EXHIBIT NO. ___(EMM-10)
DOCKET NO. UE-07___/UG-07___
2007 PSE GENERAL RATE CASE
WITNESS: ERIC M. MARKELL

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-07____** **Docket No. UG-07____**

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

DECEMBER 3, 2007

JPMorgan

North America Equity Research
27 October 2005

Puget Energy

Sizeable Equity Offering Dilutes EPS, Adj. Ests.

Neutral

$20.70

27 October 2005

Electric Utilities

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- We are maintaining our Neutral rating on PSD, but cutting 2006 EPS estimates to $1.40 from $1.55 on the basis of Puget's equity offering of 15 million shares of common stock. We expect PSD's earnings to be at the lower end of the company's guidance range, but we also expect the shares to have yield support near their current trading level. Accordingly, we expect the shares to perform about inline with their peer group.

- PSD announced after the market close on 10/26 that it is offering 15 million shares of common stock in an overnight placement. and has an option to place an additional 1.7 million shares. As previously disclosed, PSD plans to use the proceeds to fund its capital spending program at its utility, Puget Sound Energy. While we were not surprised by Puget's equity offer given its infrastructure investment plans, we are surprised by the size of the offer because the company appears to be selling about $60-100 million more equity than it needs.

- Furthermore, we believe that Puget's equity offer and the corresponding EPS dilution highlights the regulatory lag problems that the company has been suffering. The company previously indicated that it expects about a negative $0.11 per share impact from regulatory lag. In the context of the equity offer, based on Puget's allowed rate base from its recent general rate case, if we incorporate its recent equity offer as well as its planned $580 million rate base addition from its wind farm investments (which it

Puget Energy (PSD;PSD US)

	2004A	2005E	2006E (Old)	2006E (New)
EPS ($)				
Q1 (Mar)	0.67	0.70A		
Q2 (Jun)	0.16	0.15A		
Q3 (Sep)	0.11	0.06A		
Q4 (Dec)	0.61			
FY	1.60	1.40	1.55	1.40
P/E FY	12.9	14.8	13.3	14.8

Source: Company data, Reuters, JPMorgan estimates.

Company Data	
Price ($)	20.70
Date Of Price	27 October 05
52-week Range	20.71 - 24.81
Mkt Cap ($ mn)	2,450.65
Fiscal Year End	Dec
Shares O/S (mn)	115
Div. Yield	4.8%

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can add to rate base through its expedited resource planning regulatory filing, the Power Cost Only Rate Case), we project that the equity layer at its utility is about 46%. This is well above the 43% equity layer that Puget is allowed to incorporate into rates. We note that if Puget is able to correct its regulatory lag problem and incorporate about $780 million of delivery infrastructure spending ($300 million net of D&A) into its rate making structure, its utility equity layer falls to about 43%, in line with its allowed regulatory structure, but it does not appear to us that this problem will be resolved anytime soon.

- Given the sizeable stock dilution, we are decreasing our 2006 EPS estimate to $1.40. The stock is trading at 14.8x 2006E EPS, about inline with the group average of 14.5x. We also do not expect Puget to offer investors material earnings growth in the near-term; however, we expect its dividend yield of 4.8%, well above the group average of 4%, to likely support the stock. Accordingly, we believe Puget could be an attractive investment for investors interested in income generation, but we expect the shares to perform inline with their peers.

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EPS and Equity Layer Projections

Our EPS projections and equity layer calculations assuming only Puget's wind farm spending is incorporated into its rate base are shown in Table 1, below. As shown by our calculations, Puget's equity layer at its utility is about 46% on this basis. Table 2 incorporates not only Puget's wind farm investments, but also its planned delivery infrastructure investment net of D&A. This results in a projected equity layer of about 43%. We believe these two tables illustrate the regulatory lag Puget currently is suffering as it is not able to incorporate its full utility investment in its rates.

Table 1: EPS and Equity Layer Projections Assuming Only Wind Farm Investments Added to Rate Base

$ million

Equity Offer Stock Price	20.70		
Shares Offered (millions)	15		
Equity Offer	311		
Hopkins Wind Farm Spending	200		
Wild Horse Wind Farm Spending	380		
Total Wind Farm Spending	580		
Equity Needed to Fund Wind Expansion @ 43% Equity	249		
Projected Equity Offer	311		
Excess Equity Offer Assumed Used for Debt Paydown	61		
EPS Reconciliation	**2005E**	**2006E**	**2007E**
Gas Rate Base ($ Millions)	1,068	1,068	1,068
Electric Rate Base ($ Millions)	2,545	2,545	2,545
Additions to Rate Base - Wind Projects ($ Millions)	0	580	580
Total Rate Base ($ Bn)	3,612	4,192	4,192
Equity Layer	43.00%	43.00%	43.00%
Allowed ROE	10.30%	10.30%	10.30%
Shares (millions)	100	115	115
Projected Utility EPS	**1.60**	**1.61**	**1.61**
Less: D&A Lag	-0.10	-0.08	0.00
Less: Incremental O&M	-0.05	-0.03	0.00
Less: Additional Debt Cost @ 7% for Wind Projects		-0.13	-0.13
Plus: Debt Paydown from Excess Equity Offer @ 7%		0.02	0.02
Projected Ongoing EPS	**1.45**	**1.40**	**1.51**
P/E	14.3x	14.8x	13.9x
Projected ROE Excluding Tenaska Disallowance	9.3%	8.9%	9.6%
PRO FORMA EQUITY LAYER CALCULATIONS		**$ millions**	
Rate Base per General Rate Case		3,612	
Wind Farm Additions to Rate Base		580	
Pro Forma Rate Base		4,192	
Equity Layer Pre Equity Offer (6/30/05 balance sheet)		1,631	
New Equity from Equity Offer		311	
Pro Forma Equity Layer		1,941	
Pro Forma Equity Ratio		**46%**	

Source: JPMorgan estimates, Company data.

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Table 2: Equity Layer Projections Assuming Wind Projects and Delivery Infrastructure Spending Added to Rate Base

$ million

Equity Offer Stock Price	20.70	
Shares Offered (millions)	15	
Equity Offer	311	
Hopkins Wind Farm Spending	200	
Wild Horse Wind Farm Spending	380	
Total Wind Farm Spending	580	
Additional Rate Base Spending 2005 & 2006	780	
Less: Expected D&A 2005 & 2006	480	
Net Rate Base Additions	300	
PRO FORMA EQUITY LAYER CALCULATIONS		**$ millions**
Rate Base per General Rate Case		3,612
Net Additions to Rate Base (Wind Farms & Delivery Capex)		880
Pro Forma Rate Base		4,492
Pro Forma Utility Equity Layer - Rate Making Basis		
Equity Layer Pre Equity Offer (6/30/05 balance sheet)		1,631
New Equity from Equity Offer		311
Pro Forma Equity Layer		1,941
Pro Forma Equity Ratio		**43%**

Source: JPMorgan estimates, Company data.

Valuation and Rating Analysis

We are maintaining our Neutral rating as Puget Energy appears to continue to struggle with regulatory lag and other factors that are preventing its core utility EPS power from emerging. We expected Puget to offer investors potentially modest earnings growth, if any, in 2006 given that its recent sizeable equity offer results in significant EPS dilution in 2006. Longer-term, we believe Puget may still have the potential to offer investors an attractive EPS growth profile; however, it appears that the company's struggle to earn its allowed ROE may prevent the potential EPS growth from investing in its utility from being realized for at least the next several quarters. We expect the company's above average dividend to support the shares, and the shares are trading just above the group average multiple of 14.5x 2006E EPS. Furthermore, if the company is able to address some of the issues masking its core utility earnings power, the shares appear attractively valued. For example, if the company is able to address $0.11 of regulatory lag it is currently suffering by 2006, we estimate that the company could earn about $1.50-1.55 in 2006, which would imply that the stock is trading at about 13.5x 2006E EPS, a discount to the group average 2006 multiple, especially given the company's above average yield. We believe this profile could ultimately prove attractive, but we expect the stock to trade inline with the group for the next several quarters because we do not believe visibility on potential EPS improvement will emerge over that time frame.

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Risks to Our Rating

Our Neutral rating on Puget shares is based on what we expect to be EPS dampened by regulatory lag and common share dilution for at least the next several quarters. This results in the company underearning its allowed ROE. If Puget continues to suffer from additional underearning pressure, or inability to add its planned utility investment to rate base, we would expect EPS, and thus the shares, to suffer. On the other hand, as we discussed above, if Puget is able to address its regulatory lag, we believe the shares appear attractive on a relative valuation. As we also discussed above, we expect visibility on this issue to take several quarters to emerge. If Puget is able to address its lag sooner rather than later, investors could get earlier visibility on higher EPS in 2006 and the shares could outperform.

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Companies Recommended in This Report (as of COB 27 October 2005)
Puget Energy (PSD/$20.70/Neutral)

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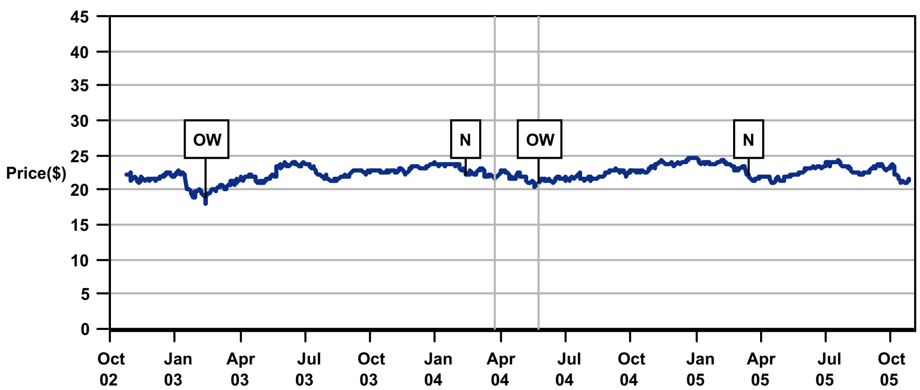
Puget Energy (PSD) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
13-Feb-03	OW	19.00	-
12-Feb-04	N	22.31	-
25-May-04	OW	21.14	-
14-Mar-05	N	22.15	-

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
Break in coverage Mar 23, 2004 - May 25, 2004. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. As of Aug. 30, 2002, the firm discontinued price targets in all markets where they were used. They were reinstated at JPMSI as of May 19th, 2003, for Focus List (FL) and selected Latin stocks. For non-JPMSI covered stocks, price targets are required for regional FL stocks and may be set for other stocks at analysts' discretion.
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