.0868)	(0.1193)	HIGH	not selected
881m	Fixed Price & Heat Rate Must Take, 5 yr, year round, ATC	100	LOW	HIGH		$4,995	0.024	HIGH	0.0703	0.5107	HIGH	not selected
881n	Fixed Price & Heat Rate Must Take, 5 yr, year round, on peak	100	LOW	MED		($574)	(0.004)	HIGH	0.0099	0.4916	HIGH	not selected
881o	Fixed Price & Heat Rate Must Take, 5 yr, year round shaped, ATC	[1]	LOW	HIGH		$14,644	0.068	HIGH	0.0311	0.4876	HIGH	not selected
881p	Fixed Price & Heat Rate Must Take, 5 yr, year round shaped, on peak	[1]	LOW	HIGH		$5,288	0.038	MED	(0.0344)	0.4644	HIGH	not selected
881q	Fixed Price & Heat Rate Must Take, 5 yr, year round except May-July, ATC	[1]	LOW	HIGH		$17,960	0.081	HIGH	0.0113	0.4782	HIGH	not selected
881r	Fixed Price & Heat Rate Must Take, 5 yr, year round except May-July, on peak	[1]	LOW	HIGH		$7,705	0.054	MED	(0.0450)	0.4594	HIGH	not selected

REDACTED VERSION

Phase I Quantitative Results: System PPAs

System PPAs (not project specific)

Project Code	Project Name	MW	Quantitative (Long Term) 04-29-08: Overall rank (long & short)	Quant Rating (Long Term)	Levelized $/MWh	Portfolio Benefit	Unit Metric	Quantitative (Short Term) 04-29-08: Quant Rating (Short Term)	Change to Expected Power Costs/$ spent	Change to Imbalance Risk/$ spent	Strategy "fit" in portfolio	Selected?
882a	Fixed Price Daily Call, 1 yr, year round, on peak	100	MED	MED		($2,733)	(0.086)	Evaluated by long-term quantitative team.				not selected
882b	Daily Heat Rate Option, 5 yr, year round, on peak	250	LOW	LOW		($25,276)	(0.281)	LOW	(0.2302)	(0.1205)	MED	not selected
882c	Fixed Price Daily Call, 5 yr, year round, on peak	250	LOW	LOW		($41,267)	(0.433)	MED	(0.1114)	0.2792	MED	not selected
882d	Hrly Heat Rate Call, 5 yr, year round, on peak	50	LOW	LOW		($46,061)	(0.415)	LOW	(0.2674)	(0.1205)	HIGH	not selected
882e	Fixed Price PPA, 4 yr, winter, on peak	250	MED	MED		($16,706)	(0.091)	MED	(0.0420)	0.4003	MED	not selected
882f	Fixed Price PPA, 4 yr, winter, on peak	50	MED	MED		($2,416)	(0.066)	MED	(0.0252)	0.4245	HIGH	not selected
882g	Fixed Price PPA, 3 yr, summer, on peak	250	LOW	LOW		($23,245)	(0.319)	LOW	(0.1138)	0.3214	LOW	not selected
883a	Fixed Price PPA, 5 yr, winter, on peak	250	LOW	LOW		($16,892)	(0.147)	MED	(0.0755)	0.4243	HIGH	not selected
883b	Fixed Price PPA, 5 yr, winter, ATC	250	LOW	LOW		($30,816)	(0.169)	MED	(0.0258)	0.4444	HIGH	not selected
883c	Fixed Price PPA, 3 yr, winter, on peak	250	LOW	LOW		($9,538)	(0.147)	Evaluated by long-term quantitative team.				not selected
883d	Fixed Price PPA, 3 yr, winter, ATC	250	LOW	LOW		($17,844)	(0.172)	Evaluated by long-term quantitative team.				not selected
883e	Tolling Option w Financial Gas, 5 yr, winter, on peak	250	LOW	LOW		($12,867)	(0.311)	LOW	(0.1956)	(0.0715)	HIGH	not selected
883f	Tolling Option w Financial Gas, 5 yr, winter, ATC	250	LOW	LOW		($14,921)	(0.330)	LOW	(0.1209)	(0.1123)	HIGH	not selected
883g	Tolling Option w Financial Gas, 3 yr, winter, on peak	250	LOW	LOW		($12,816)	(0.393)	Evaluated by long-term quantitative team.				not selected
883h	Tolling Option w Financial Gas, 3 yr, winter, ATC	250	LOW	LOW		($12,633)	(0.373)	Evaluated by long-term quantitative team.				not selected
883i	Fixed Price PPA, 5 yr, winter, on peak	[1]	MED	MED		($22,163)	(0.095)	MED	(0.0097)	0.3983	MED	not selected
883j	Fixed Price PPA, 5 yr, winter, ATC	[1]	MED	MED		($34,146)	(0.092)	MED	0.0475	0.4171	MED	not selected
883k	Tolling Option w Financial Gas, 5 yr, winter, on peak	[1]	LOW	MED		($10,275)	(0.089)	LOW	(0.1958)	(0.0658)	MED	not selected
883l	Tolling Option w Financial Gas, 5 yr, winter, ATC	[1]	LOW	HIGH		$4,679	0.036	LOW	(0.1283)	(0.1089)	MED	not selected

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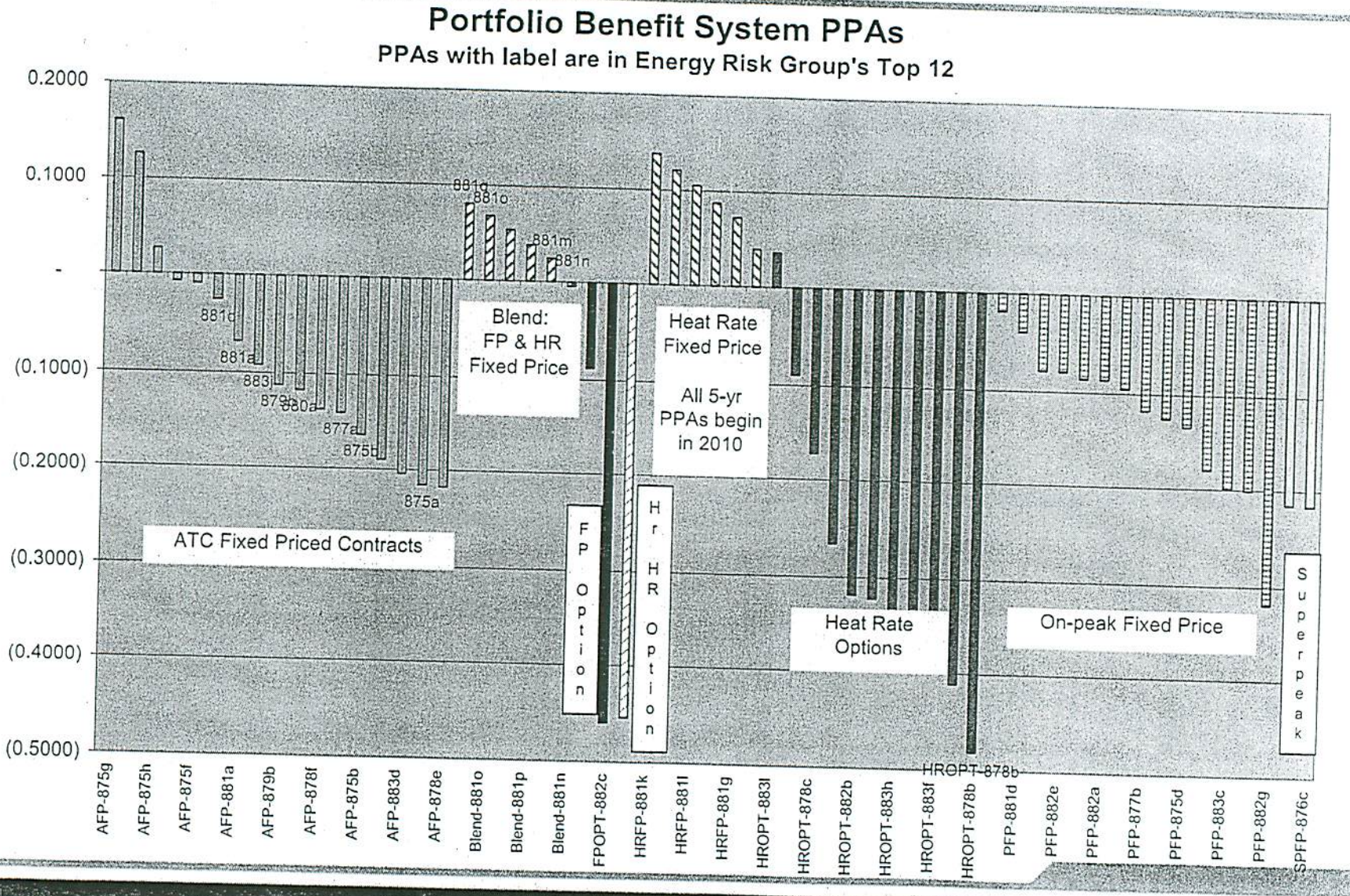
Benefit Ratios, All Products



Comparative Ranking of Top 12 System PPA Results:

- 3 proposals ranked in the Top 12 PPAs for both the Energy Risk (using KWI Model) and PSM analyses
- Around the Clock (ATC) proposals that scale in capacity quantity over 3 to 5 years are most favorable for shorter-term PPAs

Comparative Results: Energy Risk Results Compared with PSM

Energy Risk Rank	PSM Rank	Offer	Counter Party	Structure	EPS Risk per $1mm in cost	Expected Change to Power Costs per $1 spent	Change to Earnings Risk per $1 Spent
1	15	881m		ATC Blend	0.00012	0.5107	0.0165
2	22	881a		ATC Fixed Price Contract	0.00012	0.5023	0.0162
3	16	881n		Peak Blend	0.00012	0.4916	0.0157
4	9	881o		ATC Blend	0.00012	0.4876	0.0158
5	7	881q		ATC Blend	0.00012	0.4782	0.0155
6	20	881c		ATC Fixed Price Contract	0.00012	0.4775	0.0155
7	32	880a		ATC Fixed Price Contract	0.00012	0.4712	0.0158
8	29	883j		ATC Fixed Price Contract	0.00012	0.4171	0.0165
9	38	875b		ATC Fixed Price Contract	0.00012	0.3911	0.0152
10	37	877a		ATC Fixed Price Contract	0.00013	0.3803	0.0168
11	50	875a		ATC Fixed Price Contract	0.00011	0.3584	0.0147
12	31	879b		ATC Fixed Price Contract	0.00010	0.3371	0.0137

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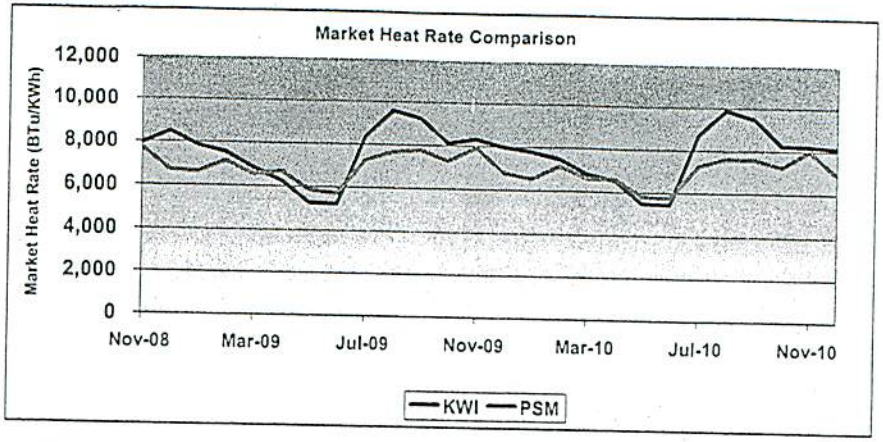
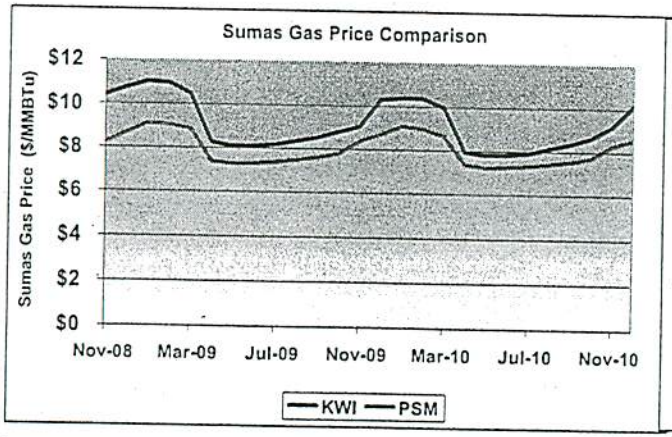
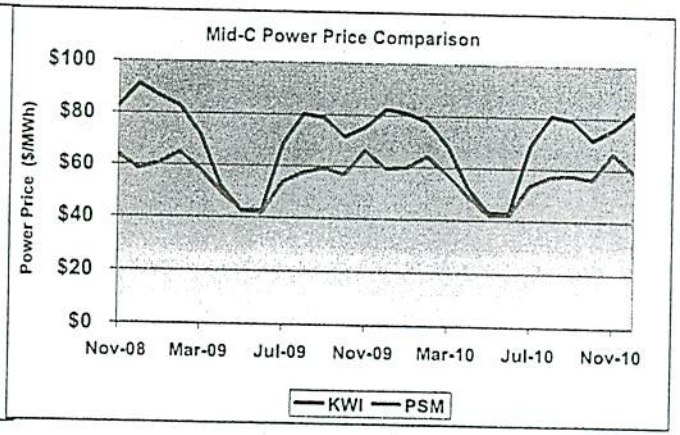
Compare KWI and PSM Prices







KWI: Official Marks 2008-03-06

PSM: Average Official Marks 2007-08-01 to 2007-10-31

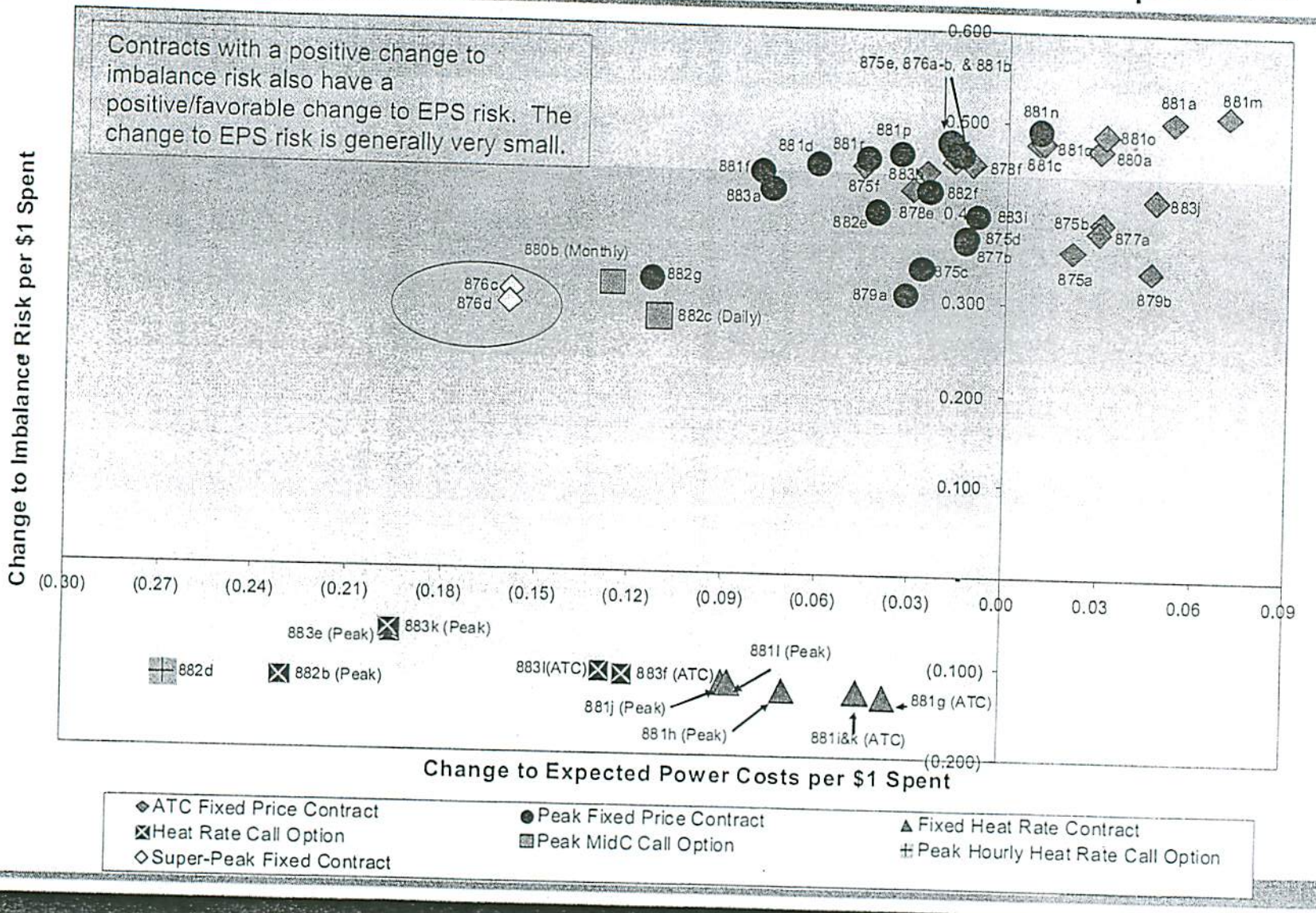
KWI & PSM Results

- What looks good in PSM
  - Longer term, later start
  - Fixed Price*
  - Heat Rate Fixed Price*
  - Winter/ Seasonally shaped
  - ATC, On Peak*

- What looks good in ERM KWI
  - Fixed Price*
  - Winter/ Seasonally shaped
  - ATC

* Price dependent

KWI Analysis - Addition of Super-Peak Proposals



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Phase I Candidate Short List

Code	Fuel	Project	Owner /Developer	Location	MW	Levelized Cost $/MWh	Portfolio Benefit	Benefit Ratio	Status	Term	Offer
801	Wind	[redacted]					52,308	0.105	Development	COD Q4-09	20yr PPA/ potential JV
803	Wind						30,474	0.300	Development	COD Q4-09	20yr PPA prepay
~~804~~	~~Wind~~						~~(5,582)~~	~~(0.028)~~	~~Development~~	~~COD Q4-09~~	~~15yr PPA~~
~~809~~	~~Wind~~						~~51,585~~	~~0.172~~	~~Development~~	~~COD 2010-2012~~	~~ownership~~
825	NatG						119,707	0.361	Operating	1/01/12 - 12/1/26	15yr Tolling PPA
826	NatG						5,963	0.014	Operating	11/01/08 - 4/31/22	15yr Tolling PPA
829	NatG						25,577	0.102	Development	COD 11/1/2011	ownership
831	NatG						67,215	0.045	Operating	~2012	ownership
834	NatG	Mint Farm Energy Center	Wayzata Investment Partners	Longview, WA	310		52,427	0.057	Operating	##########	ownership
875e	PPA	Fixed Price PPA, 6 yr, winter, ATC	[redacted]	n/a	25-275*		$20,154	0.127	ATC	11/1/2009 to 3/31/2015	6yr PPA; winter only; fixed price
875g	PPA	Fixed Price PPA, 4 yr, winter, ATC		n/a	25-275*		$22,413	0.161	ATC	11/1/2011 to 3/31/2015	4yr PPA; winter only; fixed price
875h	PPA	Fixed Price PPA, 4 yr, year round, ATC		n/a	25-275*		$5,795	0.027	ATC	11/1/2011 to 10/31/2015	4yr PPA; year round; fixed price
881e	PPA	Fixed Price PPA, 5 yr, year round except May-July, ATC		n/a	43-241*		($1,790)	(0.007)	ATC	1/1/2010 to 12/31/2014	5yr PPA, year round except May-July; fixed price

- 804_Iberdrola withdrew proposal for Juniper Canyon in early June.
- 809_CEP withdrew proposal for Echanis project 1&4 in early July.

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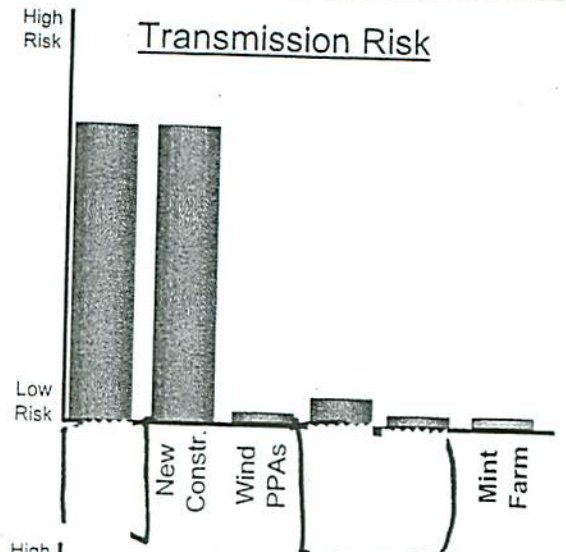
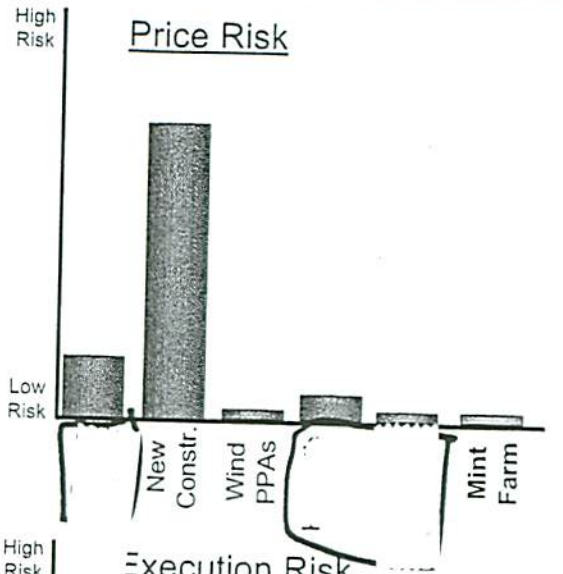
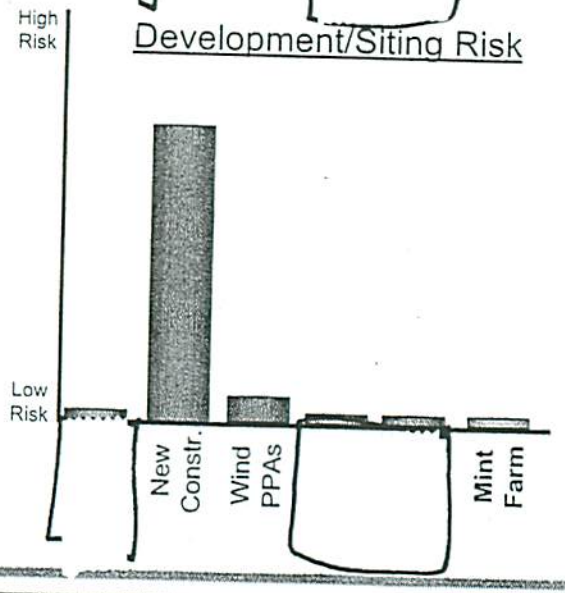
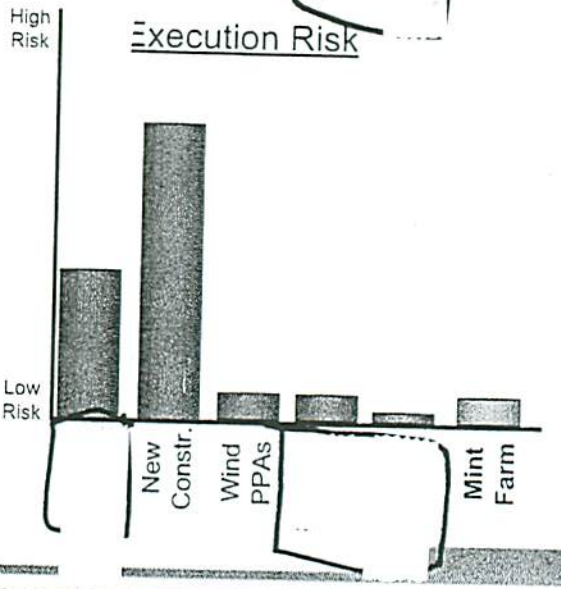
Among key risks, Mint Farm has favorable profile









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Qualitative Evaluation – Natural Gas

Project/Counterparty	Price/Commercial Risk	Development/Siting Risk	Transmission Issues	Execution Risk	Operational Flexibility
	[redacted] the current counterparty to the existing PPA · Pricing is attractive · Gas supply is BC with no alternative option Low capacity factor - project	· Project is fully operational	· Requires [redacted] submit a new interconnection request · Directly connected to PSE's system	· Risk of project operational failure between 2008-2012 (project will be [redacted] years old at 2012); credit not yet quantified	· Dispath less frequently than 7FAs Potential to provide load following or other ancillary services, reliability to system?
	· Trade floor has concern about complexity of structure, may be difficult to dispatch appropriately · Price is difficult to model appropriately · PSE pays for transport and maintenance with no optimization benefit. May be some flexibility in this but	· Project is fully operational	[redacted] has indicated that they can deliver to PSE BUT, premium for seasonal transmission has not been determined.	· Agreement could be put in place but would require further negotiation of gas transport, transmission and other pricing modifications May require credit support	· No Intrahour dispatchability which will be necessary for wind integration No ability to control resource, required 50% capacity factor
	· Dual fuel capability makes rm gas transport nnecessary Some price uncertainty ven exchange rates and flation Requires PSE to perform	· Potential concerns around air permitting possibilities in [redacted] non-attainment area	· Economics assume PSE interconnection/ transmission	· Internal PSE resources will be stretched to evaluate project before deadline · Would require PSE development	· Flexibility is best in class · But PSE needs to better understand and value the wind following flexibility
	Lack of clarity around how tion payments would be cured during option period Some price uncertainty due to inflation	· No firm transportation held on Northwest Pipeline; could use gas book to supply 55,000 but would need an additional 58,000 MMBtu/d (w/duct fire)	· Transmission not likely to be available until 2015 at earliest	· Condition of project by proposed 2012 acquisition point would not be known · Concern about counterparty ability to provide security	· Dispachable resources to meet PSE's need provide intrahour flexibility
834 Mint Farm CCCT	· Some post acquisition preventative maintenance required · GE O&M agreement can be cancelled for nominal fee · GE LTSA can be	· No firm transportation held on Northwest Pipeline; could use gas book to supply requirements until 2012 · 3 Solutions for Cascade transport	· 293 MW to PSE Contiguous	· Due diligence in advanced stages	· Dispachable resources to meet PSE's need provide intrahour flexibility

REDACTED VERSION

Qualitative Evaluation – Wind

Project/Counterparty	Price/Commercial Risk	Development/Siting Risk	Transmission Issues	Execution Risk
[redacted]	· Some possibility for co-ownership but not likely · PPA price attractive	· GEC analysis reduced net CF to 29.6% · Late stages of development but not permitted.	· Interconnection request approved · Transmission request in top of queue, likely approval	· [redacted] planning to use Clipper turbines. Tech risk would be mitigated in a PPA however.
	· Turbines not allocated to project for 09 · PSE's interest in project would influence turbine allocation	· Some analysis remaining to understand P99 percentage of P50 · GEC reduced Net CF to 27%	· Transmission requests at top of queue and likely. · Interconnection also likely or usage of [redacted] interconnection	· Turbines not yet selected but eventual choice will be important given the prepay structure
	· Project 1 has been pulled from the list of possibilities			

Legend
Favorable Status
Some Risk
Substantial Risk

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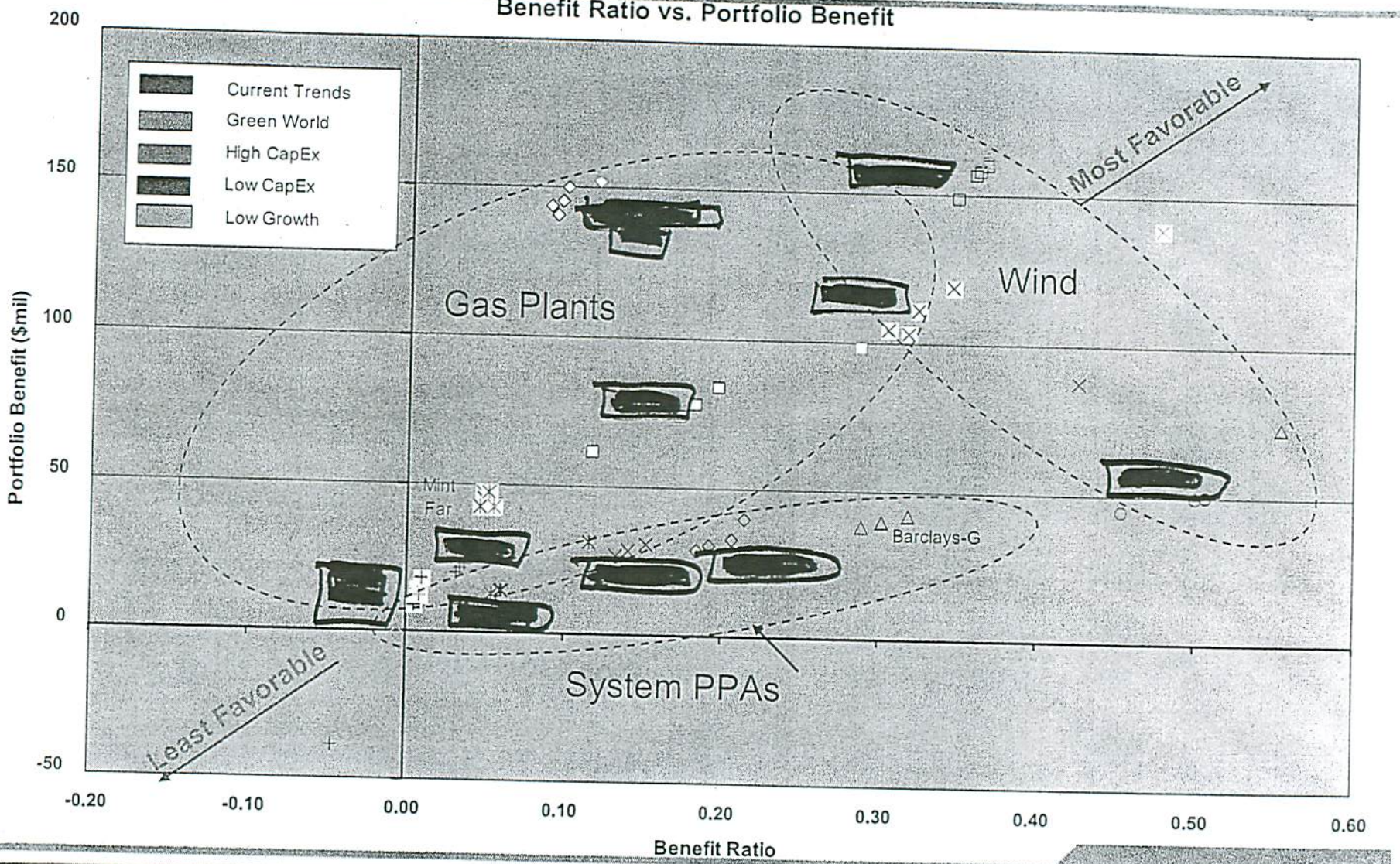
Phase II – Individual Projects: Static Results



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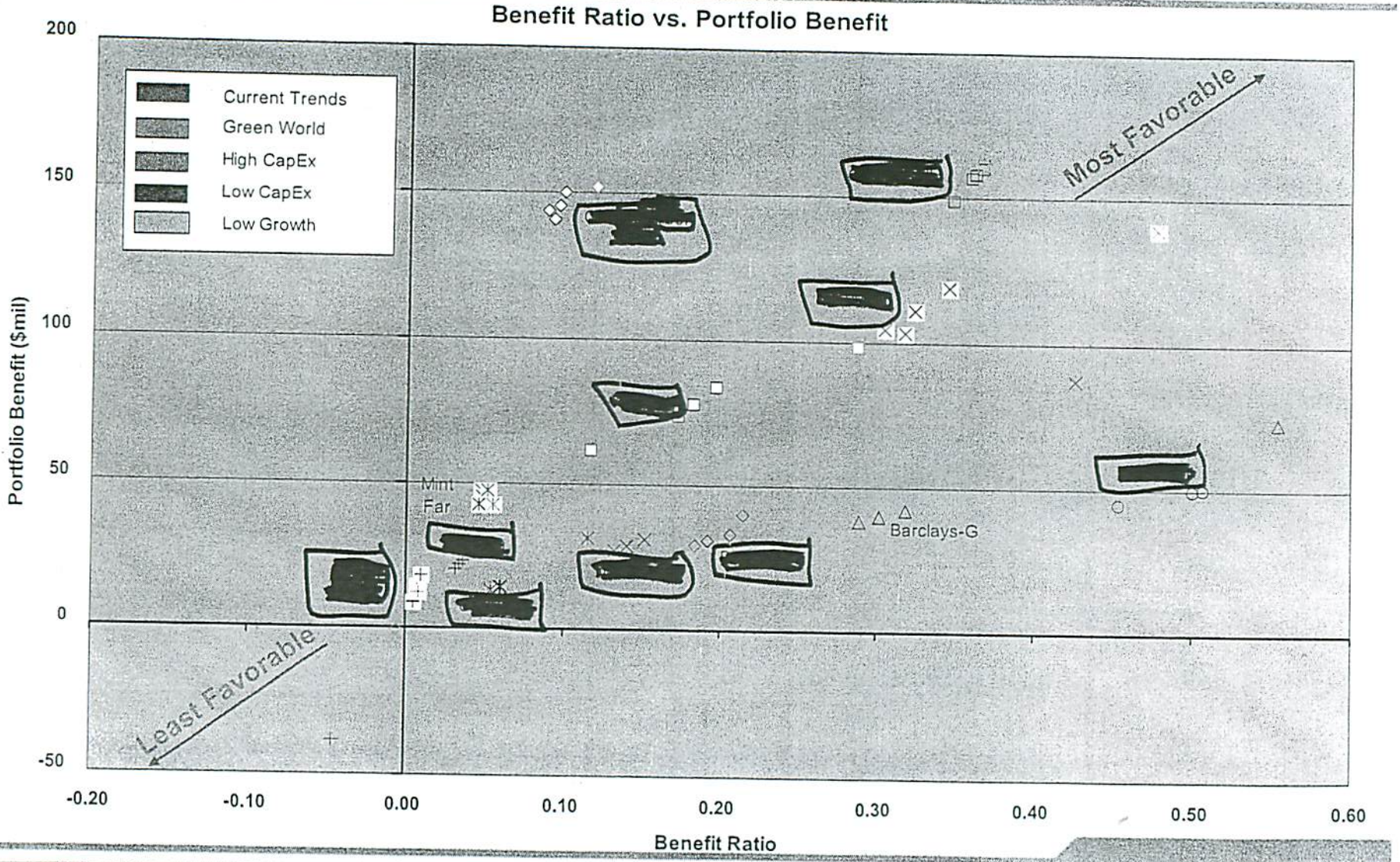
Phase II – Individual Projects: Static Results



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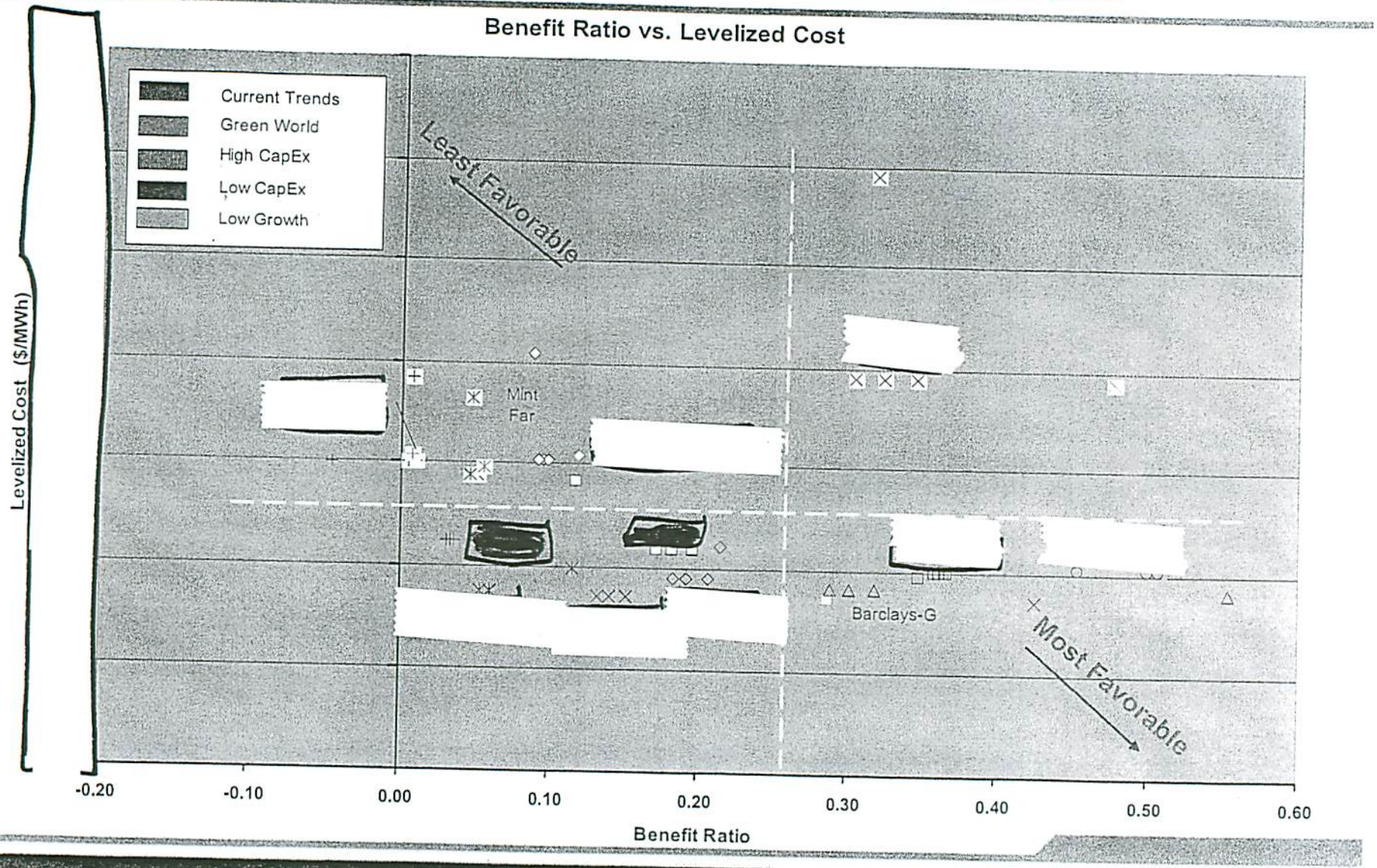
Phase II – Individual Projects: Static Results



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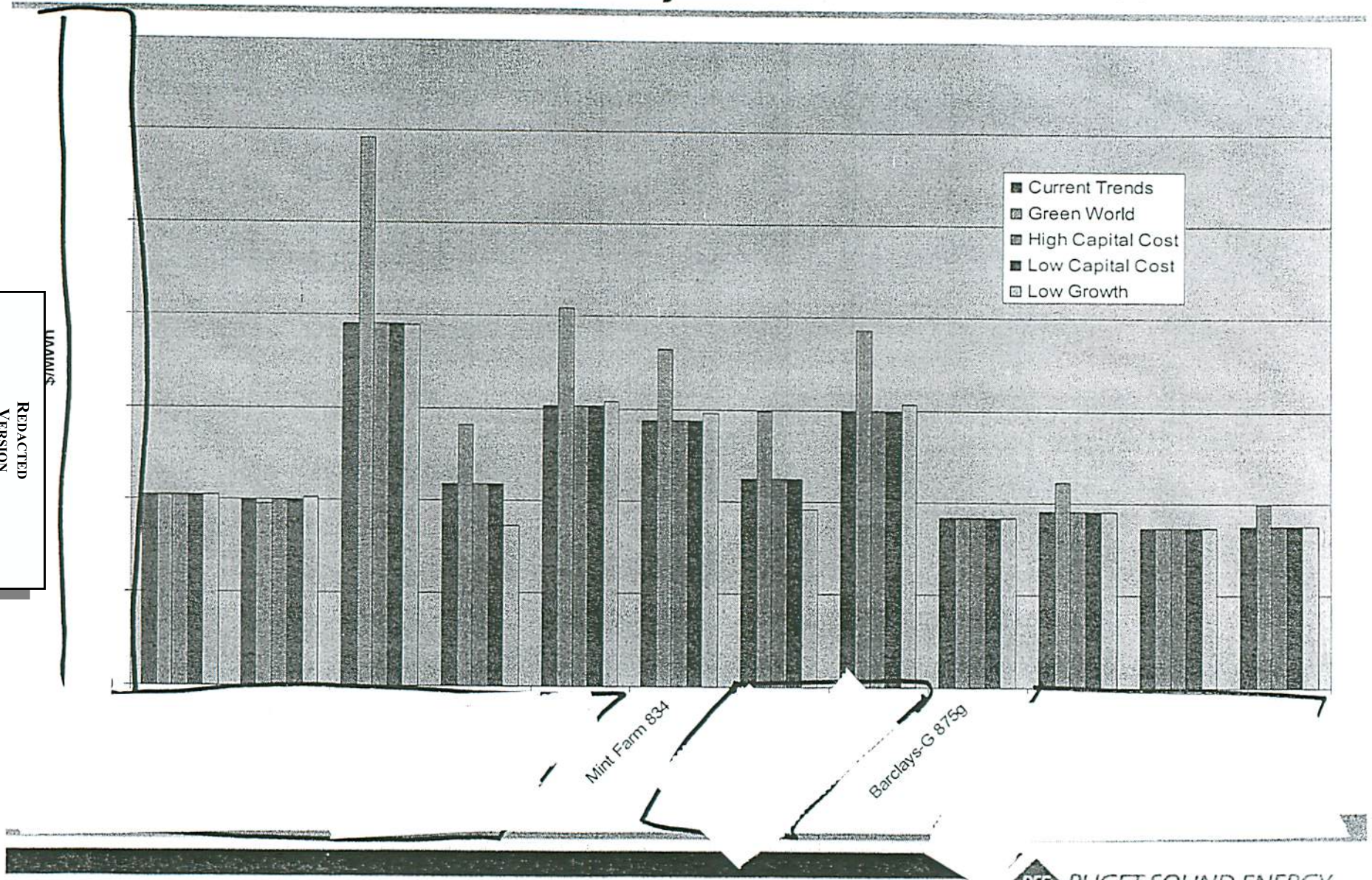
Phase II – Individual Projects: Levelized Cost



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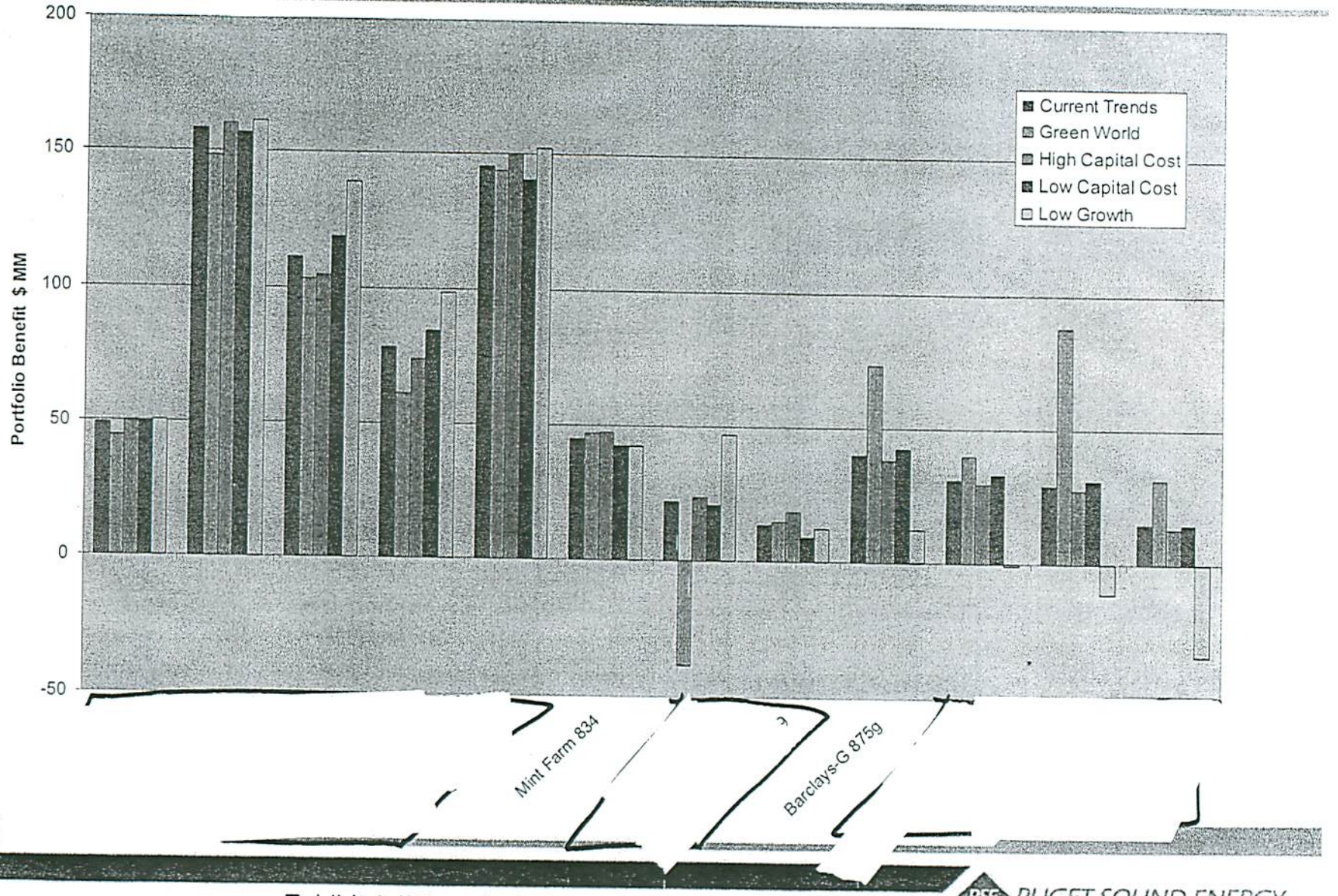
Phase II – Individual Projects: Portfolio Benefit



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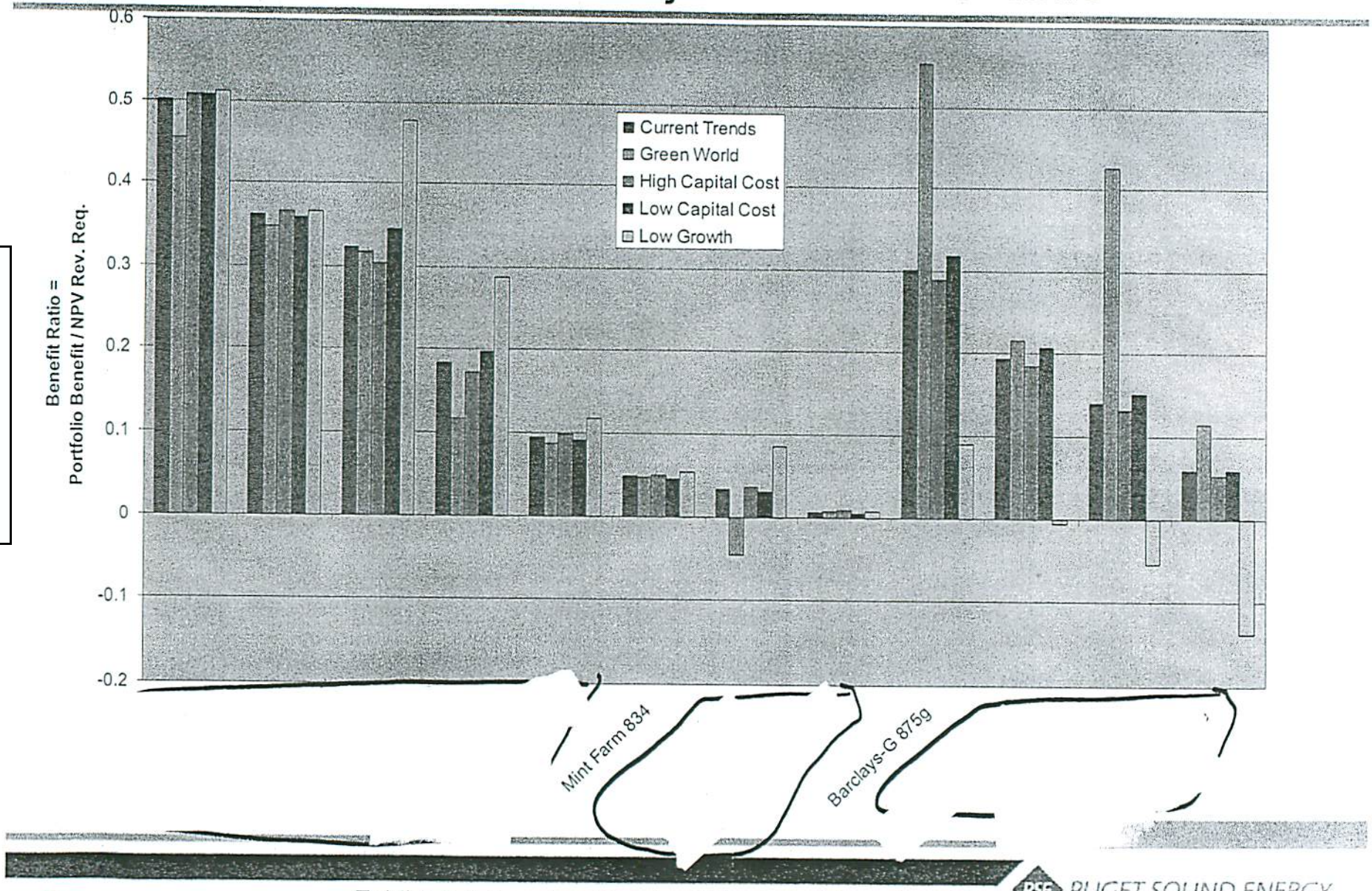
Phase II – Individual Projects: Benefit Ratio



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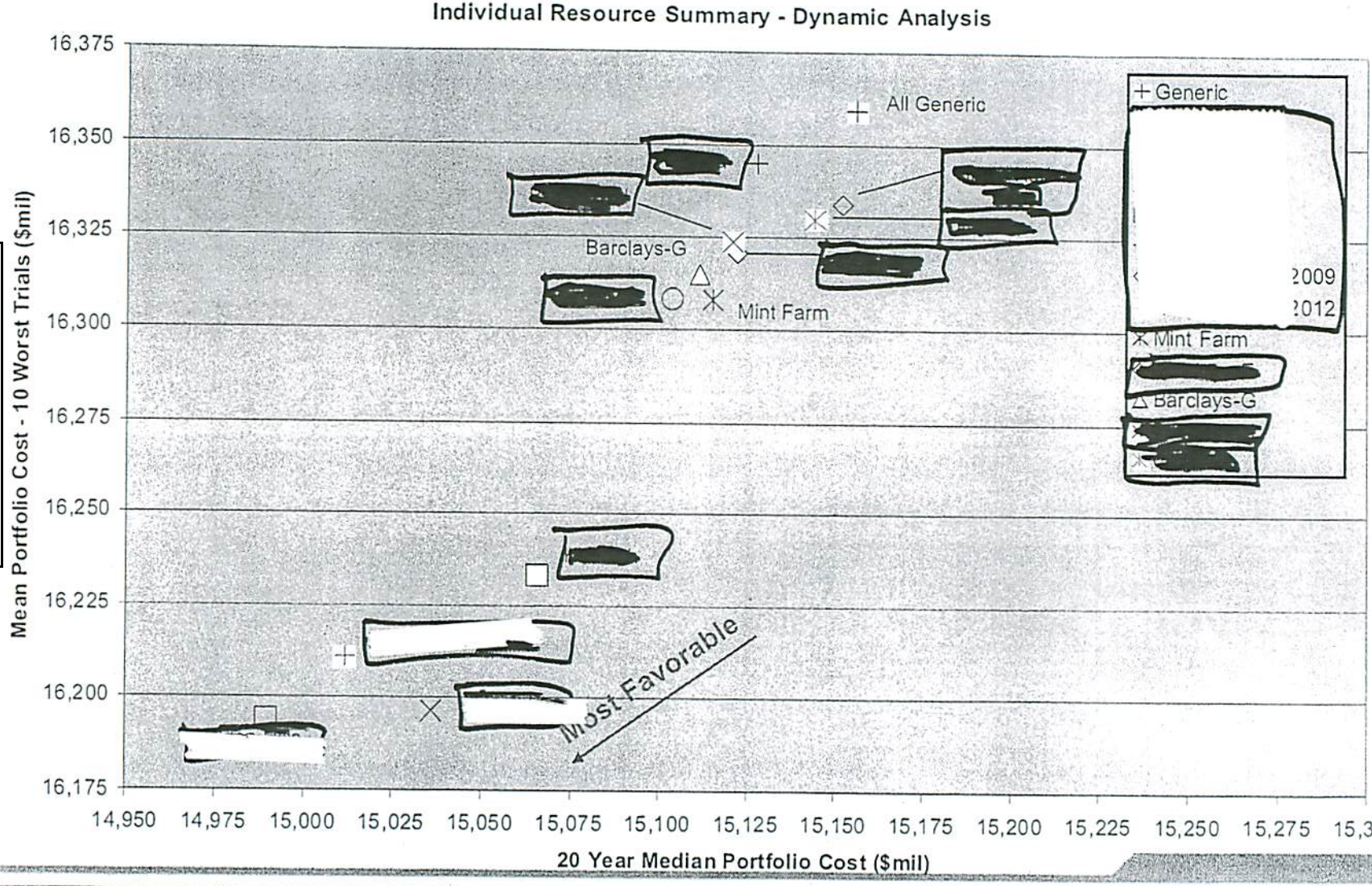
Phase II – Individual Projects: Dynamic Results



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Phase II – Portfolios: Overview

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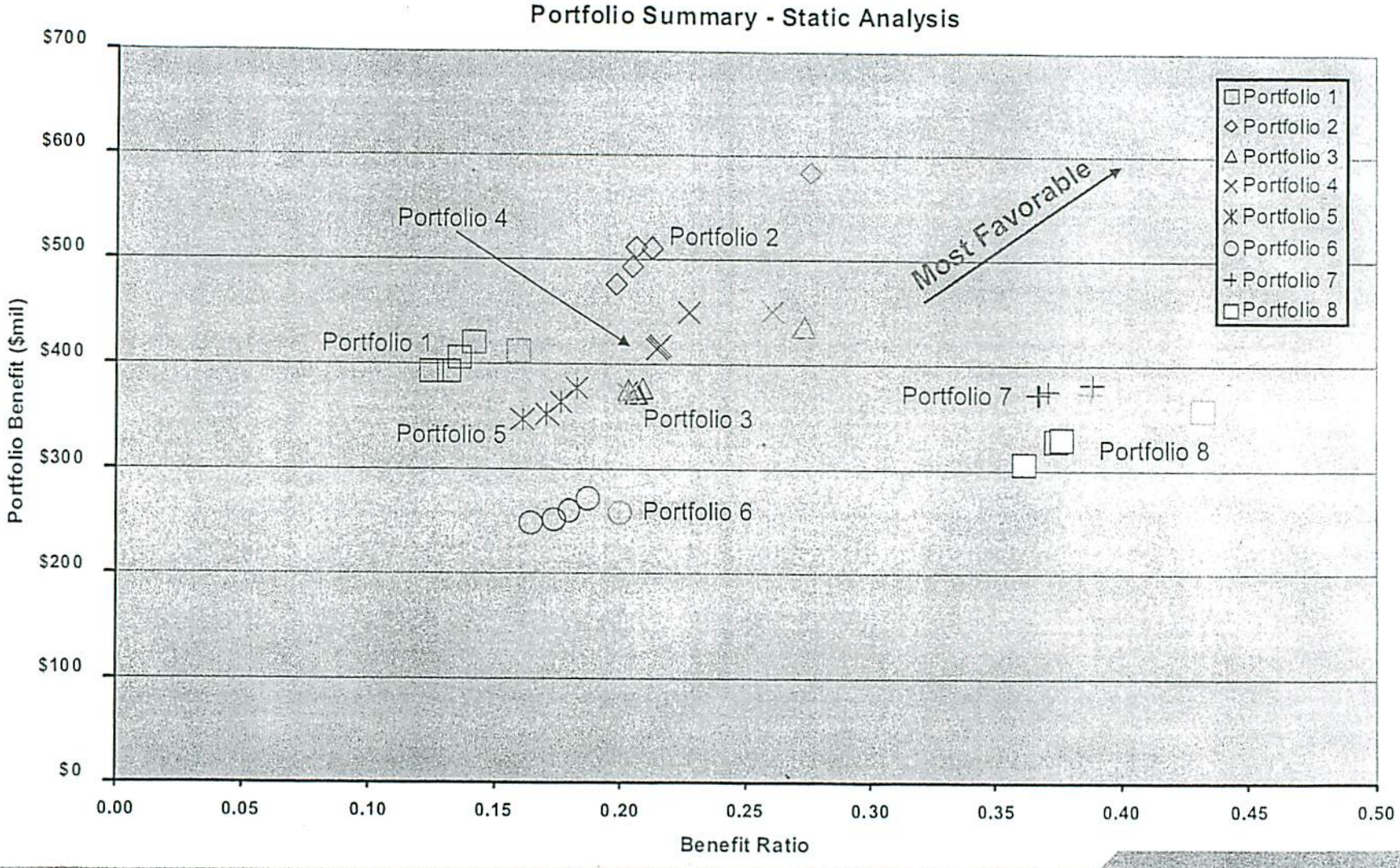
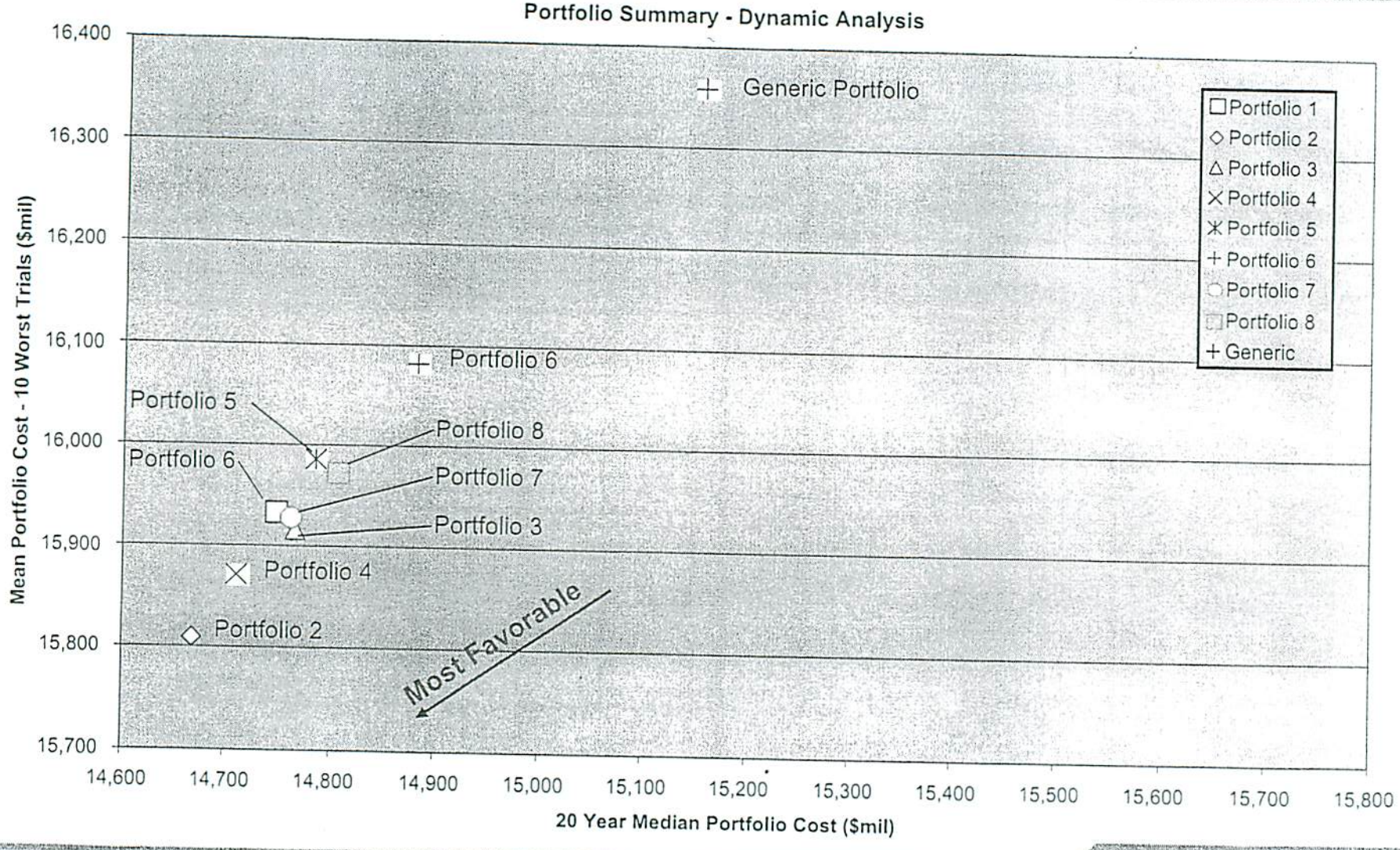
	Portfolios in Current Trends							
	1	2	3	4	5	6	7	8
	Wind PPA	Wind PPA	Wind PPA	Wind PPA	Wind PPA	Wind PPA	Wind PPA	Wind PPA
	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Wind PPA	Wind PPA	Wind PPA	Wind PPA	Wind PPA	Wind PPA	Wind PPA	Wind PPA
	Mint Farm Own 2009		Mint Farm Own 2009	Mint Farm Own 2009		Mint Farm Own 2009		
	[redacted] Own 2012	[redacted] Own 2012			[redacted] Own 2012			
							[redacted]	[redacted]
				Baclays 4.5yr PPA			Baclays 4.5yr PPA	
Total Cost	$14,931,435	$14,844,789	$14,964,869	$14,922,383	$14,974,682	$15,075,691	$14,966,261	$15,008,717
Portfolio Levelized $/MWh								
Portfolio Benefit	$406,081	$492,727	$372,647	$406,929	$362,834	$261,825	$363,050	$328,799
Benefit Ratio	0.14	0.20	0.21	0.21	0.18	0.18	0.36	0.37
Portfolio Generation	21,834,191	17,175,997	13,527,985	14,977,991	15,412,214	11,764,203	8,557,075	7,107,069

- Portfolio 8,7 in Current Trends static run has the best levelized cost and best benefit ratio.
- Portfolio 2 has the highest portfolio benefit.

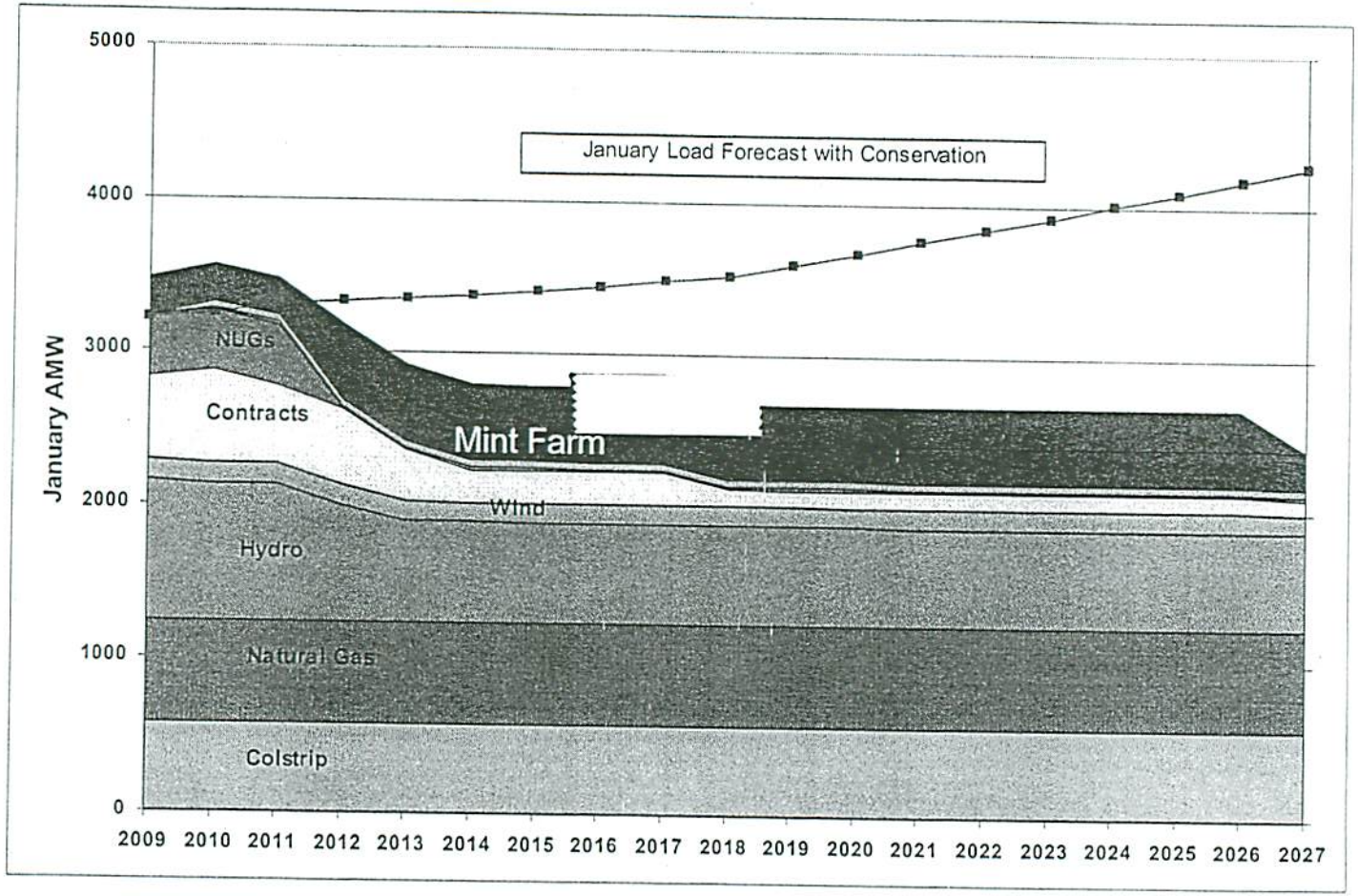
Phase II – Portfolios: Static Results



Phase II – Portfolios: Dynamic Results



Phase II: Portfolio 3 in the Need Chart



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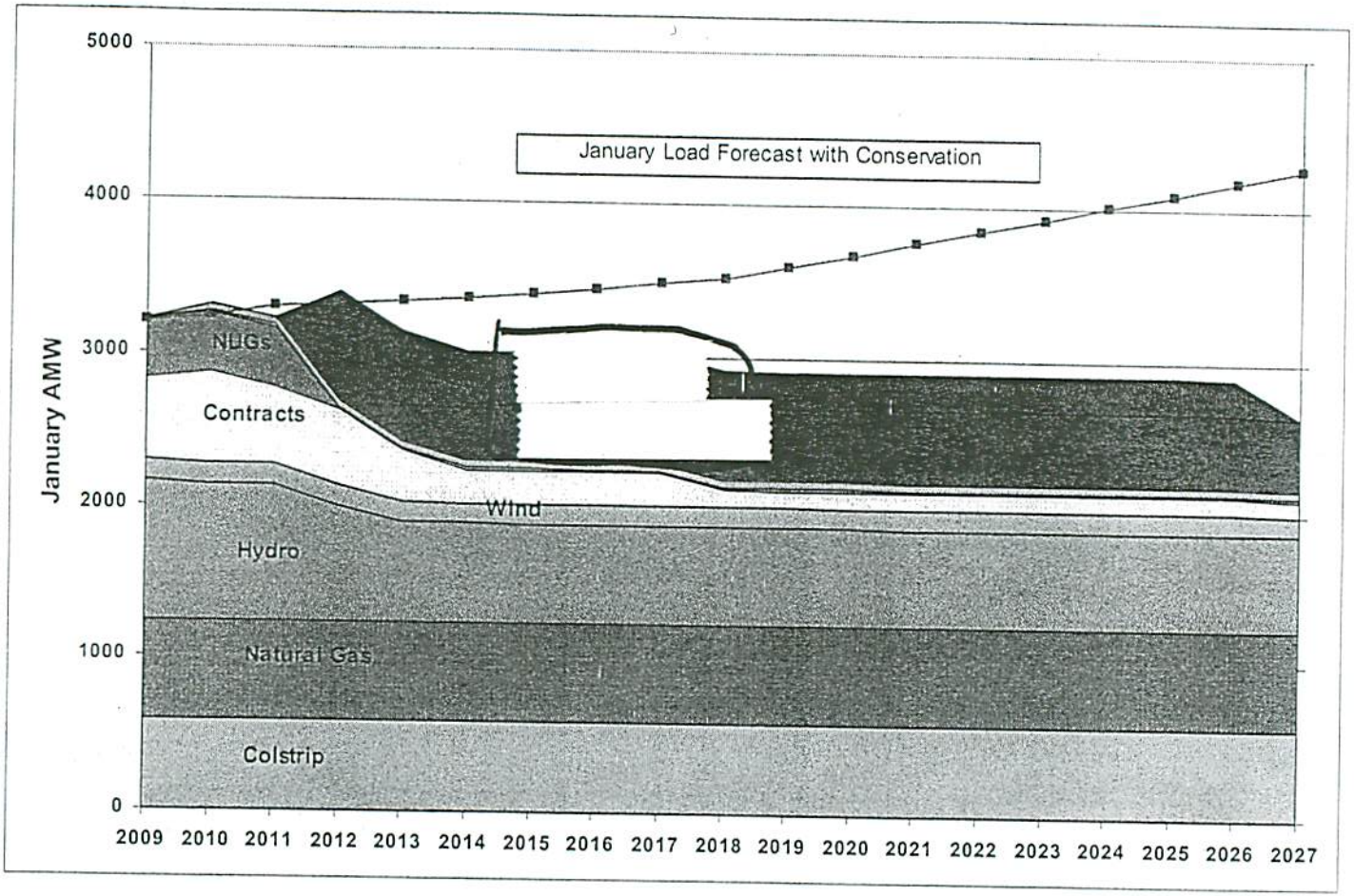
Phase II: Portfolio 2 in the Need Chart



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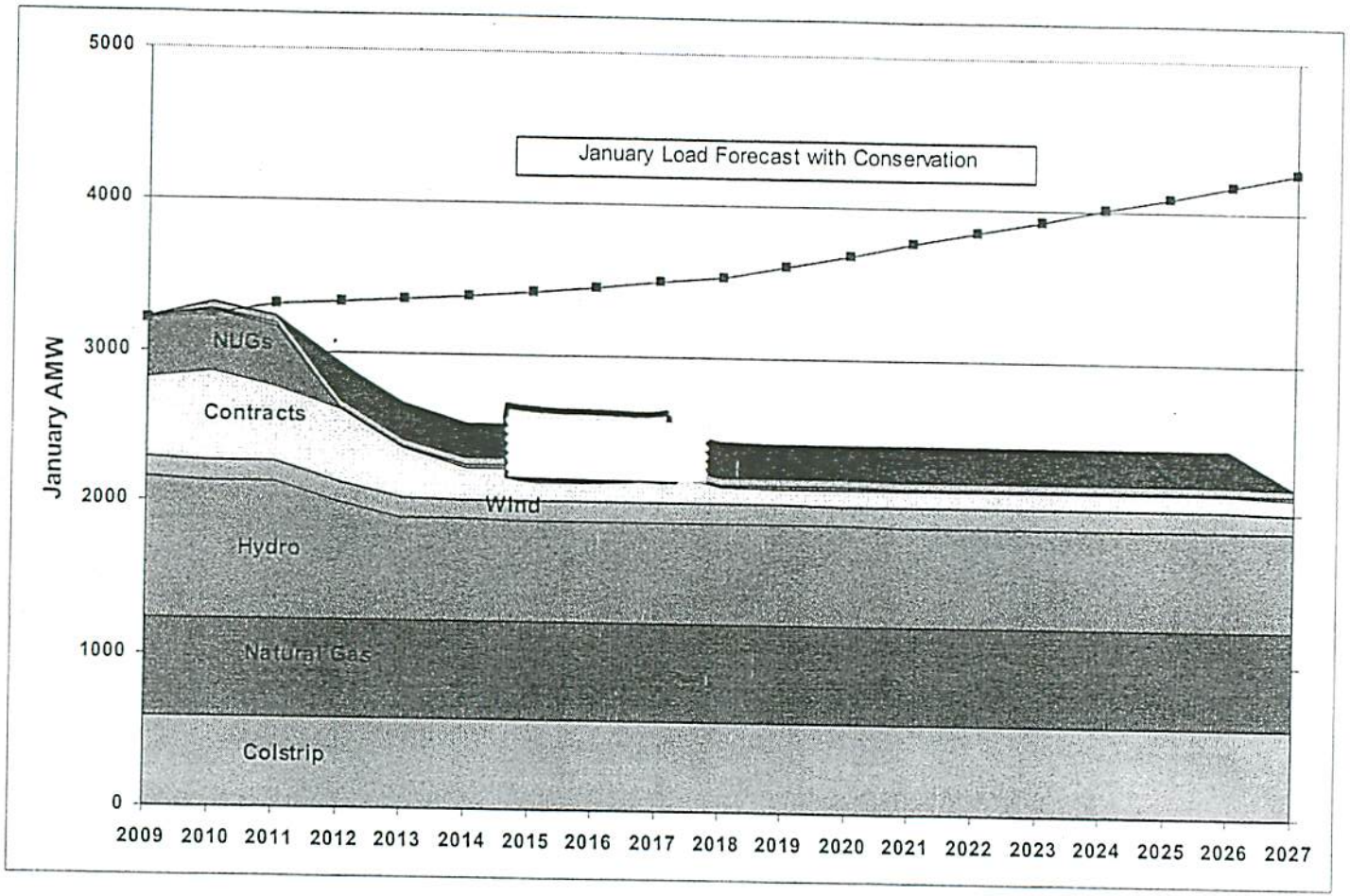
Phase II: Portfolio 8 in the Need Chart



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Summary Ranking - Wind Projects

Code	Project Name	MW	Overall Ranking	Supporting Comments / Summary Findings	Levelized Cost Rank	Benefit Ratio Rank	Portfolio Benefit Rank	Scenario Dispersion Rank	Dynamic Analysis Rank
801	Project	200	High	PPA price offered is very competitive.	Best	Best	Best	Best	Best
803		50	High	Prepayment structure and price offered is very competitive	Best	Best	Better	Best	Good
804		100	Offer withdrawn.						
809	[Unsolicited Proposal]	100	Offer withdrawn.						
809	[Unsolicited Proposal]	100	Offer withdrawn.						

REDACTED VERSION

KEY

Best	Most Favorable
Better	Favorable
Good	Less Favorable

Summary Ranking - Gas Projects

Code	Project Name	MW	Overall Ranking	Supporting Comments / Summary Findings	Levelized Cost Rank	Benefit Ratio Rank	Portfolio Benefit Rank	Scenario Dispersion Rank	Dynamic Analysis Rank
825	[redacted]	[redacted]	Medium	Ranks very highly, except levelized cost is very high because plant does not run often. Timed to need. Quantitative team recommends continuing investigation of ancillary services benefits.	Good	Best	Best	Good	Best
826	[redacted]	[redacted]	Low	Middle ranking, but cycling charges could not be modeled. Timed to need. Operationally very complex. We are not confident that the model results can accurately capture costs of the Tolling PPA.	Best	Better	Good	Good	Best
829	[redacted]	[redacted]	Medium	Quantitative team recommends continuing investigation of ancillary services benefits. There may be more value in the project then we could model with PSM.	Best	Good	Good	Good	Good

KEY

Best	Most Favorable
Better	Favorable
Good	Less Favorable

REDACTED VERSION

Summary Ranking - Gas Projects Cont.

REDACTED VERSION

Code	Project Name	MW	Overall Ranking	Supporting Comments / Summary Findings	Levelized Cost Rank	Benefit Ratio Rank	Portfolio Benefit Rank	Scenario Dispersion Rank	Dynamic Analysis Rank
831	[redacted]		Low	Rates barely better than a generic gas. Large size makes us very long in the near team. Resource Additions are lumpy length, at some point in time may be inevitable.	Better	Good	Good	Best	Good
831	[redacted]		High	Rates better than a generic gas and is timed to our need. If shortlisted, we need to further analyze O&M costs.	Better	Good	Best	Best	Best
834	Mint Farm Energy Center	310	Medium	Rates better than a generic gas. Moderate size makes us long in the near term. Resource Additions are lumpy length, at some point in time may be inevitable.	Better	Good	Good	Best	Good

KEY

Best	Most Favorable
Better	Favorable
Good	Less Favorable

Summary Ranking - System PPAs

Code	Product Name / Description	MW	Ranking	Supporting Comments / Summary Findings	Levelized Cost Rank	Benefit Ratio Rank	Portfolio Benefit Rank	Scenario Dispersion Rank	Dynamic Analysis Rank
875e	Fixed Price PPA, 6 yr, winter, ATC	25-275*	Low	Structure fits with our need. Competitive market pricing at time of bid. Will be repriced to current market and will change ranking results. Offers price certainty.	Best	Better	Good	Good	Good
875g	Fixed Price PPA, 4 yr, winter, ATC	25-275*	Medium	Structure fits with our need. Competitive market pricing at time of bid. Will be repriced to current market and will change ranking results. Offers price certainty	Best	Best	Good	Good	Good
875h	Fixed Price PPA, 4 yr, year round, ATC	25-275*	Medium	Structure fits with our need. Competitive market pricing at time of bid. Will be repriced to current market and will change ranking results. Offers price certainty.	Best	Better	Good	Good	Good
881e	Fixed Price PPA, 5 yr, year round except May-July, ATC	43-241*	Low	Structure fits with our need. Somewhat less competitive market pricing compared to other System PPAs on candidate shortlist. Will be repriced to current market and will change levelized cost. Offers price certainty.	Best	Good	Good	Good	Good

KEY

Best	Most Favorable
Better	Favorable
Good	Less Favorable

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- RFP Process
- Phase I
  - Qualitative
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RFP Results - Final Selections*

Final Short List

Project	Owner /Developer	Location	MW	Levelized Cost $/MWh	Portfolio Benefit $MM	Benefit Ratio	Status	Commercial Operation Date
			200		$49.31	0.50	Development	COD Q4-09
			50		$158.30	0.36	Development	COD Q4-09
Mint Farm Energy Center CCCT (ownership)	Wayzata Investment Partners	Longview, WA	310		$44.97	0.05	Operating	2009
Fixed Price PPA, 4-year, winter, ATC		n/a	25-275*		$39.97	0.30	ATC	11/1/2011 to 3/31/2015

Continuing Investigation List

Project	Owner /Developer	Location	MW	Levelized Cost $/MWh	Portfolio Benefit	Benefit Ratio	Status	Commercial Operation Date
					$111.36	0.32	Operating	1/01/12 - 12/1/26
					$21.90	0.03	Development	COD 11/1/2011
					$145.48	0.10	Operating	~2012

*Does not include PSE development projects that did not come through the RFP projects.

REDACTED VERSION

Risk Comparison

Short-Listed RFP Natural Gas Projects

Project/Counterparty	Price/Commercial Risk	Development/Siting Risk	Transmission Issues	Execution Risk	Operational Flexibility
[redacted]	Pricing for the toll is attractive and can be assumed to be relatively certain.	Project is fully operational and is currently under a tolling agreement with PSE. One key constraint is that the gas supply is limited to British Columbia.	The project is already directly connected to [redacted] and a new tolling agreement would require a new interconnection request with PSE.	By 2012 the project will be [redacted] years old and the risk of project operational failure between 2008-2012 may be an issue.	The project would likely have a very low capacity factor and questions remain about its ability to provide load following and ancillary services.
[redacted]	There is some price uncertainty due to exchange rates.	Early analysis shows potential concerns around air permitting possibilities in [redacted] non-attainment area. Dual fuel capability is a benefit in	Economics assume PSE interconnection/ transmission.	Project would require PSE development	Flexibility is best in class, but PSE needs to better understand and value the wind following flexibility.
[redacted]	Some price uncertainty due to inflation.	There is no firm transportation held on Northwest Pipeline; could use gas book to supply 55,000 but would need an additional [redacted] (w/duct fire)	Transmission not likely to be available until 2015 at earliest.	The condition of project by proposed 2012 acquisition point would not be known. Significant up-front option payments required to lock in 2012 acquisition result in corresponding counterparty, default and bankruptcy risk.	Dispatchable resource to meet PSE's need for intra-hour flexibility.
Mint Farm	Some post acquisition preventative maintenance required and the GE O&M agreement can be cancelled for nominal fee. PSE would also plan to renegotiate the GE	Firm transportation on Northwest Pipeline could be acquired after using gas book to supply requirements until 2012. There are four solutions for	Project holds 293 MW of firm transmission to PSE system.	Due diligence is in advanced stages and most commercial terms are agreed upon.	Dispatchable resource to meet PSE's need for intra-hour flexibility.

REDACTED VERSION

Exhibit 8
Key Due Diligence Findings

The Mint Farm Energy Center ("Facility") is a 260 megawatt combined-cycle, natural gas-fired power facility with 36.6 MW of duct firing that began operating in November 2007 and achieved commercial operation in January 2008. The Facility is interconnected to the Northwest Pipeline ("NWP") system by Cascade Natural Gas's ("Cascade") underground pipeline distribution system. The Facility was permitted through the Washington State Department of Ecology ("Ecology"). Mint Farm Energy Center, LLC[1] ("MFEC") is the current owner.

Buildings and equipment occupy approximately 50% of the total area of land. The principle components of the Facility are the combustion turbine, HRSG, steam turbine, condenser, cooling tower, and gas compressors.

A. Technical Due Diligence

Overview

The Facility is a conventional natural gas-fuelled combined cycle power plant with one combustion turbine generator and one steam generator ("one-on-one"). It is operated by General Electric ("GE") under an Operating & Maintenance Agreement. The plant achieved commercial operation in January 2008 and is rated at approximately 260 MW base load, approximately 296 MW with duct firing and approximately 311 MW with steam augmentation. A General Electric Frame 7FA+e Model 7241 combustion turbine ("CT") provides electrical power via a GE generator and exhaust heat to a Foster Wheeler heat recovery steam generator ("HRSG"), which is used to generate high, intermediate, and low pressure steam. Steam generated by the HRSG drives a triple-pressure Siemens-Fuji steam turbine ("ST"), which drives a Fuji generator.

[1] Mint Farm Energy Center, LLC, the current owner of the Facility, is owned by Wayzata Opportunities Fund, LLC, a Delaware limited liability company and a wholly-owned, indirect subsidiary of the Wayzata Investment Partners, and Mint Farm Power LLC, a South Dakota limited liability company. Ownership and management of the Facility is MFEC's sole business.

The overall conclusion of PSE's technical due diligence team is that the plant is clean, quiet, well-designed, and in near-new condition. While plant construction was interrupted for a period of about five years, plant components that had been installed were laid-up to prevent corrosion. Operations and maintenance at the Facility appear to have been carried out by conscientious and experienced personnel guided by good procedures.

Site

Mint Farm is located within three-quarters of a mile from the Columbia River at an elevation of 15 feet above mean sea level ("MSL"), placing it approximately two feet above the Columbia River's 13-foot MSL elevation near the site. Located in FEMA zone X, there is low to moderate exposure to flooding dependent on a 100-year rated dike that separates the site from the river. Earthquake risk is rated moderate. The site is located in ISO earthquake zone 3 and flood management overlay zone ("FM zone") 250 year. The area around the facility is not highly susceptible to windstorms.

The Facility is located on geo-technically very poor soil conditions. The engineering firm, Stone & Webster, utilized significantly more conservative earthquake modeling than is required to meet Uniform Building Code ("UBC") standards in the design of the plant. Fourteen hundred (1,400) twelve-inch pilings were driven to a depth of 160 to 200 feet to stabilize the soil. All foundations with at least minimal load are seated on piles with 3000+ psi concrete. Additionally, no noteworthy foundation settling appears to have occurred over the five year project intermission. Specifically, the CT to generator alignment was checked prior to project re-initiation in 2006 and displayed an insignificant 3 mil change.

The majority of the site is covered in crushed rock. Crane accessibility for maintenance is good; however, the crushed rock provides poor crane base

support. Pouring concrete base slabs in appropriate areas would mitigate this concern.

Fuel

The Facility is designed to run on natural gas only. No provisions exist at the plant for backup dual fuel operation. The plant is equipped with a gas chromatograph to measure the heat content of delivered fuel. The plant does not have a separate gas supply meter for billing substantiation purposes.

Gas Compressors

The Facility utilizes two Atlas Copco gas compressors. Each one is fully capable of providing power plant full-load gas supply, allowing the unit not in use to serve as a redundant backup. The compressors' two stages boost a supplied gas pressure of 150 psig to the 450 psig required to operate the combustion turbines. There are four separators that remove entrained contaminants and water from the natural gas. These units result in 1.5 to 2 MW parasitic load on the plant.

Since operation, the compressors have failed on three occasions; once on the first machine, and twice on the second. The third failure was believed to be caused by improper lay-up during construction intermission. The units have been rebuilt and have experienced no further failures after approximately 2,000 hours of operation.

Combustion Turbine

The GE 7FA gas turbine is a mature, well-understood machine with more than one thousand units installed around the world. The turbine provides power at 98 percent reliability and 93 percent availability, and is considered a superior "F" class combustion turbine when compared with many of its competitors. It is nearly identical in design and operation to the 7FA currently in use by PSE at its Goldendale Generating Facility. The 7FA combustion turbine and generator form

a large frame, industrial-type machine with an axial flow, multi-stage compressor and power turbine on a common shaft. The gas turbine is directly coupled to an electric generator located on the inlet site of the turbine. The combustion turbine generator package includes the following systems and components:

- inlet air filtration system
- evaporative cooling system
- fuel system
- dry low NOx combustion system
- on-base piping for compressor online and offline water wash
- hydraulic and lube oil systems
- static starting system including load-commutating inverter ("LCI") and low speed turning gear
- turbine accessories compartment, generator auxiliary compartment, and package electrical control compartment designed for indoor installation
- fire detection and CO2 suppression system
- hydrogen cooled generator
- generator neutral grounding equipment
- combustion turbine and generator temperature, and bearing monitoring devices for temperature and vibration
- generator static excitation system
- Mark V turbine control system.

The GE 7FA is a nominal 171 MW machine with an 18-stage compressor beginning with rotor stage zero ("R0") and ending with rotor stage 17 ("R17"). Directly upstream of R0 are the inlet guide vanes ("IGV"). Downstream of each rotor stage is a stator stage ("S0" through "S17") that directs airflow to the next

rotor stage. The stators consist of individual freestanding airfoils. The tips of the airfoils serve as the sealing mechanism to the rotor. The stator vanes are held in the casing by axial (hook) grooves.

The GE 7FA is susceptible to the following issues based on fleet experience:

- distress, cracking and liberation of first and second stage compressor blades (R0, R1) due to several issues,
- first stage compressor blade (R0) erosion due to wet air inlet conditions,
- compressor blade tip rubbing due to unequal casing and compressor bade thermal contraction/expansion rates,
- first stage turbine wheel dovetail cracking due to stress concentrations on the rotor,
- stator base shim liberation due to outward migration of stator base gaps,
- S17 and exit guide vanes ("EGV") distress due to localized flow disturbances, and
- damage and/or loss of second stage turbine buckets due to shroud tip tertiary creep.

All of the above susceptibilities can be partially or fully mitigated by upgrade activities and operational procedures. Activities that should be implemented on the Facility's 7FA to negate these issues are:

- non-destructive testing ("NDT") of R0 root location,
- stator and compressor grinding of five of the seventeen stages,
- new S17s, EGVs and inner barrels,
- compressor shim inspection and replacement where needed,
- stage 2 bucket modification and turbine wheel NDT,

- additional modifications as performed on the Goldendale 7FA since it was purchased by PSE.

PSE's insurers are requiring that NDT be performed on the R0 root locations and that the stage 2 buckets and the turbine wheels be NDT before full coverage is granted. These two activities will require an outage and partial disassembly of the combustion turbine. The R0 blades were inspected via borescope *only* in July 2008. There were indications of foreign object damage ("FOD") in two locations on the R0 blades. There were no indications of cracking. None of the other 17 stages showed any indication of cracking or damage through borescope inspection.

The Facility's gas turbine was constructed prior to the introduction of p-cut R0 blades and therefore there is no p-cut modification concern. The Facility's 7FA has not been equipped with GE operational flexibility enhancements (OPFLEX™) with which Goldendale has recently been retrofitted. As of July 2008, the steam augmentation system had not been fully commissioned or tested. This is expected to occur late summer or early fall 2008.

In contrast to Goldendale, the Facility has an inlet evaporative cooler. All technical recommendations of proper evaporative inlet cooling have been implemented at the Facility, including limiting the use of evaporative cooling. It is believed that proper inlet evaporative cooling operation does not pose a considerable risk of blade liberation. Additionally, the Facility has never had an online water wash.

As of July 16, 2008 the gas turbine had accumulated 2,570 fired hours and 99 starts. The Facility's 7FA utilizes 12,000-hour hardware and, consequently, major maintenance is scheduled on 12,000-hour intervals. Earlier designs incorporated 8,000 hour hardware. GE has developed 24,000 hour hardware that may be utilized in the future, increasing time between required maintenance.

The planned maintenance cycle is as follows:

- Combustion Inspection ("CI"): 12,000 fired hours or 300 starts
- Hot Gas Path Inspection ("HGP"): 24,000 fired hours or 700 starts
- Major Outage: 48,000 fired hours or 1,600 starts

GE utilizes technical information letters ("TILs") to communicate necessary mechanical and system alterations and upgrades to minimize the effect of potential design shortcomings and maximize reliability. The Facility has numerous TILs that have not yet been implemented. However, the majority of these are based on "at first exposure to component" criteria which will not occur until the unit is opened for an HGP or major outage. Because of this, Mint Farm is not past due on these incomplete items. There is only one past due TIL: 1509-1 R0 NDT inspection.

Overall, the GE F-class turbines are robust, reliable engines with service and support available from both the OEM and third party suppliers. GE's F-class turbines dominate the F-class combustion turbine market, with the largest installed base of any manufacturer.

Heat Recovery Steam Generator

The Facility incorporates a Foster Wheeler heat recovery steam generator ("HRSG") that utilizes typical industry design. It produces steam at three pressure levels, and includes high pressure ("HP"), intermediate pressure ("IP") and low pressure ("LP") economizers and super heaters. The HRSG is protected by numerous high and low drum level alarms and trips in additional to high pressure relief valves with silencers. All three pressure drums have water column sight glasses and level indicators with increased operability via remote visual level indication on the distributed control system ("DCS") in the control

room. Foster Wheeler no longer manufactures HRSGs although non-OEM repair is common and available.

The HRSG includes the following additional components:

- an exhaust stack with baffles to trap heat during inter-operational periods, greatly aiding in warm to hot start recovery time,
- two (2) 100% feedwater recirculation pumps and motors,
- continuous and intermittent blowdown system,
- start-up vent valve with silencer, and
- a duct burner system to increase steam production.

During the initial start-up period, HRSG tube leakage was discovered. A borescope inspection was conducted, in which low, medium and high levels of corrosion were found on the LP, IP and HP economizer tubes. It is believed by Wayzata and the HRSG inspectors that this unusual level of corrosion on a young unit was due to OEM residual test water that remained in the tubing during shipment and storage. The HRSG was not assembled until project resumption in 2006 and as such remained in storage for a significant period of time. Repairs resulted in the replacement of one tube and the capping off of another tube. An acid flush was conducted to remove corrosion and to place it into a chemically controlled condition to slow any further deterioration. Finally, the HRSG was successfully hydrostatically tested. The HRSG has achieved over 2,000 hours of operational time with no unplanned maintenance. In its current condition, the HRSG is stable, yet further inspections will be required to determine the extent of advanced aging and required repairs.

Emissions Control & Monitoring

An industry standard selective catalytic reduction ("SCR") system to reduce emissions of nitrous oxides ("NOx") is utilized in conjunction with the combustion

turbine's dry-low NOx combustion technology. A catalytic reduction system is used to reduce emissions of carbon monoxide ("CO"). These catalytic plates were installed just prior to commercial operation and are still under warranty.

The SCR uses aqueous ammonia to react with the NOx, producing nitrogen and water. The reaction takes place in a catalyst bed incorporated into the HRSG. The catalyst bed is positioned in the HRSG to provide the optimum temperature range for the reaction to occur.

The continuous emissions monitoring system ("CEMS") was supplied by Spectrum Systems, Inc. It has exhibited marginal performance and Spectrum Systems has provided poor customer support for repairs. Replacing the CEMS with a superior system from Cisco Systems would improve reliability, emissions monitoring and performance, and would result in a common CEMS between Goldendale and Mint Farm. Initial data from the CEMS shows that the SCR is working as intended.

Steam Turbine Generator

Steam generated by the HRSG flows to an HP-IP, double-flow LP, downward exhaust, type KN condensing steam turbine ("ST") manufactured by Fuji. The ST was installed after reconstruction began in 2006. It is coupled to a Fuji 3-phase, 13.8kV generator rated at 134 kW at 100% capacity. Siemens-Fuji is not a common Steam Turbine Generator in North America; however, numerous units are in operation throughout the world. North American Energy Services ("NAES") operates one nearly identical unit in Calgary, which has had no maintenance issues. Replacement parts are internationally sourced, but domestically available.

The steam turbine is protected by numerous features such as vibration alarm and trip, mechanical and electronic over speed trip, high lube oil temperature alarm, low lubrication oil temperature alarm, high lube oil temperature trip, and axial

rotor position trip. Critical lubrication continuity is provided by two AC oil pumps and one backup DC oil pump, should AC power become unavailable.

The area directly below the ST is crushed gravel. Should a leak in the lube oil system occur, this escaping oil would pool on the gravel requiring decontamination of the soil. This concern can be easily alleviated by pouring a concrete containment slab below the unit.

Condensate Recovery System

The steam turbine exhausts to a Holtec, two-pass, stainless-steel tubed condenser that operates at 1.85 inches vacuum at maximum duty. Two condensate pumps provide adequate redundancy should one unit fail.

During initial plant operations, it was determined that the steam air ejectors, which help maintain vacuum in the condenser, were not functioning properly. A new control valve has been ordered and is awaiting installation as of the date this exhibit was written. The condenser has also experienced corrosion behind the coatings on the internal hotwell/condenser walls. This is not uncommon and can be mitigated by an inspection program and periodic recoating during outages.

The condenser is cooled by a Marley wet counterflow, five cell, fiberglass cooling tower. The fiberglass construction is superior to many wood or steel models in use throughout the industry. This cooling tower is simpler in design than Goldendale's hybrid cooling system and, as such, there are minimal concerns related to design and operability. The Facility has reported no maintenance issues to date.

Cooling and High Purity Makeup Water

Raw water supply is provided by two sources. The primary source is two on-site wells permitted to 3.89 million gallons per day ("gpd"), which is more than adequate to supply the plant's maximum daily usage of approximately 3 million

gpd. The secondary source is filtered water from the Columbia River supplied by Weyerhaeuser, also at a rate sufficient for 100% plant operations. This two-source system adds redundancy that is not typically seen in the combined cycle fleet. The Facility is currently using well water, but has used the Weyerhaeuser-supplied water in past plant operations. A 250,000 gallon ground-level raw water storage tank is integrated into the system to mitigate raw water supply interruption issues.

High purity makeup water for the plant is provided by reverse osmosis ("RO") skid-mounted, demineralization and softeners, and is stored in a 250,000 gallon ground-level tank. All chemicals are properly stored and contained in the chemical water treatment building. For condensate system chemistry, the Facility uses a coordinated phosphate program that includes caustic soda, phosphate, oxygen scavenger and amines. Chemicals are provided by Chemtreat and water quality is checked twice daily by grab samples. There is continuous monitoring of pH, oxygen and conductivity.

Waste Water

Most waste water generated at the site is the result of cooling tower blowdown. The site has two disposal options. The current method utilizes a connection running south into Weyerhaeuser's facility. Weyerhaeuser processes this water and then releases it into the Columbia River. With proper testing and permitting, the waste may be directly discharged to the Columbia via the same line. A three-way valve in the system allows for easy transition between each mode.

Electrical

The plant uses localized breaker sheds elevated above ground. This elevated, non-centralized design reduces the cable running throughout the site and facilitates easier installation, modification and maintenance. It also reduces the risk of damage should a flood occur.

There are two large generator step-up transformers ("GSU") that receive power from the CT and ST generators. Each unit steps the generator voltage of 18kV and 13.8kV, respectively, up to approximately 230kV for transmission to BPA via the switchyard located on site. The GSU configuration is standard for a combined cycle plant with bypass operability. Each GSU sits on a concrete pedestal with concrete pit containment to accommodate over 12,000 gallons of oil should the GSUs leak.

Power is backfed from the BPA through an auxiliary step-down unit to provide startup power. There is also a secondary electrical system from Cowlitz County PUD that comes from a separate ground feed. Finally, there is an emergency backup diesel-generator set on site that can supply power to most of the critical areas of the plant. Mint Farm is not black-start capable.

Dissolved gas analysis ("DGA") was performed during the pre-startup period, but has not been conducted since commencing at-power operations. Potential GSU issues are unknown but considered negligible considering the youth of the plant. No infrared surveys have been conducted to determine the location of hot spots in the system.

Nearly all electrical wiring at the plant was installed in 2006 and 2007 after project reinitiation and is considered in excellent condition.

Controls/Software

The power plant is controlled by a system of local control panels, local instrumentation, and a central distributed control system ("DCS") supplied by ABB Bailey. The system was upgraded in 2007. ABB Bailey has been providing equipment to the utility industry for decades and lately has expanded their market share through strategic acquisitions. There is strong support for their equipment in the U.S. market. A PSE engineer was on site during a plant startup and no control system issues were observed. The graphical user interface for the

control system was custom designed for easy use and incorporates eight large screen, flat-panel displays from commercial, off-the-shelf components.

Remainder of Plant

Due to time lag between component purchases and final plant assembly, all components, with the exception of the catalyst plates, are not covered under warranty. There are no additional comments or issues of concern with respect to equipment not covered above.

Performance Evaluation

As of July 16, 2008, PSE continues to await the results of an ASME PTC 46 standardized plant performance evaluation conducted on July 9, 2008. Subsequently, all stated plant performance data in this report is based on information provided by Wayzata/GE. All heat rate data provided thus far is consistent with plants of similar design and age. In its stated full capacity base load without duct firing, the Facility is similar in heat rate to Goldendale and superior to all other combustion turbines in PSE's fleet.

Maintenance Contracts

Maintenance at the Facility is currently covered under a Long Term Service Agreement ("LTSA") between Wayzata and GE. This LTSA was signed during bankruptcy proceedings between the Facility's original owner (Mirant) and GE and does not adequately address many of PSE's service desires. PSE is working on converting the existing LTSA between Wayzata and GE into a Contract Services Agreement ("CSA") similar to the one PSE has with GE for Goldendale.

Additionally, GE is operating the plant under an Operations and Maintenance Agreement ("O&M Agreement"), which will be terminated after PSE assumes operational control of the plant.

Spare Parts Inventory

The Facility has $934K worth of spare parts not already provided through the LTSA. This is significantly less than the expected level of spares for a plant of this type. North American Energy Services ("NAES") has considerable experience with 7FA plants and recommends a spare parts inventory valued at $2.5 to $3 million. Should PSE operate both Goldendale and Mint Farm, a consolidated inventory should be evaluated to capitalize on potential synergies.

Conclusion

Mint Farm would be a reasonable addition to PSE's generation assets. Acquisition of this facility would provide an opportunity to further utilize the base of technical knowledge that PSE has gained through experience with Goldendale. While almost brand new, the plant will require implementation of several mechanical upgrades to the CT and HRSG to maximize reliability and minimize failure risk. With less than 3,000 fired hours, Mint Farm has minimal operational history to compare and contrast performance with similar plants such as Goldendale.

Recommended Additional Actions

- Perform an outage early to address outstanding TIL issues and evaluate and correct HRSG concerns.
- Construct additional concrete containment and concrete slab bases to increase leak containment and improve crane operability.
- Renegotiate the LTSA with GE.
- Buy additional recommended spares while considering parts synergies with Goldendale.

B. Environmental Due Diligence

The environmental due diligence review consisted of a site visit, interviews with Facility employees, review of all available environmental documentation at the plant (including environmental agency correspondence, permit applications, final permits, environmental plans and policies, etc.), review of Department of Ecology ("Ecology") and Southwest Clean Air Agency ("SWCAA") files pertaining to the Facility, and interviews with Ecology, SWCAA representatives and a Longview Fire Department representative by PSE staff and/or its agents.

Executive Summary

No significant environmental issues were identified during the environmental due diligence. The Facility appears to be properly sited and constructed and in good condition. There are programs in place to address air emissions, wastewater discharge, stormwater discharges, solid waste management, hazardous materials handling and hazardous waste management.

For air emissions the Facility is currently operating under a Final Air Discharge Permit and is registered under the U.S. EPA acid rain program. A Title V Operating Permit application will become due by November 2008, one year after initial operation by MFEC. The purpose of the Title V permit will be to consolidate all federally-enforceable permit conditions and establish compliance monitoring, recordkeeping and reporting requirements for each applicable requirement. The Title V process is not intended to change applicable requirements or related permit restrictions unless a change in regulatory requirements has occurred since the current air permit was issued. Previous Best Available Control Technology ("BACT") determinations for the current permit should remain unchanged.

There was a NOx emission excursion in March 2008 during an extended warm turbine startup that was reported appropriately. SWCAA determined the event was unavoidable and no penalties will be assessed. Emission monitoring records

provided by Wayzata indicate that attitional NOx excursions may have occurred in April 2008. Two of these potential emission excursions occurred during extended hot starts, and the third potential excursion was a nine-hour event that occurred during duct firing. During a telephone conference with PSE and URS Corporation staff, Wayzata appeared to be unaware of these potential excursions, and Wayzata confirmed that they have not been reported to the agencies. PSE has requested additional information and awaits a response from Wayzata.

Property Review Summary

The property was undeveloped prior to the initiation of construction of the Facility. Drinking water is supplied under a service agreement with the City of Longview. Process water for production purposes is supplied by two on-site wells and is demineralized before storage. The Facility's sanitary sewer is discharged to the City of Longview publicly-owned treatment works. The site is in the 500-year floodplain of the Columbia River, but is outside of the 100-year flood plain, and is portected by dikes in the Consolidated Diking Improvement District ("CDIC") No. 1.

The Facility property is in good condition.

Facility Siting Permits and Authorizations

Mint Farm Industrial Park

The Facility is located within the City of Longview, within the Mint Farm Industrial Park. Many of the environmental clearance items were covered by development of the industrial park including a wetland mitigation area. The Facility is one of the first developments in the industrial park and new internal roadways were observed to be under construction.

State Environmental Policy Act ("SEPA")

A Mitigated Determination of Non-Significance ("MDNS") was published in January 2001 and Addendums in Feburary 2002 and 2004. The conclusion reached in the MDNS was that the lead agency (the City of Longview) determined that the proposal for the power generation facility did not have a probable significant impact on the environment.

Water Rights

MFEC has water rights for four wells, and are currently using two on-site wells for process and cooling water. MFEC has an agreement with Weyerhaeuser for purchasing process water as a back-up option (existing wells were described as providing more than adequate capacity). Potable drinking water is provided by the City of Longview. The City also provides fire protection water to hydrants. The Facility is equipped with hydrants, post indicator valves, fire department connections and two large water tanks (250,000 gallons each).

Fire Department "Occupancy" Permit and Plans

Site graditing and building permits were issues by the City of Longview. The City of Longview Fire Department/Fire Marshall has not signed off on their equivalent of a final occupancy-type permit. The Department must conduct a facility/site walk-through and MFEC must submit a fire protection plan for Department review and approval. A complete Hazardous Material Management Plan is outstanding and must be approved and registered with the City.

Air Emissions

The MFEC currently has one air permit governing operation of the Facility: a Final Air Discharge Permit issued by SWCAA. The Facility has also been registered under the U.S. EPA Acid Rain Program and SO2 allowances have

been purchased by MFEC for antipated 2008 operations. A Title V operating permit application will become due to SWCAA in November 2008.

Air Discharge Permit

The Facility received its current Final Air Discharge Permit on February 25, 2008, which aggregates modifications for emergency generator specifications and requirements of previously-issued Air Discharge Permit versions. Multiple permit revisions have occurred to date, and one additional revision is planned by MFEC in the near future to refine conditions related to gas turbine start-ups and shutdowns; details are unknown to PSE but have been requested from Wayzata. The Final Air Discharge Permit defines emission limits, operating conditions, and other regulatory requirements applicable to the Facility. Because the Facility accepted permit restrictions limiting emissions to less than 100 tons per year ("tpy") of any regulated pollutant, it did not trigger prevention of significant deterioration ("PSD") regulations, and was able to be permitted under the Notice of Construction ("NOC") program. Key conditions in the original Final Air Discharge Permit included:

- All criteria pollutants limited to less than 100 tpy (the closest to the 100 tpy threshold that would trigger PSD were nitrogen oxides ("NOx", with a limit of 98.79 tpy), particulate matter smaller than 10 microns ("PM10", with a limit of 98.9 tpy), and sulfur dioxide ("SO_2", with a limit of 84.36 tpy). Ammonia, which is not currently regulated as a criteria pollutant has a limit above 100 tpy.
- One-hour, 24-hour and rolling 12-month emission limits are summarized in Table 1.
- Facility start-up and shutdown durations are limited, but the number of start-ups and shutdowns is not directly limited by the permit. Annual emission limits indirectly limit how many start-ups and shutdowns can occur; however limited available emissions information provided by MFEC

for March through mid-May 2008 and more extensive emissions data for similar equipment at PSE's Goldendale Plant indicate that annual emission limits are unlikely to impact PSE's currently anticipated start-up/shutdown cycling of the Facility.[2]

The permit does not explicitly address or limit minimum load operations. Short-term (hourly) emission limits, instead, indirectly limit minimum load operations. Minimum load emissions information has been requested from Wayzata; PSE awaits a response. It is anticipated that the OPTIFLEX Enhancement modification available from the Frame 7FA turbine manufacturer (GE) will be necessary to operate the MFEC under the operating scenario that is currently anticipated by PSE, as has been successfully installed at Goldendale.

Table 1. Summary of Mint Farm Energy Center's Emission Limits

Pollutant	Gas Turbine and Duct Burners[3] Hourly (lb/hr)	Gas Turbine and Duct Burners[4] (ppmvd)	Facility-Wide Annual Emissions[5] (tons/yr)
NOx	21.3	2.5 (24-hr)	98.79
CO	31.1	6.0 (1-hr) 2.0 (annual)	70.09
PM10	23.2	N/A	99.66
VOC	8.9	N/A	44.17
SO2	20.7	N/A	84.36
NH3	31.4	10% (NH3) 5% (NOx+NH3)[6] (24-hr)	128.05
Visible Emissions (Opacity)[7]	5%	N/A	N/A

[2] MFEC's emission measurements during 33 start-ups and shutdowns in March-May 2008 were used with the following assumed annual operating scenario to estimate that approximately 190 startups and shutdowns are hypothetically possible within the annual NOx emission limits in the permit: 5500 hrs baseload operation, plus start-ups that are 8% warm, 74% warm and 18% cold. Based on current and projected Goldendale operation, it is believed that fewer than 190 startups and shutdowns will be necessary to successfully operate the MFEC. If annual emission limits should become an unacceptable operating constraint in the future, PSE will have several options to consider for relieving the constraint.

Notes:

[3] From permit condition 2.1.1. Exclude start-ups (SUs) and shutdowns (SDs).

[4] From permit condition 2.1.2. Exclude SUs and SDs. Part per million, volumetric dry (ppmvd).

[5] From permit condition 2.1.7. Includes gas turbine, duct firing, cooling tower PM, emergency engines and fuel preheater. Includes SUs and SDs. See permit conditions 2.1.4, 2.1.5 and 2.1.6 for annual limits that apply individually to the cooling tower (1.08 tons/yr PM), emergency generator (0.87 tpy NOx, 0.50 tons/yr CO, and 0.12 tons/yr PM10), and fuel preheater (1.39 tons/yr NOx, 1.41 tons/yr CO, and 0.29 tons/yr PM10).

[6] Permit conditions 2.2.14 and 15 are more stringent than the 10 ppm limit in condition 2.1.1, limiting the total combined concentration of NH3+NOx to 5 ppmvd (24-hr average).

Acid Rain

Mint Farm Energy Center, LLC has registered the Facility under the U.S. EPA Acid Rain Program. Applicable acid rain rules impose various monitoring and reporting requirements. Key provisions include:

- Requirement to hold allowances for SO_2 not less than the total annual emissions of SO_2 for the previous calendar year
- NO_x continuous emissions monitoring system ("CEMS")
- SO_2 emission monitoring
- Record keeping and reporting

Such requirements will eventually be implemented/documented in a Title V Operating Permit. MFEC has acquired SO_2 emission allowances for their anticipated 2008 operations. A NOx CEMS has been installed, tested and approved by SWCAA and is currently operated by MFEC. Emission calculations are used to estimate and report SO2 emissions. Evidence of record keeping and reporting to EPA for the Acid Rain Program has not been provided by Wayzata for the plant's short operating history.

Title V Operating Permit

Although the Facility is under the emission threasholds for Title V, because MFEC has federally-applicable requirements, they are required to obtain a Title V permit. A complete Title V Operating Permit application must be submitted to SWCAA within 12 months after initial operation, which occurred in November 2007. SWCAA anticipates that a draft application will be submitted in September 2008 for completeness review and supplemental information submittal, if needed, by the November 2008 final submittal deadline.

[7] From permit condition 2.1.8, can exceed only 3 minutes in any one hour any time including SUs and SDs.

Current Air Quality Operating Conditions

The Facility is now subject to a 5 ppmvd limit on total combined NH_3 and NOx emissions, which is considerably more stringent than the typical BACT limit of 10 ppmvd. Achieving the NH_3 limit will require a more robust maintenance program for the selective catalytic reduction ("SCR") system as compared to other facilities. The catalyst may need to be replaced within the next four years (at six years catalyst life), at a cost of approximately $1 million. Actual required catalyst replacement would be based on SCR performance data. The Facility's initial source test in February 2008 indicated a NH_3 concentration well below 5 ppm with its new SCR catalyst. It also has an oxidation catalyst to control CO emissions. The Facility has vendor performance guarantees for both catalysts. The oxidation catalyst has an expected lifetime of six to ten years.

Although the NH_3 limit is already more stringent than the typical BACT limit, it could be further ratcheted down in the future when ammonia becomes regulated as a precursor to fine particulate matter ("$PM_{2.5}$"). A new national ambient air quality standard for $PM_{2.5}$ is expected to be implemented later this year. Additionally, ammonia and nitrogen sources near the Columbia River Gorge have been receiving extensive press scrutiny within the last year, through articles in the "Oregonian" (Portland, Oregon) noting haze and acid deposition issues in the Gorge in winter, with likely sources being PGE's Boardman coal-fired plant and the Three Mile Canyon dairy farm. Revisiting the ammonia limit may receive public support, given the above, and the extent of the comments in the first NOC revision concerning allowing increased sulfur dioxide emissions. A more stringent ammonia slip emissions limit would likely result in increased costs for the SCR catalyst maintenance program.

Continuous ammonia slip monitoring is to be accomplished via a Predictive Emission Monitoring System ("PEMS") that has been submitted by MFEC and approved by SWCAA. The PEMS is based on continous NOx measurements before and after the SCR catalyst, continuous ammonia injection flowmeter

measurements, and a formula that is specifyied in the Facility's approved PEMS plan. This PEMS approach is common in other states (e.g., California) and has a successful track record. The formula includes a correction factor that was to be determined from February 2008 source test results. The PEMS is currently not operational. Thus, continuous ammonia emissions data have not been available for review by PSE. Negotiations between MFEC and SWCAA are in progress to facilitate full implementation of the PEMS. Reasons for delayed implementation are not known to PSE, but SWCAA recognizes the situation and appears to be working with Facility staff.

The Facility is likely to become subject to future carbon dioxide mitigation requirements when they are adopted in Washington and nationally.

The CEMS for NOx and CO was observed during the site visit. Based on comments by MFEC staff and observations by PSE, it appears likely that the CEMS will need to be replaced with more reliable equipment and software, and with measurement ranges that are more appropriate for accurately measuring emissions during start-ups, shutdowns and normal operation.

The emergency generator operates less than 170 hours per year for testing and maintenance purposes (excluding emergency use). The air permit recognizes a diesel emergency firewater pump that was not installed within an 18-month statutory deadline. An electric firewater pump was installed instead. Should PSE desire a diesel pump, prior approval from SWCAA and re-analysis of BACT for the engine would be required.

Quarterly emission reports for the 2nd and 3rd Quarter 2007 and the 1st Quarter 2008 identify one NOx emission violation during an extended hot start on March 30, 2008. This event was reported to SWCAA. SWCAA subsequently determined that it was an unavoidable (excused) occurrence. Emissions data for April/May 2008 provided to PSE by Wayzata may indicate further un-reported excess NOx emission events related to hot starts and one 9-hour duct burner

operation event in April 2008. These events have not been reported to SWCAA. Duct burner operation to date has been approximately 9 hours. CEMS data indicated excessive lb/hr NOx emissions during duct firing. However, the high lb/hr NOx data conflicted with NOx concentration (ppmvd) measurements that remained stably below permit limits during the duct firing event. PSE awaits further requested information/explanations from Wayzata.

Air emission compliance tests were conducted by Horizon Engineering for 2008. No significant issues were identified in the test results.

Wastewater Management

The Facility discharges process wastewater and stormwater under National Pollutant Discharge Elimination System ("NPDES") permit No. WA-0039641 for discharge to the Columbia River. The permit issued by Ecology has an expiration date of September 15, 2010. The Facility is also permitted to discharge neutralized wastewater to the City of Longview sewer system but does not currently use this option other than for its potable water uses.

MFEC also has an agreement with Weyerhaeuser to convey and treat process water. Currently, Weyerhaeuser is treating MFEC process water due to small levels of arsenic in the water (due to arsenic in MFEC source (well) water) for which the current NPDES has zero tolerance. Wayzata indicated that they are waiting for a letter from Ecology modifying the NPDES permit to allow for small levels of arsenic in the discharge. When MFEC receives the approval, they plan to ask Weyerhaeuser to discontinue treatment of the water, thereby avoiding costs related to treatment, and divert it directly to the Columbia River using Weyerhaeuser's outfall. MFEC does not currently monitor process water discharge because they do not think it is required until Weyerhauser's treatment is discontinued; however, based on PSE's interpretation of the permit, sampling should currently be occurring. If the option of discharging wastewater via Weyerhaueser's outfall ever terminates, the Facility has a permit which allows it

to disharge directly to the Columbia River, but appropriate easements to build an outfall pipe would need to be obtained.

Stormwater Management

Construction of the site is essentially complete except for the Covenents, Conditions and Restrictions ("CCRs") of the Industrial Park requirement for landscaping that MFEC is obligated. Once perimeter road and stormwater pond landscaping (and removal of storage containers from around the pond) is complete, the construction Stormwater Pollution Prevention Plan ("SWPPP"), associated with the construction NPDES stormwater permit, can be closed and the operational SWPPP can be reviewed and approved. The operational SWPPP has not yet been provided to Ecology.

Stormwater from the site is currently discharged into a stormwater detention pond located on City of Longview property. This pond is located on Tract "A" which is a triangular parcel located between the electrical generation facilities and the office/substation (there are two ponds but MFEC only discharges into one of the ponds). Tract "A" is part of the Mint Farm Industrial Park ("MFIP"). The pond is addressed in a number of documents including the construction SWPPP and Spill Prevention Control and Countermeasure Plan ("SPCCP"). The pond on Tract "A" drains into a ditch on Consolidated Diking Improvement District No. 1 ("CDID #1") property.

The stormwater detention pond was built for construction purposes and should be retrofitted for long-term use. If the Facility continues to discharge its stormwater into this pond, the discharge agreement with the City of Longview needs to be re-negotiated. The existing agreement with the City of Longview states that MFEC is responsible for operation and maintenance of the stormwater ponds. Now that construction is complete, the City of Longview should take back control and responsibility for these stormwater ponds that serve the entire Mint Farm Industrial Park, effective when all contruction SWPPP and CCRs

requirements are met. An interview with City engineering staff indicated they were aware of this situation.

Solid Waste Management

Fill material containing miscellaneous waste (e.g., wire, plastic, wood, asphalt fragments and broken clay tiles) was noted in the south portion of the site. A subsequent subsurface investigation by Golder Associates included soil and groundwater sampling analysis. Mercury concentrations were identified in soils that exceeded MTCA Method A Cleanup level of 2 mg/kg (Golder, 2002). The extent of the apparent mercury contamination within the soil was not provided in the reports reviewed. Groundwater samples reportedly did not detect mercury and subsequent TCLP analysis of soils also did not contain mercury at concentrations that exceeded "the dangerous waste threshold, or at concentrations exceeding cleanup levels for the protection of groundwater." Golder reported that "concentrations of other priority pollutant metals, VOCs, semi VOCs, and TPHs were either not detected or were detected at less than MTCA Method A Cleanup levels." Golder concluded that "the concentrations of mercury appear to be limited to fill soil contained on the subject property and should not impact groundwater. Therefore the fill soil is not a threat to human health (or) the environment." There is a City of Longview agreement indemnifying Mint Farm Generation, LLC and it's successors in interest against costs and liabilities arising from the presence of fill on the property.

URS Corporation conducted a baseline Phase II ESA to confirm existing conditions. Soil and groundwater sampling was performed at the Facility on July 17, 2008 and did not identify elevated mercury levels as was previously reported. The detections of arsenic lead, chromium and barium in the soil were well below applicable MTCA cleanup levels. The presence of these metals in the fill soils does not appear to be an environmental concern. The assessment of the downgradient groundwater quality did not identify potential contaminants of

concern. VOCs and petroleum hydrocarbons were not detected in the two groundwater samples and only low levels of chromium were detected in the samples. Thus, the background groundwater quality does not appear to have been impacted by Facility operations or the presence of fill material.

Non-hazardous refuse is picked up by the local vendor and ultimately disposed of at Roosevelt Landfill.

Hazardous Material Handling and Storage and Hazardous Waste Management

One 18,000-gallon aqueous ammonia above-ground storage tank ("AST") is present on the northwest portion of the site. The tank is equipped with a concrete secondary containment sump. The fill pipe for this tank extends out over an asphalt paved area, and in the event of a spill during refilling, the ammonia could discharge to site soils west of the tank.

The Facility also includes a number of chemicals in ASTs and drums for treating process water. The majority of the chemical storage tanks were located in the water treatment building and chemicals present included the following:

Potassium Permanganate	Sodium Bisulfite
Caustic Soda	RO Antiscalant
Circ Water Scale Inhibitor	Circ Water Corrosion Inhibitor
Sodium Hypochlorite	Sulfuric Acid

The sodium hypochlorite and sulfuric acid were contained in approximately 5,000-gallon poly ASTs. The majority of other chemicals were in containers ranging in volume between 55 gallons and 400 gallons.

Additional hazardous materials were observed in containers ranging in volume from one pint to 55-gallons at several locations across the Facility. These locations include:

- used oil storage shed adjacent to the east of the administration building;

- boiler-water test laboratory in the southeast portion of the water treatment building; and
- flammable materials storage cabinets in areas including the water treatment building, and the administration building warehouse and shop.

URS Corporation did not observe evidence of significant releases of chemicals to the floors of the water treatment building. The floor of the water treatment building was painted and curbed for secondary containment of potential spills, and is equipped with a zipper drain which drains to the north sump which is located south of the water treatment building. Staining was not observed that would have indicated significant releases, and the sump reportedly discharges to the cooling water system, not the stormwater system.

The Facility is not classified as a Small Quantity Generator of RCRA Hazardous Wastes, and URS did not observe hazardous waste storage or generation during site reconnaissance. A lube oil leak at the north natural gas compressor oil reservoir resulted in a 330-gallon spill in September 2007. The spill impacted adjacent soils and was cleaned up by Cowlitz Clean Sweep ("CCS"), a spill contractor, immediately after the incident. The power plant owners/operators notified Ecology and the Longview Fire Department of the spill. Approximately 16 tons of petroleum impacted soils were excavated and disposed offsite by CCS at the Rinker facility. The extent of the excavation was not reported. URS Corporation observed two small areas of soil staining in this area during its walkthrough, but they appeared to qualify as de minimus releases unless indicative of more widespread staining. The plant operators reported no knowledge of additional significant spills or overfills of petroleum products or chemicals. Based on the reported cleanup that occurred, this spill has a low potential to represent significant current adverse environmental condition at the subject property.

A release of approximately 1,200 gallons of wash water occurred in 2007. The water was generated by washing of the combustion turbine and while being pumped from a subsurface cistern was inadvertently discharged to the gravel surface adjacent to the cistern. Ecology and the Longview Fire Department reportedly did not indicate further action was required. Two samples of the water were collected and analyzed for RCRA metals and pH. Contaminants were not detected and based on the reported lack of contaminants, this spill represents a low potential to represent an environmental concern at the subject property.

Noise

Upon plant start-up there were noise complaints by one property owner across the valley. Significant noise reduction measures were taken on the Facility and no further issues have been reported.

C. Real Estate Due Diligence

The Mint Farm Energy Center Facility ("Facility") is constructed on two (2) contiguous parcels of property. One parcel is 5.46 acres in size; the other parcel is 5.96 acres. The project is within the city limits of Longview and within the Mint Farm Industrial Park. A 2.5-acre parcel of property, owned by the City of Longview, abuts in a triangular fashion, between the two Facility parcels. The 2.5-acre parcel is utilized as a stormwater discharge facility for both the Facility parcels as well as for other industrial properties within the Mint Farm Industrial Park.

Easements for two (2) twelve inch (12") pipelines, which are appurtenant to the Facility parcel, extend south and east of the power plant. The easements establish rights for the installation, operation and maintenance of pipelines that are used for the transmission of industrial cooling water and cooling effluent from Facility operations. The cooling water and cooling effluent discharge to

Weyerhaeuser's property where they are treated within Weyerhaeuser's treatment system. Should the Weyerhaeuser discharge ever cease, a water treatment facility would need to be built, most likely on Facility property. Additionally, new easements across approximately 3,100 lineal feet of adjacent property would need to be secured to discharge the cooling water and cooling effluent to the Columbia River.

The Facility parcel is burdened by various typical easements including power lines, water and storm drain lines, and railroad rights in favor of Weyerhaeuser. Pending review of an Alta survey, which has been commissioned but is not yet complete, PSE does not expect any title issues, easements, etc. identified by the survey to adversely impact the Company's acquisition and operation of the plant.

In summary, the real estate due diligence related to the Facility property has not identified any issues of concern. The Alta survey, when completed, will be reviewed in connection with the title report as a component of the remaining due diligence evaluation.

D. Insurance Due Diligence

The comments from PSE's property insurance engineer were generally good, but there were a number of recommended or required actions needed to gain insurance coverage. PSE plans to add the facility to its all risk property insurance program with a replacement value of $196 million. The deductibles will be $2.5 million for the combustion turbine, $1 million for combined all risk, and $1 million or 2% of the total insurable value of each location involved in a loss, whichever is greater, for earth movement coverage.

Fire Protection

PSE's property insurer's fire protection engineer reported that the fire protection is generally good. All equipment and systems are fully commissioned and the installed fire protection systems are at industry standard or better. Fire water

supply provided by the City of Longview is acceptable. In addition, an electric fire pump takes suction from the 250,000 gallon raw water tank to supplement the city supply and provide fire water for the gas turbine building fire sprinkler systems. The insurer had three fire-related loss control recommendations (listed below). All of these can be implemented for an estimated total of $10,000.

- Provide containment below the steam turbine/generator area to prevent the spread of a lube oil fire in the event of a lube oil leak.
- Install fire sprinkler protection in the office/laboratory space in the water treatment building.
- Perform an initial infrared thermographic survey on all critical equipment and buildings, and repeat annually thereafter.

Combustion Turbine

The Facility includes one GE 7FA combustion turbine. Recently, there have been compressor blade failures at similar plants, resulting in significant damage to GE 7FA units. PSE's property insurance boiler and machinery engineer determined that two critical recommendations published in GE technical information letters ("TILs") have not been completed, TIL 1509-1 which is past due, and TIL 1539 which is due at the first major outage. (See A. Technical Due Diligence)

- Under TIL 1509-1 non-destruction dye penetrant testing of the row 0 blade roots is recommended for units with 50+ starts. The Mint Farm unit has over 93 starts. The failure to identify blade cracking can result in liberated blades destroying downstream compressor blades.
- TIL 1539 covers the inspection of rotors, with the original cooling slot geometry, that are shot peened prior to first operation. Failure to replace the stage 1 and 2 blades with newer back-cut design blades can result in blade liberation and extensive downstream damage.

PSE's property insurance underwriters are unwilling to provide insurance coverage for the combustion turbine until these two TIL's are completed. The cost to complete is significant, and is included in the pro forma.

The following additional recommendations are related to ongoing maintenance.

- Perform gas turbine compressor shim mapping in conjunction with other maintenance or inspections to identify loose or migrating shims, excessive blade lean or blade rock. The cost is estimated to be as much as $100,000 if the work is done specifically for shim mapping.

- No dissolved gas analysis ("DGA") tests have been performed on the GSU transformers since the commencement of commercial operations. Complete an initial DGA test, and thereafter test at recommended six month intervals or, at a minimum, annually.

Exhibit 9
Transaction Risk Analysis

The proposed acquisition of the Facility carries certain risks. PSE has identified these risks and developed plans to eliminate or mitigate them to the maximum extent that is commercially reasonable and practicable. This exhibit describes these identified risks and their proposed mitigation in the pre-signing, pre-closing and post-closing phases of this acquisition process.

Pre-Signing and Pre-Closing Phase

PSE is currently negotiating the Membership Interests Purchase Agreement ("MIPA") and its related exhibits. The Pre-Closing Phase covers the period between now until signing of the MIPA and focuses on agreement on commercial terms that both parties find acceptable.

Exhibit 9
Transaction Risk Analysis

Risk	Possible Cause	Mitigation
Failure to reach signing	Unsuccessful in negotiating remaining commercial deal terms or discovery of unacceptable conditions during due diligence	If the parties are unable to reach agreement on outstanding commercial terms PSE's exposure would be limited to due diligence money spent to date, approximately $300,000.
Failure to reach closing	FERC 203 approval may require mitigation	PSE will be required to obtain approval from FERC under Section 203 of the Federal Power Act which requires FERC authorization for dispositions and acquisitions involving electric generation. To ensure that the transaction is in the public interest and does not result in the potential exercise of market power, the Commission staff applies market screen tests. PSE has engaged Golden Energy Services to perform analysis based on the Commission's methodology. This analysis indicates that PSE passes the screens that FERC weighs most: however, there are always areas of uncertainty. PSE will meet with FERC staff on July 25th to obtain some indication as to how the addition of Mint Farm may be viewed. It is possible that FERC may approve the acquisition contingent upon certain mitigating factors. Mitigation is not a condition to close.

	Hart-Scott-Rodino antitrust approval denied	Disapproval is considered to be a very low probability as the value of this transaction is relatively small in terms of PSE and the market in general. It is highly unlikely that this transaction would have any effect or potential effect on prices or lead to any market concentration from an antitrust perspective.
	Delay in satisfying any condition precedent to closing	The draft agreement allows for a maximum of 90 days after its execution for closing to occur, which date shall be extended by 45 days if closing has not occurred solely because the waiting period for the Hart-Scott Rodino appeal has not expired or the FERC Section 203 approval has not been obtained. This should be sufficient time to meet all conditions precedent necessary to close and PSE believes such conditions will be timely satisfied.
	Title questions regarding property, title or easements	PSE is currently performing due diligence to ensure that there are no additional risks that would render the purchase inadvisable. An extended title policy for full value of the acquisition will be secured.
	Environmental Risk	A draft Phase 1 Environmental Site Assessment was conducted by URS in the summer of 2007. The only further investigative activity recognized was to sample some of the soil on site that had been recognized for possible contamination. The Facility holds a letter from the city of Longview indemnifying it from any obligations should the soil prove contaminated.

	Failure to secure firm transportation on Cascade's system	PSE has met with Cascade and outlined four alternatives for securing transportation. The three most viable options are: 1) Upgrades on the Cascade gate to allow for additional capacity on the line, 2) The same upgrades as in #1 accompanied by pipeline upgrades to increase supply pressure, or 3) procure transport held by other long-term customers via assignment or release. Cascade is eager to supply the transport and PSE needs to make its selection.

Transition and Operating Phase

Certain risks exist after closing during the operating phase and these risks are discussed in the following table.

Risk	Possible Cause	Mitigation
Failure to obtain favorable rate treatment from WUTC of PSE's investment in the Facility	Acquisition deemed imprudent by WUTC	The in-depth analysis and documentation of the energy resource acquisition process soundly supports that the Facility is a low risk, least cost resource in an environment of high resource costs and few, readily available alternatives. Given the significant rise in resource costs across all technologies, PSE's analysis of resource proposals has demonstrated that the Facility is a favorable addition to PSE's resource portfolio.
Failure to obtain cost recovery of Facility depreciation and operating expenses prior to rate case order	PSE does not receive an accounting order for deferral	PSE plans to file an accounting petition, concurrent with transaction close, to defer both fixed and variable costs. Absent WUTC approval for this cost deferral, PSE will incur unrecovered costs. The amount of these costs depends upon when rates go into effect, but assuming a rate filing in early 2009, the unrecovered costs are estimated to be approximately $54 million for the 13 months ending December 2009.
Financial performance risk	High gas prices	PSE's power supply operations has an articulated plan to manage power and gas prices at the portfolio level by hedging portfolio power and positions up to three years forward. These hedges reduce exposure and help optimize the resource's performance

Risk	Possible Cause	Mitigation
Water Treatment	Closure/Sale of Weyerhaeuser's Longview Facility	If PSE's option to use the existing Weyerhaeuser treatment system and outfall were to be totally removed, PSE would be able to build its own treatment system and outfall piping. This would be unlikely however in that PSE could still at least use the existing Weyerhaeuser outfall and bypass treatment if approval is gained from the Department of Ecology.
Insurance Risk	PSE fails to secure insurance for the plant	PSE has already spoken with its insurers who have requested the satisfaction of the recommendations from two of the Technical Information Letters from GE, before they will provide insurance. PSE plans to satisfy these TILs immediately after closing before operating the Facility.
Technology Risk	Plant degrades/fails after closing	PSE plans to conduct an upgrade on plant and turbine generator to meet utility operating standards on the Facility immediately post closing. Key items addressed will be the two TILs required for insurance as well as facility upgrades suggested by GE to reduce risk of combustion turbine failure. PSE will also conduct routine maintenance to prevent and identify other key items.
Geotechnical Risk	Major earthquake	The Facility is located on poor soil but was constructed on 1,400 deep set piles and was designed based on more conservative earthquake modeling than required by Uniform Building Code.

Risk	Possible Cause	Mitigation
Flooding Risk	Columbia river flood	The Facility is located on a 500 year flood plain so flooding is not a high probability. Should a flood occur, many of the major plant components are elevated so damage would be mitigated.
GE O&M agreement	O&M Agreement proves too expensive	The O&M agreement, which provides the personnel for plant operations, can be cancelled at any time for a fee which decreases the longer the agreement is in effect. PSE would likely make offers to existing plant personnel. PSE plans to take assignment of the agreement and will likely cancel the agreement within the first year after closing.
GE LTSA agreement	Renegotiation of LTSA agreement	GE is amenable to renegotiating the existing LTSA to a CSA similar to the one used at PSE's Goldendale facility. Negotiations would ideally begin after agreement signing so that the new CSA could be in place as soon as possible after closing.
Operating risk	Higher maintenance costs than forecasted	As mentioned previously above, PSE's thermal asset manager has developed an plan to manage the O&M of the Facility This plan has been informed by PSE's experience as owner of the Goldendale facility, which has virtually the same GE 7FA technology, and by outside advice from GE and from North American Energy Services, a nationally known leader in O&M services.

Exhibit 10

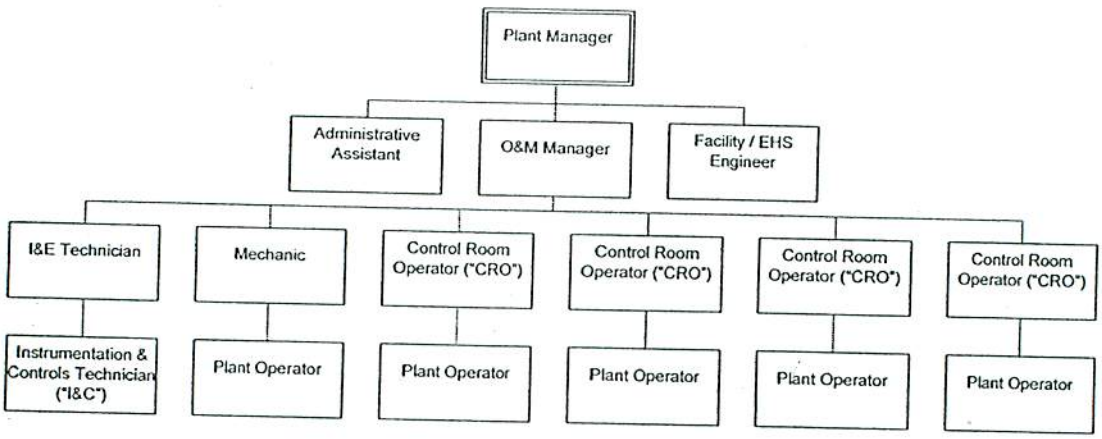
Asset Management Plan

Staffing Plan

Current Staffing

An Operations and Maintenance Agreement is currently in effect between Mint Farm Energy Center ("Facility") and General Electric ("GE"). The current staff consists of two (2) management positions, a facility engineer, an Instrument & Electrical Technician, an Instrument and Controls Technician, a Mechanic, four (4) Control Room Operators, five (5) Plant Operators and an Administrative Assistant. Staff presently located at the Facility who support the Facility (50% shared) as well as other Wayzata-owned facilites are a business analyst, and a warehouser. The labor force at MFEC is presently non-union.

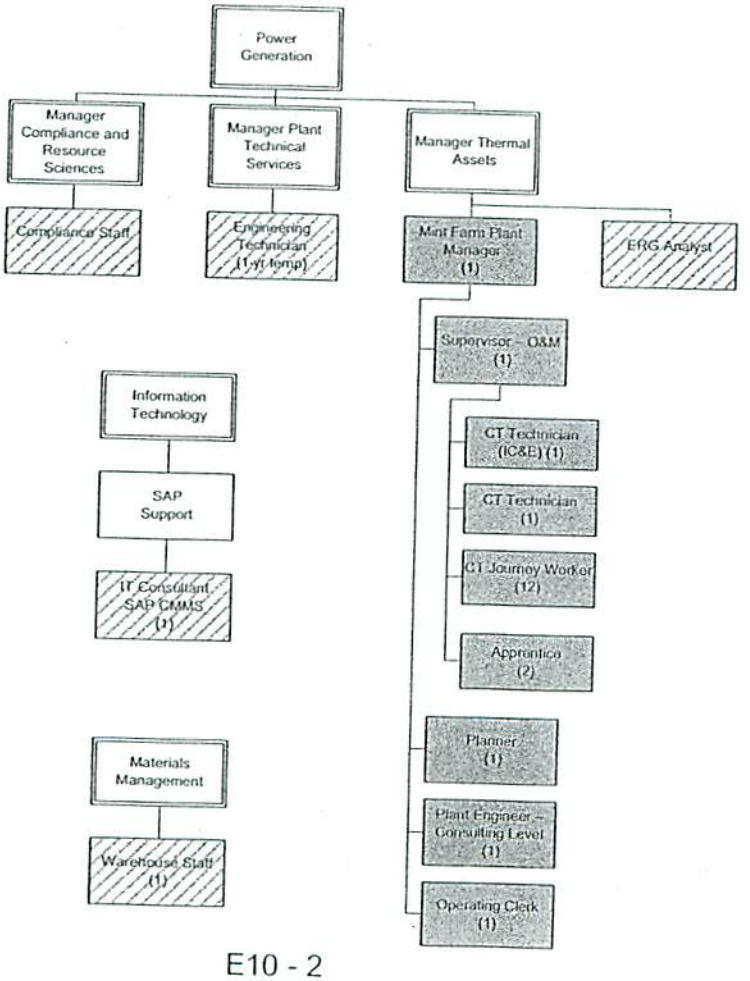
MFEC Current Staffing



PSE Staffing Plan

PSE's Power Generation department plans to staff the plant in a way that is similar to the current design except that the labor force would transition into the union, IBEW Local 77, pursuant to PSE labor relations protocol. Corporate support will be required from the Power Generation, Information Technology ("IT") and Materials Management departments for on-going plant support and to facilitate integration of the asset into PSE's existing portfolio. PSE's proposed staffing plan is depicted below. Facility employees are indicated with a solid gray background and additional corporate office support staff are indicated with a striped background.

Post-Closing Staffing Plan



Management (4) – PSE plans to operate the project with a Plant Manager, an Operations and Maintenance Supervisor, a Planner/Scheduler and a Plant Engineer (Consulting Level). Current management will be encouraged to apply and successful applicants will be transitioned to PSE subsequent to Closing .

Craft personnel (14) – Presently the plant operates on a 12-hour rotating shift (four days on and four days off) schedule. PSE will operate the plant using a 12-hour rotating shift commonly referred to as the "Modified DuPont schedule". This Modified DuPont schedule is currently in use at other PSE combined cycle combustion turbine plants. PSE plans to interview and transition desired employees into the union pursuant to labor relations protocol. The preferred staffing level will maintain 12 CT Journey Workers. Eight Journey Workers will be on the 12-hour rotating shift at any given time, the additional four Journey Workers will be moving into and out of the rotational staff and will be involved in plant maintenance during periods when not needed, as relief to the rotating shift. There are two represented lead positions in addition to the Journey Workers.

PSE will perform interviews with current staff. Upon completion of these interviews, PSE will extend contingent offers to successful candidates. GE employees who have accepted the contingent offers will become PSE employees. To provide for the likelihood that not all of the current GE employees will transition to PSE or that additional employees may be required, PSE has identified companies that provide temporary staffing services to fill this short-term need.

Additional Plant Personnel

PSE plans to add a Planner/Scheduler to the staff to support conversion of the existing Maximo CMMS maintenance system to the PSE CMMS system which is SAP – CMMS. This is a permanent position which will be necessary to support this maintenance planning tool once the conversion is completed.

Thermal Assets

PSE plans to add an analyst to the Thermal Assets support staff to support management of the LTSA or CSA contract and to produce monthly plant reports.

Plant Technical Services (1-Temp)

PSE plans to hire a 1-year temporary Engineering Specialist to incorporate current Facility drawings and information into the PSE electronic data library.

Compliance and Resource Sciences (1) – Within Power Generation, an Environmental Scientist will be hired to maintain compliance with all regulations applicable to the Facility.

Information Technology – SAP Support (1) – The Facility's centralized Computerized Maintenance Management System ("CMMS"), Plant Operating Data Historian, Desktop Computer Systems, Communication Systems, and other IT Systems are supported by COSCI's IT technical support staff; both the server and staff are located outside Washington state. PSE will transition the Facility to its own CMMS system. Other plant systems listed above will be converted to PSE systems as well. IT will require one FTE to support ongoing maintenance associated with IT systems that support the plant.

Materials Management (1) – A warehouser will be added to the Materials Management department to maintain proper tracking of plant inventory.

Transition Plan for Computer Services

Computerized Maintenance Management System (CMMS) – Internal development of the transition plan is in progress and will take up to 18 months to implement after closing. The Facility uses Maximo for the CMMS. PSE does not have a license for this software. All historical maintenance data currently within the Maximo CMMS will be transistioned to SAP – CMMS. PSE is currently transitioning all of its generating facilities to SAP for maintenance management.

During the transistion, PSE will maintain the maintenance schedules and inventory at the Facility by manually tracking data using a paper system. PSE currently has proceedures in place which allow for the orderly transistion to SAP – CMMS and SAP – Materials Management software.

Historian software and communications – PI-design software is used at the plant as a data historian and planning tool. PSE holds multiple user licenses for PI. With some hardware additions at the plant and a new T1 line, data stored in the PI historian can be transferred relatively easily to PSE's East Side Operations.

Exhibit 11
Gas Transportation Plan

Natural Gas Transportation Service

Overview

The Mint Farm Energy Center (the "Facility") is an exclusive natural gas facility. Distillate back-up is not an option and there is no on-site fuel storage. Gas and transportation requirements are [redacted] for 260 MW baseload and up to approximately [redacted] for the additional 37 MW of duct-fire and supplemental capacity. The Facility is interconnected to the Northwest Pipeline ("NWP") system by Cascade Natural Gas's ("Cascade") distribution system. The Cascade distribution system delivery pressure is a minimum of 150 psig and a maximum pressure of 250 psig, but the Facility requires 450 psig at the unit intake. Currently, pressure is increased through compression requiring 1.5 to 1.7 MW of parasitic load.

Through Cascade's connection to NWP, the Facility has the potential to access gas from British Columbia (via NWP), the Rockies (via the proposed Sunstone Pipeline and NWP's Blue Bridge expansion) or Alberta (via the Blue Bridge market expansion). There is currently no gas supply in place. Upon PSE ownership, this resource would be intregrated into PSE's rolling three year supply hedging program.

Transportation Strategy

After closing, PSE would need the Facility to hold firm transportation capacity on both NWP's interstate pipeline and Cascade's distribution system. The Facility currently holds 15,000 MMBtu/d of firm gas transportation on the Cascade system, which will be assigned to PSE. It does not hold any long-term firm transportation rights on NWP's interstate pipeline. In order to serve the Facility, PSE will identify a long term solution for the additional transportation capacity needed on Cascade and the full amount of capacity needed on NWP's interstate pipeline.

Cascade interconnects with NWP via two city gates in the Longview/Kelso area. The Facility currently holds 15,000 MMBtu/day of firm capacity on Cascade and this contract will be assigned to PSE. Cascade can readily provide up to 50,000 MMBtu/day of capacity with moderate facilties additions. Currently, Cascade will only commit to a minimum delivery pressure of 150 psig (maximum pressure is 250 psig). While it may be possible to bypass Cascade with a direct line, it appears that serving the Facility via the Cascade system is more feasible, desirable, and least cost.

To serve the Facility on the Cascade system, PSE has four options. First, PSE could acquire [redacted] of capacity, requiring moderate facility additions, primarily an upgrade to the NWP South Longview meter station. The upgrade costs, estimated between $1.5 million and $3 million, should be fully recoverable through Cascade rates. Alternatively, this upgrade could be handled as part of the Blue Bridge expansion.

Second, PSE could combine the NWP meter station upgrade in the first option, with an upgrade to Cascade's distribution system to raise the delivery pressure to 400 psig. This would involve the replacement of approximately 2.5 miles of distribution pipeline. In order for this option to be feasible, PSE would have to compare the economics of the pipeline costs with the savings garnered from substantially reducing the cost of gas compression at the Facility.

A third option would be to procure Cascade firm service from other long-term customers via assignment or release. PSE understands that some large industrial customers hold more capacity on Cascade's system than they need and might be willing to assign their capacity to PSE. There may be opportunities for discounted rates and this option would not require the six to twelve month process to complete the meter station upgrade.

The fourth option would require Cascade to purchase and operate a line owned by Weyerhaeuser. This line connects directly to NWP's system and runs very

near the Facility. This line could possibly facilitate a delivery pressure of 400 psig. However, this option would require fairly complicated negotiations and should be considered a long-shot at best.

Acquisition of Transportation on NWP's interstate pipeline will require a multipronged approach. In the near term (2-3 years), the Facility would be served with a combination of excess PSE gas book capacity and discounted capacity from British Columbia. For the longer-term, additional capacity would be required. PSE recently acquired [ ] of long-term NWP transportation capacity from Sumas (to Stanfield) for the power book that can serve this plant commencing in April 2009. There is shorter-term firm transportation capacity available on NWP via release or assignment from other long-term shippers, including a potential two (2) to three (3) year deal for [ ] supply and discounted transportation; however, PSE is still waiting to receive a copy of the term sheet. For the longer-term, PSE has signed a Precedent Agreement with NWP to purchase [ ] of pipeline capacity on the proposed Blue Bridge pipeline expansion, which could serve the Facility after 2011.

Table 1. Estimated firm gas transportation costs on interstate pipeline(s).

Demand charge	$0.38/Dth per day (short-term). $1.25/MMBtu per day (long-term with access to Rockies via Sunstone and BlueBridge)
Variable charge	$0.03/MMBtu
In-kind fuel reimbursement	2% of volumes received by pipeline (adjusted semi-annually); 3% once the Sunstone Pipeline is in-service.

Table 2. Estimated firm gas transportation costs on Cascade (excluding any charges for incremental facilities upgrades that are not recovered via rates, if any).

Demand charge	$1.50/MMBtu/month (~$.05/MMBtu/day).
Variable charge	$0.05/MMBtu + (depending on total monthly volume)
In-kind fuel reimbursement	0.4% of volumes received by Cascade (adjusted annually)
State Revenue Tax	4.535% gross-up of other charges
Dispatching Services Charge	$500 per month

PSE Board of Directors
August 4, 2008

Exhibit 11
Gas Transportation Plan

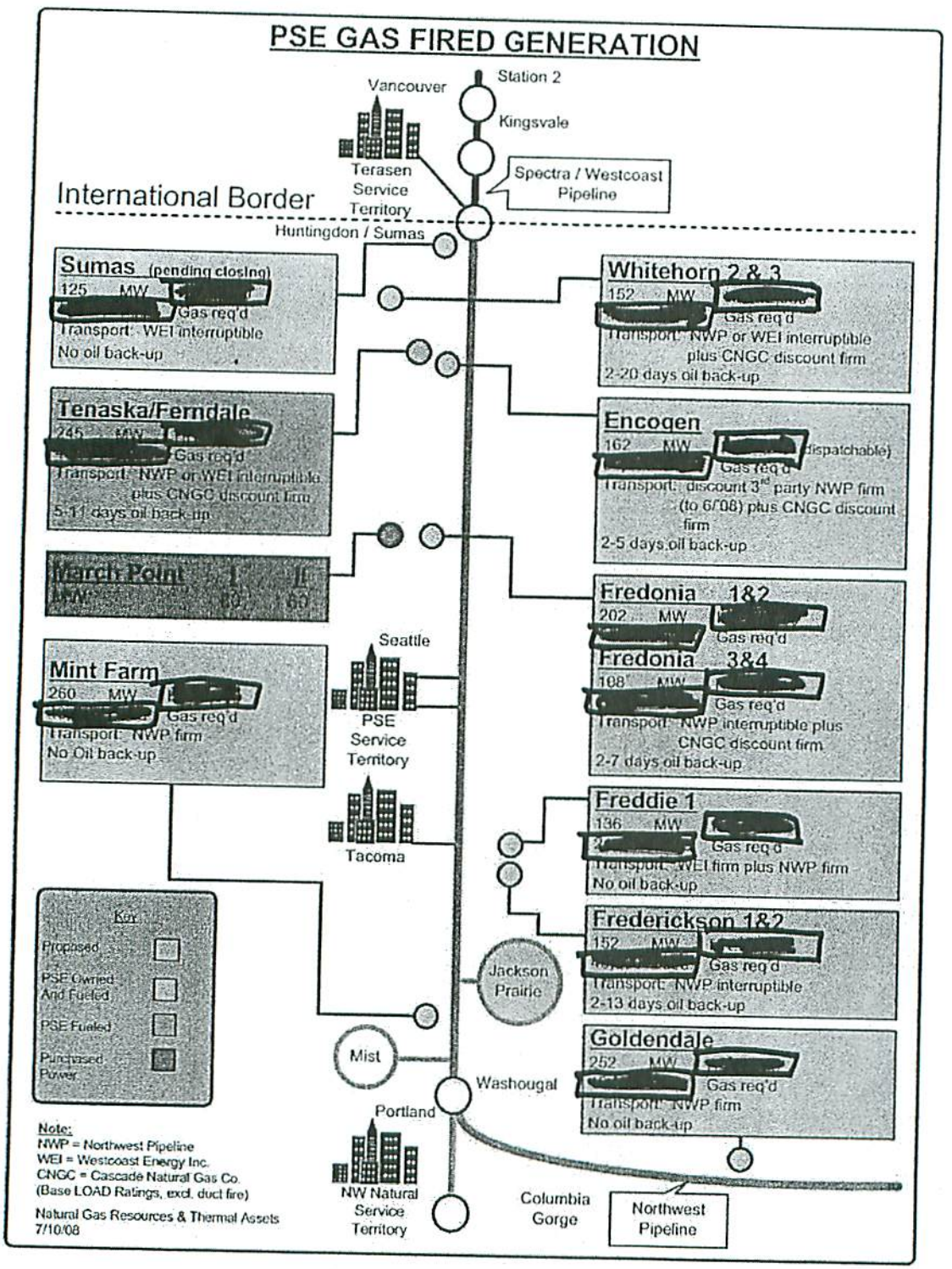


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Exhibit 12

Gas Supply Hedging Strategy

Gas Supply Strategy

The Facility will be served by firm natural gas pipeline capacity originating from British Columbia, specifically the Sumas trading point that interconnects the Duke/West Coast pipeline with Northwest Pipeline. Therefore, PSE's natural gas price exposure will be tied to contracts forwardly traded at this delivery point. The heat rate optionality inherent in this power plant, and thus its dispatch protocol, will depend on the relationship between natural gas prices at Sumas and power prices at the Mid-Columbia ("Mid-C") trading hub.

The plant's heat rate driven dispatch characteristics will be added to PSE's existing portfolio, which is currently modeled in its risk system. Based on forward market heat rates, the model would assign monthly probabilistic run rates and gas supply requirements for the plant ranging from near zero to close to the maximum capacity of [redacted] for two years forward.

Fixed Financial Gas vs. Fixed Financial with Underlying Commodity

Although Sumas is not a liquid trading point, there is enough liquidity to effectively trade fixed financial natural gas contracts for the next two to three years forward, based on the probabilistic run assumptions. Since the Facility is an efficient power generator with a low heat rate vis-à-vis other power plants in the region, the plant is likely to be dispatched predominately from July through February annually when market heat rates tend to be highest. PSE would expect to see an increase in its natural gas short position in these months that will be managed through a combination of financial and physical gas purchases. However, with the volatility of market heat rates, a flexible gas management strategy is required to manage the cross-commodity risk. In the case where heat rates rise, PSE will keep and exercise the financial and physical hedges. In the case where heat rates fall, rendering the Facility uneconomic, PSE would sell the financial gas contract and purchase power at Mid-C.

These hedges reduce the uncertainty of both the financial cost and physical supply. Purchasing the financial gas hedge and the underlying physical natural gas supply at an index (floating) price may force PSE to not only sell off the financial gas hedge, when heat rates collapse, but also the physical supply. This adds operational risk, particularly if heat rates are highly volatile in a particular month and the financial hedge is taken on and off numerous times.

This approach of purchasing financial gas hedges is consistent with current PSE portfolio management practices.

Exhibit 13
Transmission Plan

Current Transmission Arrangement

The Mint Farm Energy Center ("Facility") is a 260-megawatt ("MW") combined cycle combustion turbine ("CCCT") generating facility with 36.6 MW of duct firing capability. It is interconnected to the Bonneville Power Administration's ("BPA") 230 kV Longview Substation near Longview, Washington. The location of the Facility in relation to the Pacific Northwest's key 500 kV transmission lines is shown in Figure 1.

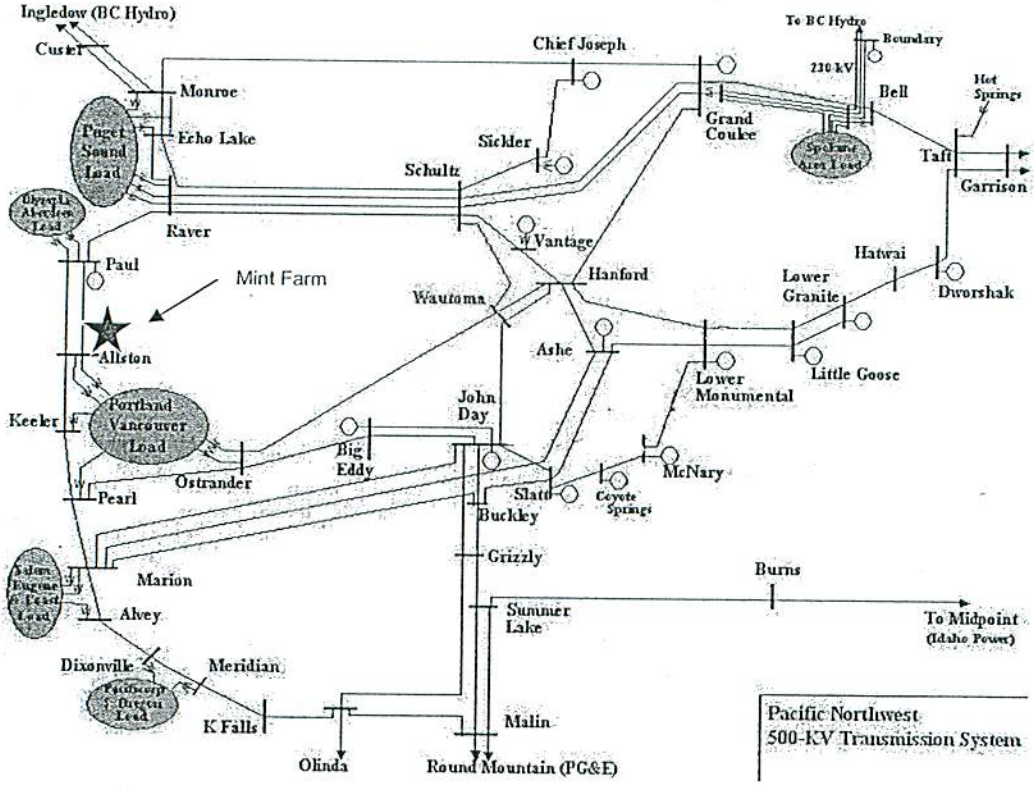

Figure 1: Location of the Facility relative to the 500 kV transmission system

As Figure 1 illustrates, the Facility is relatively close to major load centers such as Puget Sound and Portland. The physical location of the generation can provide voltage support to the region, and can offset flow across the Cascade Mountains during winter months. Moreover, the Facility provides relief for many

of BPA's internal flowgates. The Facility's impact on these flowgates is diplayed in Table 1 below.

Table 1: Mint Farm Energy Center's impact on BPA internal flowgates

Evaluated Impact	
SOUTH OF ALLSTON	161.2 MW
CROSS CASCADES NORTH	-35.7 MW
CROSS CASCADES SOUTH	-58.0 MW
MONROE-ECHO LAKE	-14.2 MW
NORTH OF HANFORD	-8.2 MW
NORTH OF JOHN DAY	-88.1 MW
PAUL TO ALLSTON	-84.0 MW
RAVER TO PAUL	-64.3 MW
WEST OF MCNARY	-16.5 MW
WEST OF SLATT	-10.8 MW

A positive MW value in Table 1 indicates that flow is adding to a flowgate constraint, while a negative MW value is providing relief. Table 1 shows that the Facility provides some relief on all BPA flowgates except for South of Allston.

The Facility is integrated into two Remedial Action Schemes ("RAS"), requiring that generation be dropped during outages on the following BPA transmission lines:

(a) Allston – Keeler 500 kV

(b) Keeler – Pearl 500 kV

The Facility will be tripped or ramped down only during outages when RAS arming levels are exceeded. Historical information on the frequency and duration of these RAS schemes is not yet available. Most generation facilities are integrated into one or more RAS schemes.

Long Term Transmission Contracts

The Facility holds Long-Term Firm ("LTF"), Point-to-Point transmission service contracts with BPA. The Point of Delivery ("POD") is PSE's Central Contiguous POD, which includes Christopher Tap 230 kV, Covington 230 kV, Maple Valley 230 kV, and White River 230 kV. The Facility's 20-year BPA Transmission Agreement expires June 1, 2028. Under this agreement, the maximum amount of reserved capacity and energy is 293 MW for the term of the agreement. Four individual requests were made to obtain the 293 MW of reserved capacity: 100 MW, 100 MW, 50 MW, and 43 MW. Each contract includes a provision for rollover rights.

Currently, the Facility is redirecting its POD for some LTF transmission capacity rights in order to sell energy at market hubs or to other systems. Wayzata is also reselling portions of their transmission capacity rights on a monthly basis to other entities. The Facility holds BPA transmission credits derived from payments totalling approximately $3.0M to reconductor BPA's Woodland–Ross 230 kV line; however, the credits are expected to be exhausted before the end of August 2008. A portion of the reconductored line is considered a network upgrade and was required to interconnect the Facility.

PSE's Transmission Plan

PSE will assume the 293 MW LTF transmission rights when it purchases the Facility. Since the BPA contract is insufficient to deliver the full project capacity when duct firing, PSE plans to use short-term firm and non-firm transmission for the additional 3.6 MW until such time that LTF transmission capacity can be acquired. Due to the small size and flowgate impact of the 3.6 MW, no problems are anticipated in acquiring the additional capacity.

Exhibit 14

Regulatory and Accounting Issues

This exhibit addresses the following topics:

- Rate Recovery
- Income Statement Effects
- Other Miscellaneous Accounting

Rate Recovery

PSE will seek rate recovery for the Mint Farm ("Facility") acquisition in a filing made in 2008 with the Washington Utilities and Transportation Commission ("WUTC"). The filing will most likely be a General Rate Case ("GRC"). State regulatory approval of the rates is anticipated eleven months thereafter. The transaction closing date is estimated to be December 1, 2008. The filing may occur when the transaction closes. Costs may be updated during the filing.

Concurrent with the rate filing, PSE may also file an accounting petition with the WUTC to request a cost deferral mechanism. Cost deferral is needed because the existing Power Cost Adjustment ("PCA") mechanism limits the allowed cost of new resources to the lesser of the actual variable costs or the PCA baseline rate. PSE will request deferral of all PCA defined fixed costs, similar to the approach taken with the acquisition of Goldendale. Additionally, PSE may request deferral of PCA variable costs in excess of baseline rates. This second deferral has not been requested in the past and PSE will most likely have to credit back to the customer the equivalent Aurora market purchases, which Mint Farm will displace but are built into the Baseline rate. The baseline rate requested in PSE's current GRC rebuttal filing dated July 3, 2008 is $63.54 per megawatt hour. Fixed costs to be deferred include the following: fixed production operations and maintenance ("O&M"), debt interest, depreciation, equity return, and other expenses such as property taxes and insurance. The Facility's actual PCA variable operating costs include fuel, electric transmission and gas transportation and are expected to be in excess of the baseline rate, assuming natural gas costs of approximately $9 per MMBtu. Such an accounting petition would seek

permission from the WUTC to defer Facility costs as described above for recovery that would begin when new general rates go into effect.

The General Rate Case would seek prudence determination for the acquisition of the Facility as well as other potential resource acquisitions or contract restructurings.

Income Statement Effects

Provided the WUTC approves accounting and rate treatments proposed with respect to the Facility and as described above, the Company expects to recognize income for financial reporting purposes substantially as described in the Stand-Alone Project Financial Pro Forma (see **Exhibit 5**). Absent WUTC approval for cost deferral, PSE will incur unrecovered costs. The amount of these costs depends upon when rates go into effect and the cost of fuel, but is estimated at approximately $54 million for the 13 months from December 2008 through December 2009. If the Facility closing is earlier than estimated, the unrecovered costs will be higher.

Other Miscellaneous Accounting

Property Accounting. PSE will capitalize its investment in the Facility as an electric utility plant fixed asset and depreciate the capitalized amount over its useful life beginning with the closing date. PSE will unitize the capital asset within a year of placing the unit in-service, segregating its original cost into appropriate retirement units of property categories.

Accounting for Initial Operating Inspections. A site inspection by PSE's property insurer loss control engineers resulted in a recommendation to perform inspections and repairs identified in two General Electric Technical Information Letters (TILs) in order for PSE to obtain insurance coverage for the plant. To get the unit to an insurable operating state, PSE will perform the TILs, which will be capitalized in accordance with Federal Energy Regulatory Commission Uniform

System of Accounts. In addition, PSE's Power Generation department has requested a compressor inspection be made during the time that the turbines are dismantled for the TIL inspections. This work will likely be charged to O&M unless a specific unit of property is replaced or significantly improved. The cost for this work is in the Stand-Alone Project Financial Pro Forma identified as Turbine/Plant Upgrade (see **Exhibit 5**).

Useful Life. For depreciation forecast purposes at this time, PSE is using an estimate of the useful life of 30 years for the turbines and generators. The remaining use life at time of the Mint Farm purchase is 29 years. The facility is a new combined cycle technology similar to the Goldendale Generating Station. PSE has determined it would be appropriate to define units of property for this Facility consistent with the units of property defined for the Goldendale Generating Station.

LTSA/CSA. Currently, the Facility is maintained under a Long Term Services Agreement ("LTSA") with General Electric ("GE"), where monthly fees, variable fees, and milestone payments are made to pay for major maintenance labor and parts. PSE intends to renegotiate the LTSA to a Contract Services Agreement ("CSA") similar in structure to the Goldendale CSA, but with an expected term of 96,000 hours.

In the CSA, the fee structure is made up of three components. The first is a monthly fee for current maintenance. The second is a variable fee for major maintenance tied to run hours of the generator, which is made as prepayments for the major maintenance work. The third type of payment is also tied to the run hours of the generator and paid on 24,000 hour intervals when the major maintenance occurs. The monthly fees for current maintenance are expensed as paid. The portion of the variable fees associated with capital component of major maintenance is debited to a prepaid asset when they are paid. The payments for capital parts are recorded as inventory and transferred to capital

when the work is completed. The O&M portion of the variable payments will debited to a prepaid asset as paid and expensed at the time the work is completed.

Spare Parts. Purchase of spare parts, whether related to this specific transaction or from other parts suppliers, will be recorded in inventory and capitalized (if units of property) or otherwise expensed as the parts are installed and used per PSE accounting guidelines. The purchase of spare parts will be recorded at the lower of cost or market value.

Land Purchase. The property will be capitalized and recovered consistent with applicable accounting and FERC guidelines.