

**EXHIBIT NO. \_\_\_(DEG-8)  
DOCKET NO. UE-09\_\_\_/UG-09\_\_\_  
2009 PSE GENERAL RATE CASE  
WITNESS: DONALD E. GAINES**

**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\_\_\_**

**SEVENTH EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED DIRECT TESTIMONY OF  
DONALD E. GAINES  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**MAY 8, 2009**

1 **SENIOR SECURED NOTE COST COMPARISON**  
2 (Source: Barclays Transaction Summary, page 16)

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
	Ticker	Issue Date	Issuer	Moody's	S&P	Amnt (\$mm)	Coupon	Term	Structure	Type	Company	Reoffer Spread (bps)
10	PSD	1/20/09	Puget Sound Energy	Baa2	A-	\$250	6.75%	7	NC/L	FMB	Opco	480
11	FE	1/14/09	Metropolitan Edison	Baa2	BBB	\$300	7.70%	10	NC/L	Unsecured	Opco	536
12	AEP	1/12/09	Indiana Michigan Power	Baa2	BBB	\$475	7.00%	10	NC/L	Unsecured	Opco	475
13	PGN	1/8/09	Progress Energy Carolinas	A2	A-	\$600	5.30%	10	NC/L	FMB	Opco	285
14	NVE	1/7/09	Nevada Power	Baa3	BBB	\$125	7.38%	5	NC/L	FMB	Opco	572
15	CEG	1/6/09	Centerpoint Energy Houston	Baa2	BBB+	\$500	7.00%	5	NC/L	FMB	Opco	528.6
16	BFK	1/5/09	Pacificorp	A3	A-	\$650	6.00%	30	NC/L	FMB	Opco	310
17	BFK	1/5/09	Pacificorp	A3	A-	\$350	5.50%	10	NC/L	FMB	Opco	310
18	AYE	12/10/08	Monongahela Power	Baa2	BBB+	\$300	7.95%	5	NC/L	FMB	Opco	639
19	FPL	12/9/08	FPL Group Capital	A2	A-	\$450	7.88%	7	NC/L	Unsecured	Holdco	597
20	OGE	12/8/08	Oklahoma Gas & Electric	A2	BBB+	\$250	8.25%	10	NC/L	Unsecured	Opco	537
21	WEC	12/8/08	Wisconsin Electric Power	A1	A-	\$250	6.25%	7	NC/L	Unsecured	Opco	425
22	AEE	12/4/08	Central Illinois Light	Baa2	BBB+	\$150	8.88%	5	NC/L	FMB	Opco	735
23	POM	12/3/08	Potomac Electric Power	Baa1	BBB+	\$250	7.90%	30	NC/L	FMB	Opco	463
24	WGL	12/2/08	Washington Gas Light	A2	AA-	\$50	7.46%	10	NC/L	Unsecured	Opco	475
25	ED	12/2/08	Consolidated Edison of NY	A1	A-	\$600	7.13%	10	NC/L	Unsecured	Opco	450
26	TEG	12/1/08	Wisconsin Public Service	Aa3	A+	\$125	6.38%	7	NC/L	FMB	Opco	435
27	<b>Averages</b>					<b>\$334</b>	<b>7.10%</b>	<b>10.5</b>				<b>485.4</b>

30 **2) Subset of the above list by removing:**

- 31 a) Holding company transactions (excl: FPL Group Energy with a spread of 597 bps)
- 32 b) Unsecured note issues
- 33 c) Entities with credit ratings of other than those in effect but for the merger

	PSD	1/20/09	Puget Sound Energy	Baa2	BBB+	\$250	6.75%	7	NC/L	FMB	Opco	480
37	CEG	1/6/09	Centerpoint Energy Houston	Baa2	BBB+	\$500	7.00%	5	NC/L	FMB	Opco	528.6
38	AYE	12/10/08	Monongahela Power	Baa2	BBB+	\$300	7.95%	5	NC/L	FMB	Opco	639
39	AEE	12/4/08	Central Illinois Light	Baa2	BBB+	\$150	8.88%	5	NC/L	FMB	Opco	735
40	<b>Averages</b>					<b>\$317</b>	<b>7.94%</b>	<b>5.0</b>				<b>634.2</b>
41												
42	<b>Average less PSD</b>						<b>1.19%</b>	<b>-2</b>				<b>154.2</b>



# Transaction Summary Puget Sound Energy

\$250,000,000

6.75% Senior Notes due January 15, 2016  
January 2009

# Executive Summary

## Transaction Overview

- On Tuesday, January 20, Puget Sound Energy ("PSE"), the sole subsidiary of Puget Energy, priced \$250 million of 7-year Senior Notes secured by a fall-away first mortgage (Baa2/A-) with a 6.75% coupon and a spread of +480.3 bp over the 7-year Treasury benchmark.

- Use of proceeds will be used to repay short-term debt that was incurred primarily to fund capital and new resource expenditures. The expenditures include the December 2008 purchase of a 310-MW natural gas-fired power plant in Longview, Washington, for \$240 million.

## Market Conditions

- On December 30<sup>th</sup>, Puget Holdings LLC, the group of investment companies and fund managers led by Macquarie, won approval from the Washington Utilities and Transportation Commission to buy Puget Energy Inc. by a 2-to-1 vote. The Commission concluded that the sale of PSD to the Australian-based Macquarie Consortium was "consistent with the public interest" and would not harm ratepayers.

- Following the Christmas holiday, the underwriters began pre-marketing a 7 or 10-year fall-away first mortgage bond, ultimately receiving \$70 million in soft orders from six investors.

- Feedback highlighted that investors wanted to see whether any objections were filed to the WUTC order before committing to place an order for bonds.

- On January 16<sup>th</sup>, Puget Holdings LLC announced that they accepted the WUTC order and expected to close the deal by February 6<sup>th</sup>. Almost simultaneously S&P announced they were upgrading PSE's senior secured ratings to A- (stable) from BBB+ (watch negative)

- The morning of the transaction, the investment grade credit index (IG11) was essentially unchanged from Friday's close to Tuesday's open, despite equity futures trading softly prior to the market open.

- From Friday's close, 7-year Treasuries sold off 12.5 bps until pricing, although the deal was marketed on a yield basis and did not put pressure on the coupon.

- Secondary quotes prior to the new issuance were unchanged from the prior week:

- CMS (Baa1/BBB) 6.125% '19: +390 (10-yr)
- NVE (Baa3/BBB) 6.500% '18: +450 (9-yr)
- ComEd (Baa2/BBB+) 5.800% '18: +425 (9-yr)
- FE (Baa1/BBB+) 8.250% '38: +390 (29-yr)

## Execution

- January 20 was light in economic data, although the highly anticipated presidential inauguration was scheduled to be the highlight of the news day.

- The transaction was announced at approximately 10:00 AM EST following re-confirmation of indications given from accounts during the earlier marketing effort.

- The orderbook grew quickly and steadily, resulting in a oversubscribed order book within a half hour of announcement and eventually going subject after an hour of the books being open.

- Price guidance of +6.75% (the figure) was released soon after the orderbook closed.

- The orderbook was comprised of high-quality investors with 87% of the total deal bought by money managers and insurance companies.

- The bonds were free to trade at +435 bp vs. the 10yr US Treasury (6.75% yield) bid side and closed the day at that level with no trades being executed.

**Barclays Capital was pleased to lead this transaction for Puget Sound Energy**



# Summary Termsheet

Puget Sound Energy	
Security	\$250,000,000 6.75% Senior Notes due 2016
Ratings	Baa2/A- (stable/stable)
Principal Amount	\$250,000,000
Pricing Date	January 20, 2009
Settlement Date (T + 3)	January 23, 2009
Maturity Date	January 15, 2016
First Coupon Date	July 15, 2009
Treasury Benchmark	4.50% due February 15, 2016
Benchmark Price	116-25
Benchmark Yield	1.947%
Reoffer Spread to Benchmark	+480.3 bp
Reoffer Yield	6.750%
Coupon	6.750%
Reoffer Price (%)	100.0000%
Gross Spread (%)	0.625%
Selling Concession (%)	0.375%
Reallowance (%)	0.250%
Net to Company (%)	99.375%
Reoffer Price (\$)	\$250,000,000
Gross Spread (\$)	\$1,562,500
Net Proceeds (\$)	\$248,437,500
All-in Yield (%)	6.864%
Call Provisions	Make Whole Call at T+50 bp
Payment Dates	Semi-annually each January 15 and July 15
Day Count Convention	30 / 360, Following Business Day, unadjusted for Period End Dates
CUSIP / ISIN (144A)	745332 BZ8 / US745332BZ80
Bookrunners (Economics)	Barclays Capital (25%), Scotia Capital (25%), Wachovia Securities (25%)
Co-Managers (Economics)	KeyBanc Capital Markets (8.34%), Banc of America Securities LLC (8.33%), Dresdner Kleinwort (8.33%)

## Summary Details

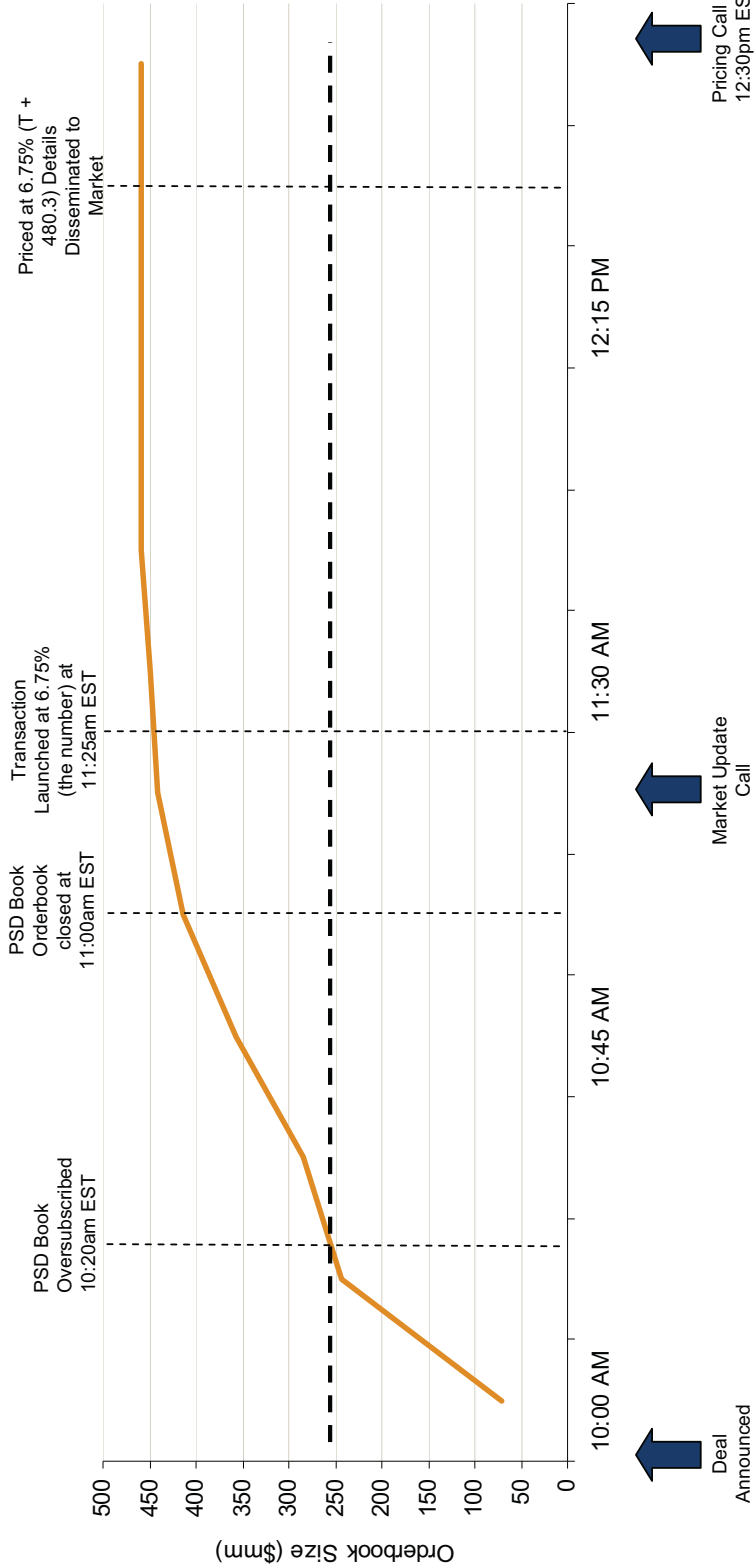
Total Orderbook: \$458.3 mm  
 Oversubscription: 1.8x  
 # of Accounts: 39  
 Average Order Size: \$11.8 mm  
 Average Allocation Size: \$6.4 mm

# Disciplined Syndicate Process and Timing Critical to Execution

Orders	25	35	38	39
Order book (\$mm)	\$283	\$414	\$450	\$458
	10:20 a.m. EST Oversubscribed	11:00 a.m. EST Orderbook Closed	11:25 a.m. EST Launch	12:30 p.m. EST Pricing Call

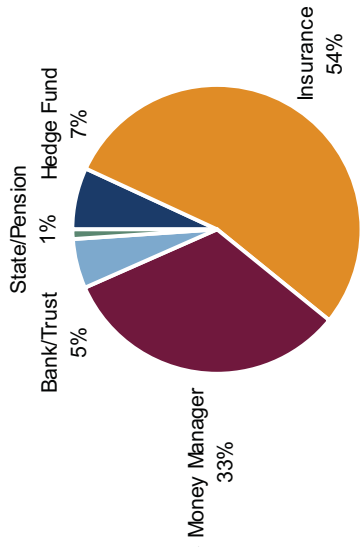
After the issue was announced to the market, the orderbook grew quickly, reaching over-subscription within 30 minutes of announcement.

Final combined orderbook was nearly 2x over-subscribed



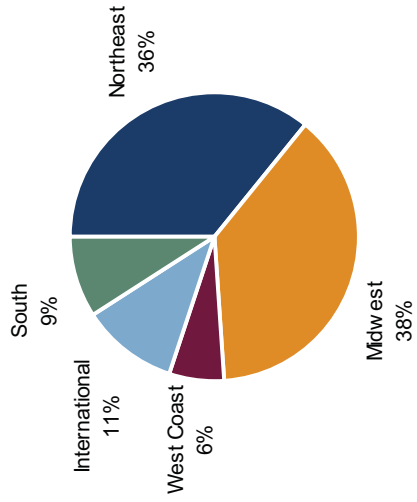
# Investor Profile Statistics

By Account Type

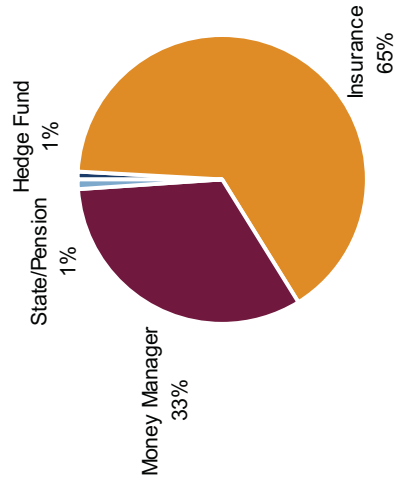


**Final Orderbook**

By Location

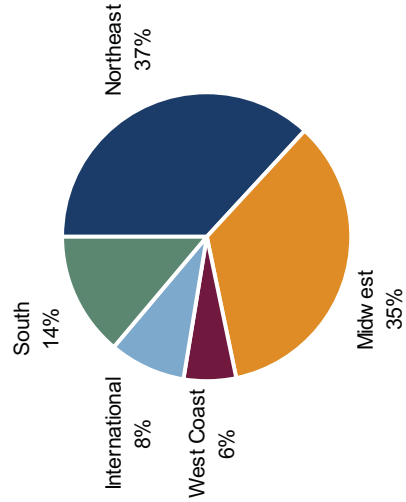


By Account Type



**Allocation**

By Location



# Overview of Investors by Allocation

Account	Type	Location	Order Amt (\$mm)	Allocation Amt (\$mm)	Percent Allocated	Percent of Transaction
1	USAA Group	Insurance	South	32.0	100.0%	12.8%
2	Chubb	Insurance	Northeast	30.0	85.7%	12.0%
3	Guggenheim Partners	Money Manager	Midwest	20.0	57.1%	8.0%
4	Aberdeen	Money Manager	International	20.0	80.0%	8.0%
5	Teachers - TIAA	Insurance	Northeast	20.0	80.0%	8.0%
6	American Money Mgmt	Money Manager	Midwest	17.0	68.0%	6.8%
7	Minnesota Mutual	Insurance	Midwest	11.0	44.0%	4.4%
8	New York Life	Insurance	Northeast	13.0	76.9%	4.0%
9	Loews	Insurance	Northeast	10.0	100.0%	4.0%
10	American National	Insurance	West Coast	10.0	50.0%	4.0%
11	Fort Washington	Insurance	Midwest	15.0	43.3%	2.6%
12	Cincinnati Financial	Money Manager	Midwest	5.0	50.0%	2.0%
13	Modern Woodmen	Insurance	Midwest	5.0	33.3%	2.0%
14	Thrivent	Insurance	Midwest	15.0	33.3%	2.0%
15	Cohen & Steers	Money Manager	Northeast	20.0	25.0%	2.0%
16	CUNA	Money Manager	Northeast	10.0	50.0%	2.0%
17	National Life Investment	Insurance	Midwest	10.0	50.0%	2.0%
18	Wellington	Money Manager	Northeast	3.5	100.0%	1.4%
19	St Paul	Insurance	Midwest	5.0	60.0%	1.2%
20	State of South Carolina	State/Pension	South	3.0	60.0%	1.2%
21	Ameritas	Insurance	Midwest	3.0	50.0%	1.2%
22	Old Republic	Insurance	Midwest	3.0	60.0%	1.2%
23	Country Trust	Insurance	Midwest	3.0	37.5%	1.2%
24	National Investment Services	Money Manager	Northeast	10.0	30.0%	1.2%
25	Stancorp Financial	Insurance	West Coast	3.0	75.0%	1.2%
26	Royal Bank of Canada	Bank/Trust	International	25.0	1.0	0.4%
27	Washington Capital Mgmt	Money Manager	West Coast	1.0	33.3%	0.4%
28	Reich & Tang	Money Manager	Northeast	2.0	50.0%	0.4%
29	United Farm Family Life	Insurance	Northeast	2.0	50.0%	0.4%
30	Drawbridge Global Macro Advisors	Hedge Fund	Northeast	10.0	10.0%	0.4%
31	AXA	Insurance	Northeast	1.0	100.0%	0.4%
32	KLS Diversified	Hedge Fund	Northeast	10.0	0.8	0.3%
33	Fortis	Insurance	Midwest	0.5	100.0%	0.2%
34	Neuberger	Money Manager	Northeast	0.5	100.0%	0.2%
35	Acuity Capital	Hedge Fund	Northeast	2.0	0.5	0.2%
36	Pacific Life	Insurance	West Coast	0.5	100.0%	0.2%
37	Mennonite	Money Manager	Midwest	0.3	83.3%	0.1%
38	Pequot Capital Mgmt	Hedge Fund	Northeast	10.0	0.0	0.0%
39	Thornburg	Money Manager	South	5.0	0.0%	0.0%
<b>Total/Average</b>			<b>\$458.3</b>	<b>\$250.0</b>	<b>55.4%</b>	<b>100.0%</b>
<b>Oversubscription</b>			<b>1.8x</b>			



# Overview of Investors by Account

Account	Type	Location	Order Amt (\$mm)	Allocation Amt (\$mm)	Percent Allocated	Percent of Transaction
1 Aberdeen	Money Manager	International	25.0	20.0	80.0%	8.0%
2 Acuity Capital	Hedge Fund	Northeast	2.0	0.5	25.0%	0.2%
3 American Money Mgmt	Money Manager	Midwest	25.0	17.0	68.0%	6.8%
4 American National	Insurance	West Coast	20.0	10.0	50.0%	4.0%
5 Ameritas	Insurance	Midwest	6.0	3.0	50.0%	1.2%
6 AXA	Insurance	Northeast	1.0	1.0	100.0%	0.4%
7 Chubb	Insurance	Northeast	35.0	30.0	85.7%	12.0%
8 Cincinnati Financial	Money Manager	Midwest	10.0	5.0	50.0%	2.0%
9 Cohen & Steers	Money Manager	Northeast	20.0	5.0	25.0%	2.0%
10 Country Trust	Insurance	Midwest	8.0	3.0	37.5%	1.2%
11 CUNA	Money Manager	Northeast	10.0	5.0	50.0%	2.0%
12 Drawbridge Global Macro Advisors	Hedge Fund	Northeast	10.0	1.0	10.0%	0.4%
13 Fort Washington	Insurance	Midwest	15.0	6.5	43.3%	2.6%
14 Fortis	Insurance	Midwest	0.5	0.5	100.0%	0.2%
15 Guggenheim Partners	Money Manager	Midwest	35.0	20.0	57.1%	8.0%
16 KLS Diversified	Hedge Fund	Northeast	10.0	0.8	7.5%	0.3%
17 Loews	Insurance	Northeast	10.0	10.0	100.0%	4.0%
18 Mennonite	Money Manager	Midwest	0.3	0.3	83.3%	0.1%
19 Minnesota Mutual	Insurance	Midwest	25.0	11.0	44.0%	4.4%
20 Modern Woodmen	Insurance	Midwest	15.0	5.0	33.3%	2.0%
21 National Investment Services	Money Manager	Northeast	10.0	3.0	30.0%	1.2%
22 National Life Investment	Insurance	Midwest	10.0	5.0	50.0%	2.0%
23 Neuberger	Money Manager	Northeast	0.5	0.5	100.0%	0.2%
24 New York Life	Insurance	Northeast	13.0	10.0	76.9%	4.0%
25 Old Republic	Insurance	Midwest	5.0	3.0	60.0%	1.2%
26 Pacific Life	Insurance	West Coast	0.5	0.5	100.0%	0.2%
27 Pequot Capital Mgmt	Hedge Fund	Northeast	10.0	0.0	0.0%	0.0%
28 Reich & Tang	Money Manager	Northeast	2.0	1.0	50.0%	0.4%
29 Royal Bank of Canada	Bank/Trust	International	25.0	1.0	4.0%	0.4%
30 St Paul	Insurance	Midwest	5.0	3.0	60.0%	1.2%
31 Stancorp Financial	Insurance	West Coast	4.0	3.0	75.0%	1.2%
32 State of South Carolina	State/Pension	South	5.0	3.0	60.0%	1.2%
33 Teachers - TIAA	Insurance	Northeast	25.0	20.0	80.0%	8.0%
34 Thornburg	Money Manager	South	5.0	0.0	0.0%	0.0%
35 Thrivent	Insurance	Midwest	15.0	5.0	33.3%	2.0%
36 United Farm Family Life	Insurance	Northeast	2.0	1.0	50.0%	0.4%
37 USAA Group	Insurance	South	32.0	32.0	100.0%	12.8%
38 Washington Capital Mgmt	Money Manager	West Coast	3.0	1.0	33.3%	0.4%
39 Wellington	Money Manager	Northeast	3.5	3.5	100.0%	1.4%
<b>Total/Average</b>			<b>\$458.3</b>	<b>\$250.0</b>	<b>55.4%</b>	<b>100.0%</b>
<b>Oversubscription</b>			<b>1.8x</b>			

# Benefit of Ratings Upgrade

The timing of the offering took advantage of positive momentum created by S&P's ratings upgrade to A- (stable) from BBB+ (negative watch) on Friday, January 16th

- We used three approaches to estimate the benefit of the ratings upgrade:
  - 1) Comparison of the underwriters' indicative levels just prior to the upgrade and the actual pricing levels
    - Since the indicative levels were created at 5:00 pm on Friday and the deal priced early Tuesday following the MLK holiday, the ratings upgrade can be seen as a primary cause of the pricing difference

Indicative Pricing (1/16/2009)	
Benchmark	4.5% February 2016
Benchmark Yield	1.820%
Reoffer Spread	+ 500.0 bps area
Reoffer Yield	6.82% area
Underwriting Fees	0.625%
All-in Yield	6.93% area

**Savings = 20 bps**

Actual Pricing (1/20/2009)	
Benchmark	4.5% February 2016
Benchmark Yield	1.947%
Reoffer Spread	+ 480.3 bps
Reoffer Yield	6.75%
Underwriting Fees	0.625%
All-in Yield	6.864%

- 2) Comparison of the A3 and Baa1 Barclays Capital 10-year Utility Indices on the day of pricing
  - The A3 Index closed at a yield of 7.03% while the Baa1 index closed at 7.36%
  - Because these indices are of higher credit ratings than PSE, we would expect the yields to be lower than the coupon on the bonds

Baa1 10-Year Utility Index	
Average Yield	7.356%

**Savings = 32 bps**

A3 10-Year Utility Index	
Average Yield	7.033%

- 3) Historical new issue concessions for secured utilities based on ratings
  - At the time of pricing, the implied new issue concession differential between A- and BBB+ issuers was roughly 12.5 bps
  - PSD was able to capture this savings, plus the benefits from improved secondary trading levels

Baa1 Secured Utility New Issue Concessions	
6 month Average	+ 42.5 bps area

**Savings = 12.5 bps**

A3 Secured Utility New Issue Concessions	
6 month Average	+ 30.0 bps area

In summary, Puget Sound Energy saved 12.5 - 32 bps due to the upgrade



# Data for the Barclays Capital Utility Index

Barclays Capital A3 10-Year Utility Index							
Issuer	Size (\$mm)	Coupon	Maturity	Yield	Spread	Index Rating	Moody's S&P
Virginia Electric Power	450	5.400%	1/15/2016	5.664%	378	A3	Baa1 A-
Consolidated Ed of NY	400	5.500%	9/15/2016	5.854%	373	A3	A1 A-
FPL Group Capital Inc	350	6.350%	10/1/2016	14.180%	1172	A3	A3 BBB+
Consolidated Ed of NY	250	5.300%	12/1/2016	5.854%	365	A3	A1 A-
FPL Group Capital Inc	400	6.650%	6/15/2017	13.816%	1117	A3	A3 NR
FPL Group Capital Inc	250	7.300%	9/1/2017	13.749%	1107	A3	A3 BBB+
Virginia Electric Power	600	5.950%	9/15/2017	5.694%	325	A3	Baa1 A-
Pacific Gas & Electric	700	5.625%	11/30/2017	5.164%	265	A3	A3 BBB+
Consolidated Ed of NY	600	5.850%	4/1/2018	5.864%	324	A3	A1 A-
Virginia Electric Power	600	5.400%	4/30/2018	5.704%	305	A3	Baa1 A-
Pub Svc Electric & Gas	400	5.300%	5/1/2018	5.344%	269	A3	A3 A-
Columbus Southern Power	350	6.050%	5/1/2018	6.584%	393	A3	A3 BBB
Connecticut Light & Power	300	5.650%	5/1/2018	5.804%	315	A3	A3 BBB+
British Transco Finance	300	6.625%	6/1/2018	8.364%	567	A3	A3 A-
Veolia Environnement	700	6.000%	6/1/2018	7.044%	436	A3	A3 BBB+
Detroit Edison	300	5.600%	6/15/2018	5.864%	317	A3	A3 NR
PacifiCorp	500	5.650%	7/15/2018	5.264%	256	A3	A3 A-
Transcanada Pipelines	850	6.500%	8/15/2018	6.664%	394	A3	A3 A-
Pacific Gas & Electric	800	8.250%	10/15/2018	5.214%	253	A3	A3 BBB+
Atlantic City Electric	250	7.750%	11/15/2018	6.114%	338	A3	A3 A-
Consolidated Ed Of NY	600	7.125%	12/1/2018	5.864%	310	A3	A1 A-
PacifiCorp	350	5.500%	1/15/2019	5.274%	242	A3	A3 A-
Transcanada Pipelines	750	7.125%	1/15/2019	6.814%	401	A3	A3 A-
				<b>Average:</b>	<b>7.033%</b>		

Spreads as of 01/20/09



# Data for the Barclays Capital Baa1 10-Year Utility Index

Barclays Capital Baa1 10-Year Utility Index								
Issuer	Size (\$mm)	Coupon	Maturity	Yield	Spread	Index Rating	Moody's	S&P
AmerenUE	260	5.400%	2/1/2016	8.044%	607	Baa1	Baa1	BBB
Ohio Power Co	350	6.000%	6/1/2016	6.564%	454	Baa1	A3	BBB
Psi Energy	325	6.050%	6/15/2016	5.674%	366	Baa1	Baa1	A-
Agil Capital Corporation	300	6.375%	7/15/2016	8.214%	610	Baa1	Baa1	BBB+
Natl Grid PLC-Global	1,000	6.300%	8/1/2016	6.744%	466	Baa1	Baa1	BBB+
Consumers Energy Co-Global	350	5.500%	8/15/2016	6.074%	398	Baa1	Baa1	BBB
Dominion Resources Inc	250	5.600%	11/15/2016	6.324%	413	Baa1	Baa2	A-
Southwestern Elec Power	250	5.550%	1/15/2017	6.724%	446	Baa1	Baa1	BBB
Consumers Energy Co	250	5.150%	2/15/2017	6.084%	380	Baa1	Baa1	BBB
Enbridge Inc	400	5.600%	4/1/2017	8.234%	586	Baa1	Baa1	A-
Xcel Energy Inc	254	5.613%	4/1/2017	7.324%	498	Baa1	Baa1	BBB
Wisconsin Energy Corp	500	6.250%	5/15/2017	17.005%	1418	Baa1	Baa1	BBB-
Atmos Energy	250	6.350%	6/15/2017	8.404%	598	Baa1	Baa3	BBB+
Union Electric	425	6.400%	6/15/2017	8.064%	565	Baa1	Baa1	BBB
Exelon Generation Co LLC	700	6.200%	10/1/2017	7.824%	532	Baa1	A3	BBB
Dominion Resources Inc	350	6.000%	11/30/2017	6.334%	381	Baa1	Baa2	A-
Southwestern Elec Power	300	5.875%	3/1/2018	6.584%	398	Baa1	Baa1	BBB
MidAmerican Energy Holdings	650	5.750%	4/1/2018	5.804%	318	Baa1	Baa1	BBB+
Union Electric	250	6.000%	4/1/2018	8.074%	541	Baa1	Baa1	BBB
National Fuel Gas Co	300	6.500%	4/15/2018	7.754%	510	Baa1	Baa1	BBB+
Sempra Energy	500	6.150%	6/15/2018	7.074%	438	Baa1	Baa1	BBB+
Dominion Resources Inc	500	6.400%	6/15/2018	6.334%	366	Baa1	Baa2	A-
United Utilities PLC	250	4.550%	6/19/2018	7.074%	431	Baa1	Baa1	BBB+
Energy Louisiana Holdings	850	6.500%	9/1/2018	7.274%	453	Baa1	Baa1	A-
Consumers Energy Co	250	5.650%	9/15/2018	6.094%	333	Baa1	Baa1	NR
Interstate P&L Co	250	7.250%	10/1/2018	6.294%	357	Baa1	A3	BBB+
Southwestern Pub Serv	250	8.750%	12/1/2018	6.977%	425	Baa1	Baa1	NR
Southwestern Elec Power	400	6.450%	1/15/2019	6.594%	376	Baa1	Baa1	NR
Dominion Resources Inc	600	8.875%	1/15/2019	7.254%	513	Baa1	Baa2	A-
United Utilities PLC	350	5.375%	2/1/2019	7.274%	437	Baa1	Baa1	NR
Union Electric	450	6.700%	2/1/2019	8.324%	545	Baa1	Baa1	BBB
Sempra Energy	500	9.800%	2/15/2019	7.514%	476	Baa1	Baa1	BBB+
Consumers Energy Co	350	6.125%	3/15/2019	6.094%	322	Baa1	Baa1	NR
AmerenUE	300	5.100%	10/1/2019	8.084%	500	Baa1	Baa1	BBB
				<b>Average:</b>	<b>7.356%</b>			

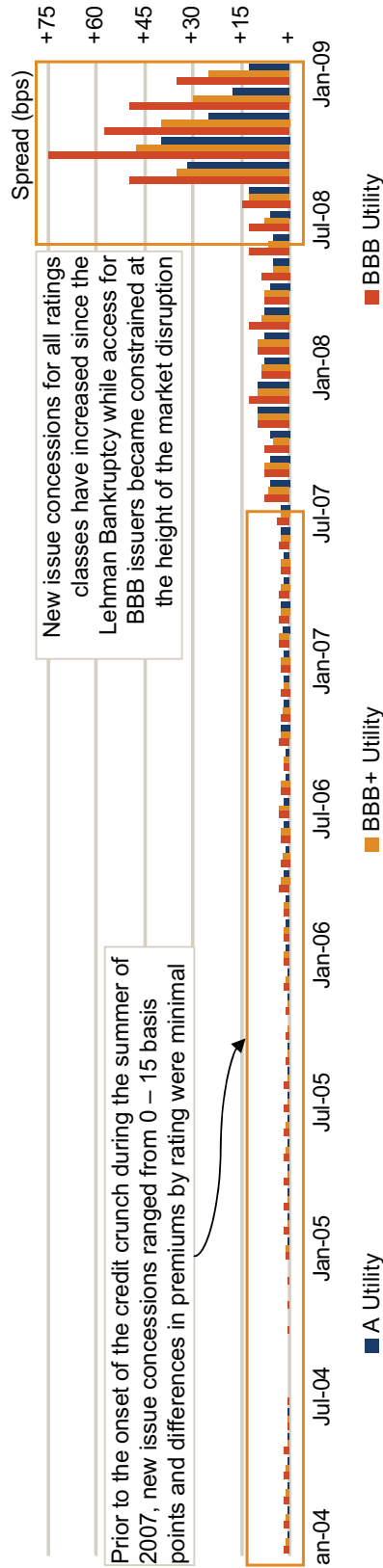
Spreads as of 01/20/09



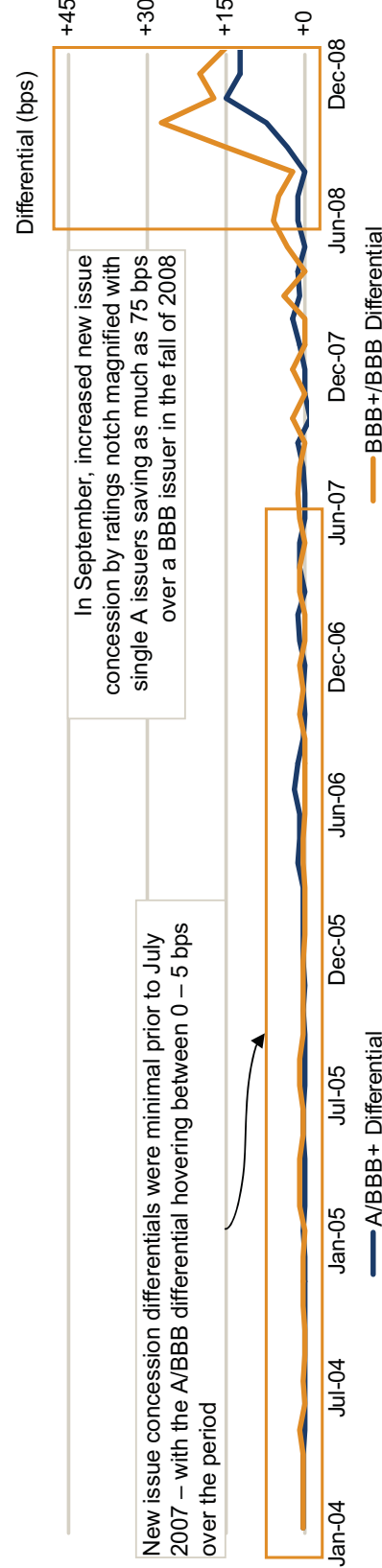
# Historical Implied New Issue Concessions by Rating

Spreads and new issue concessions widened dramatically post Lehman bankruptcy

## New Issue Concession for Secured Utilities by Rating

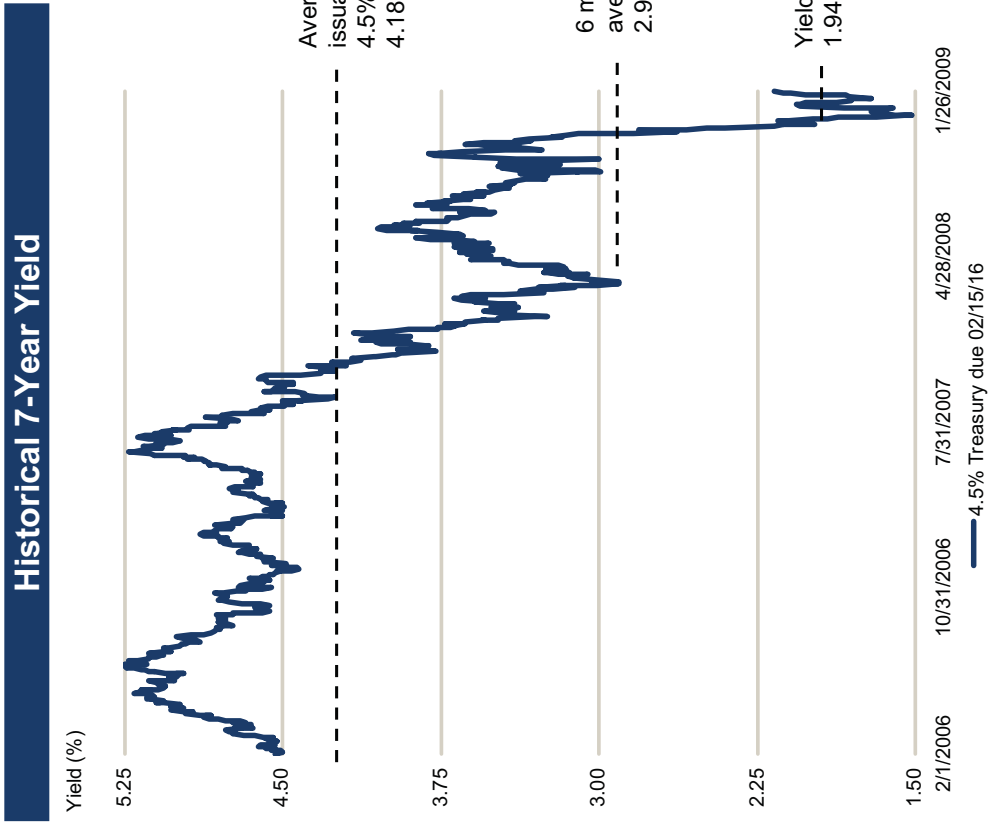
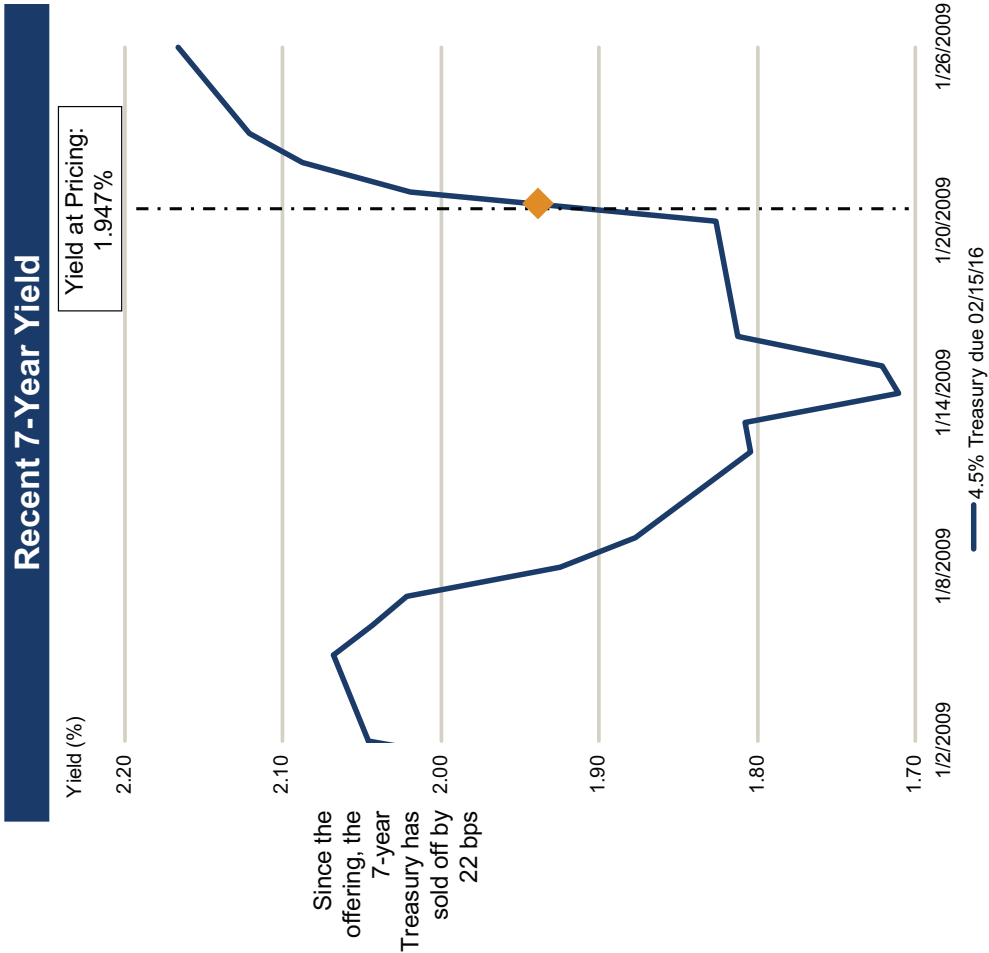


## Historical Concession Differential for Secured Utilities



# Historical Performance of 7-year Treasury

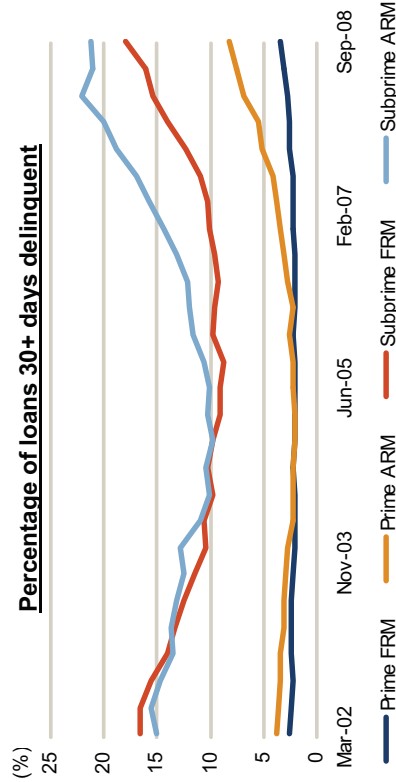
The transaction also benefited from a historically low yield on the 10-year Treasury



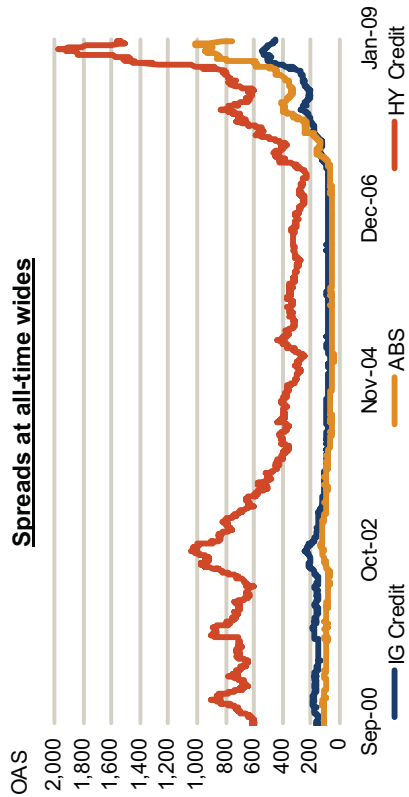
# Broader Economic Trends

What began as a contraction in the housing market expanded into the worst financial crisis since the Great Depression

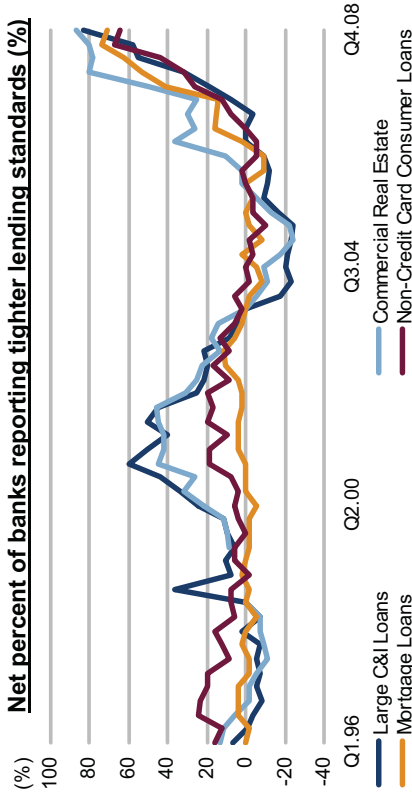
The bursting of the housing bubble started a chain reaction



Spreads pushed out to all time wides as credit markets froze



Leading to capital constraints and massive global deleveraging



Barclays Capital forecasts weakness to continue in early 2009

	1yr ago	Today	1Q09	2Q09	3Q09	4Q09
Fed Funds	4.50	0.25	0.25	0.25	0.25	0.25
Core CPI	2.5	0.0	1.6	1.8	1.7	1.4
CPI	4.1	-0.7	-2.2	1.8	3.4	2.3
Unemployment	5.0	7.2	7.6	8.1	8.3	8.3
GDP	4.8	-0.5	-4.5	-1.0	2.0	3.0
Crude Oil	91.2	41.40	40.0	46.67	53.33	61.67
Natural Gas	7.95	4.512	5.75	5.58	6.08	6.58
2Y Treasury	3.55	0.84	0.60	0.50	0.70	1.00
5Y Treasury	3.85	1.56	1.30	1.40	2.00	2.70
10Y Treasury	4.27	2.52	2.20	2.30	3.30	4.10
30Y Treasury	4.62	3.23	2.90	3.10	3.90	4.80

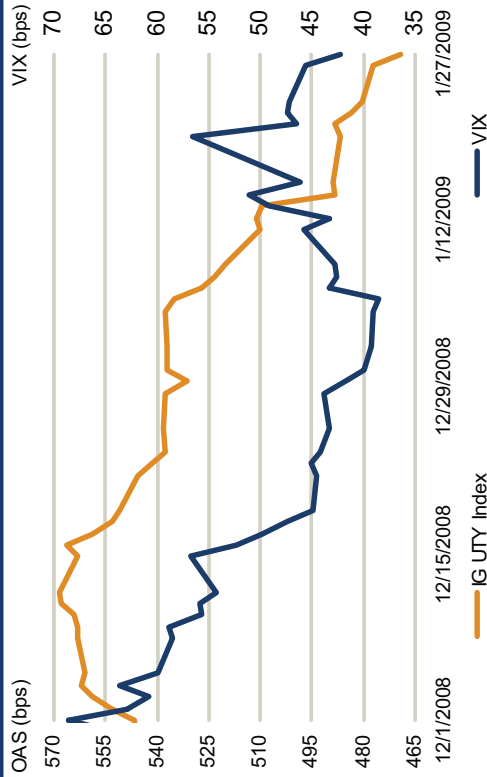


# Debt has Outperformed Other Asset Classes at the Start of '09

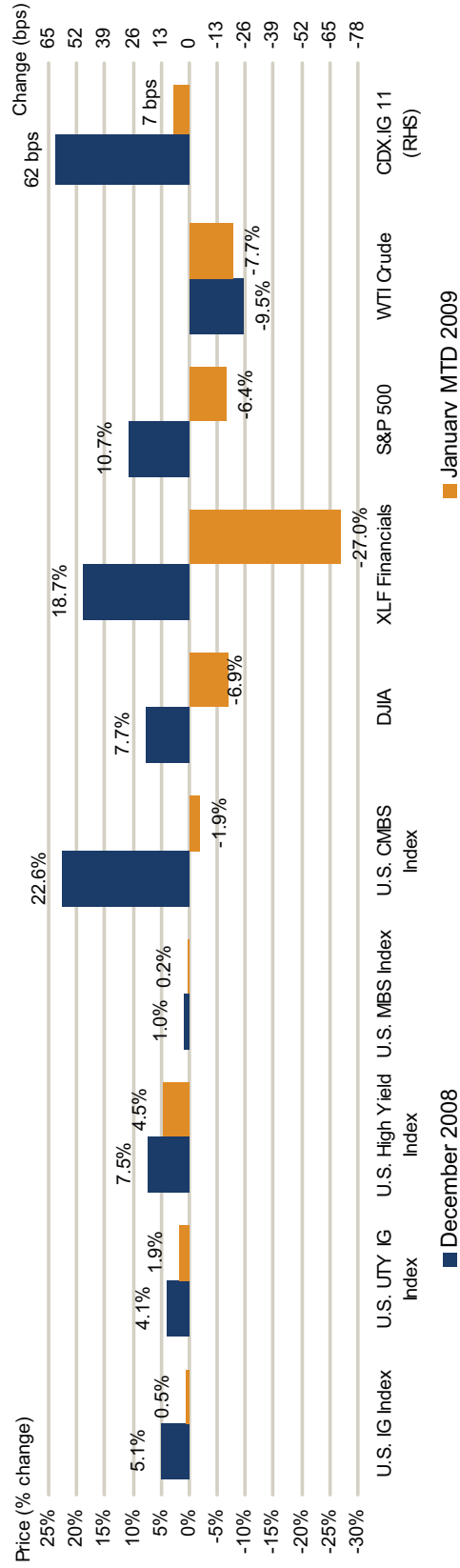
## Commentary

- While both the credit and equity markets finished 2008 on a strong note, in recent weeks there has been a decoupling of the two
  - Credit has performed across asset classes as the investment grade, high yield and MBS indices are all up in January
  - The Barclays Investment Grade Utility Index has tightened 68 bps in January 2009
  - In contrast, equity indices have given back most of their December gains
    - The S&P 500 is down (6.4)% in January after gaining 10.7% in December
- New issuers have taken advantage of this window to opportunistically access the primary market at historically low yields
  - \$46.4 billion of non-government guaranteed new supply has priced so far in January including \$10.0 billion of utility supply

## Credit Tightening Despite Higher Volatility



## Recent Performance of Different Asset Classes



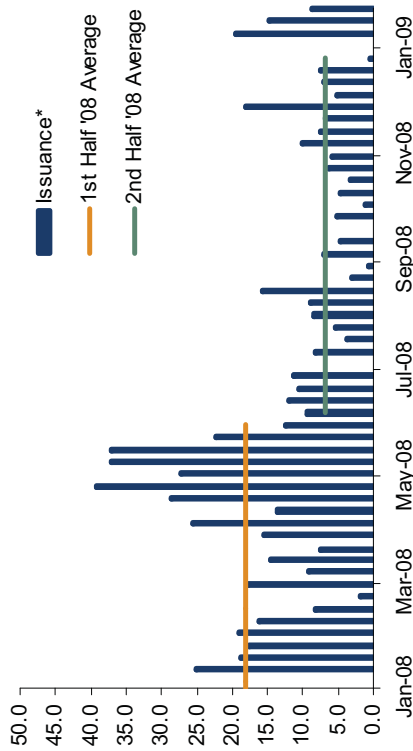


# 2008 Corporate Bond Market Overview

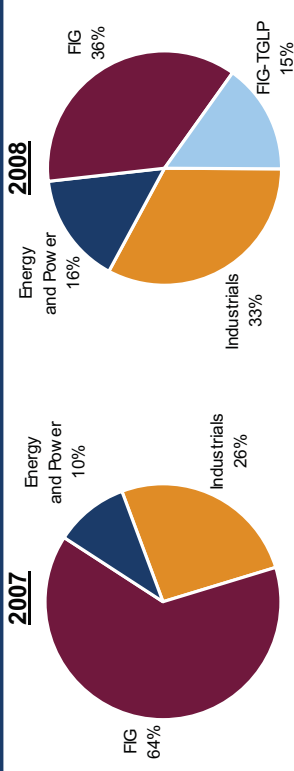
Overall issuance was down, but high quality, non-financial issuers maintained market access

2nd Half 2008 saw a dramatic decline in new issue volume...

Weekly Investment Grade Supply 2008



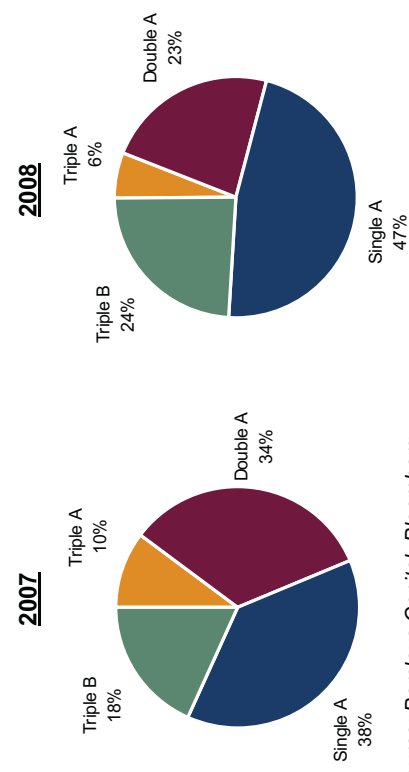
...which translated to a dramatic decline in supply YoY



**2007 Total Supply: \$954 bn**  
**2008 Total Supply: \$748 bn**

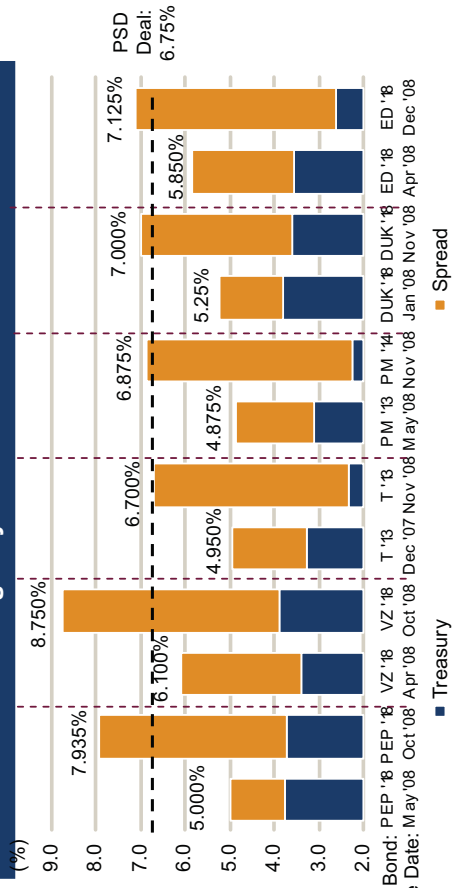
- Total issuance fell y-o-y as 2nd Half 2008 saw a pullback in demand
- Financial issuance declined dramatically in 2008 as the credit crisis restricted access to capital - FDIC guaranteed issuance under the TLGP has re-opened the market

AAA and AA volume down in '08 with lower FIG issuance



Source: Barclays Capital, Bloomberg.

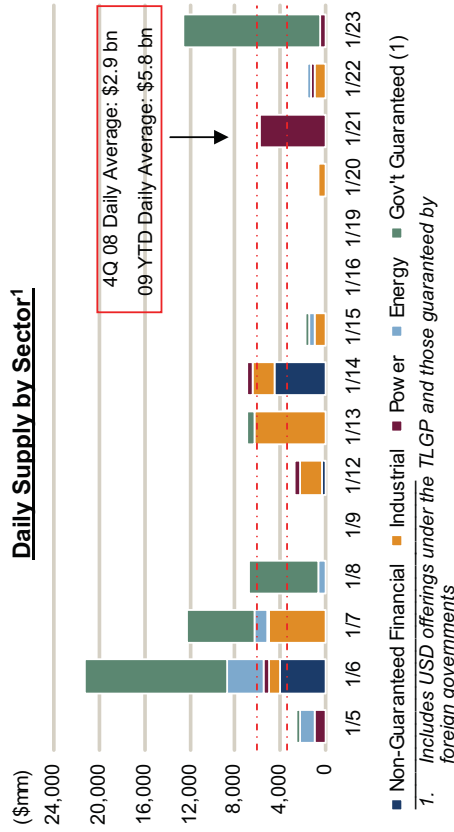
Issuers faced higher yields for new issues in 2nd Half



# The New Issue Market in 2009

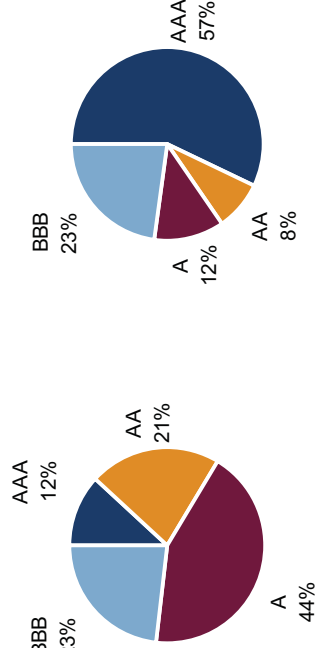
## New issue supply has picked up significantly in the New Year with issuers across sectors and ratings accessing the market with Barclays leading the way

### Daily Supply by Sector<sup>1</sup>



### BBB issuers have had access to the market although government guaranteed debt still the bulk of supply

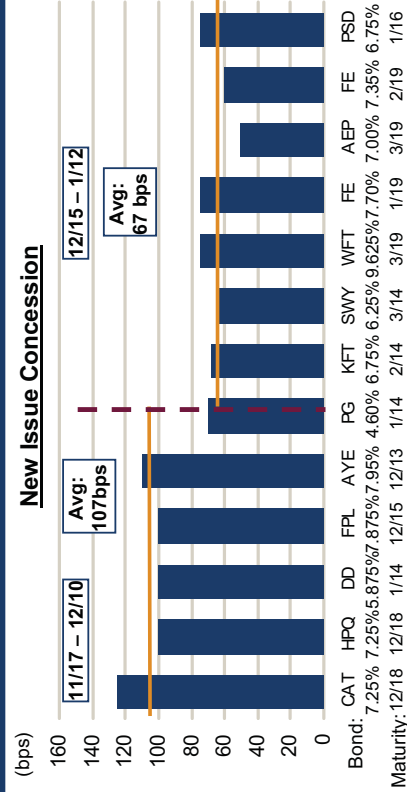
December<sup>1</sup> January<sup>1</sup>



### Commentary

- Increased trading flows improved transparency in the secondary market and have positively impacted the new issue market
- Renewed cash stockpiles in the new year have afforded investors the means to purchase new issues
- Given the historically wide credit spreads and inflationary outlook, investors are looking to get long investment grade credit
- Conversely, given the steep discount to par that even highly rated issuers are trading, the secondary market looks particularly attractive
  - There is greater upside potential in secondaries trading below par
- New issue performance post-pricing will have a major impact on investor demand for new issues in 2009

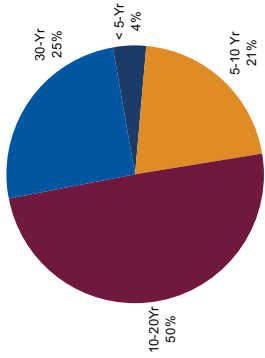
### New issue concessions have tightened in the new year



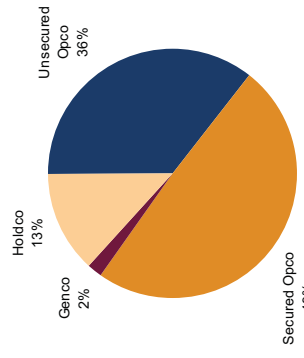
# Recent Investment Grade Utility Transactions

Debt Capital Markets Update

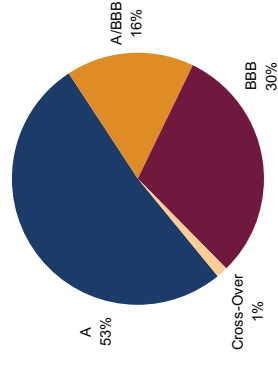
## Statistics 2008 Issuance by Tenor



## Issuance by Type



## Issuance by Ratings



In 2008, investment grade utilities raised over \$49 billion

Early 2009 supply has been dominated by secured issuance although BBB unsecured opcos and holding companies have market access

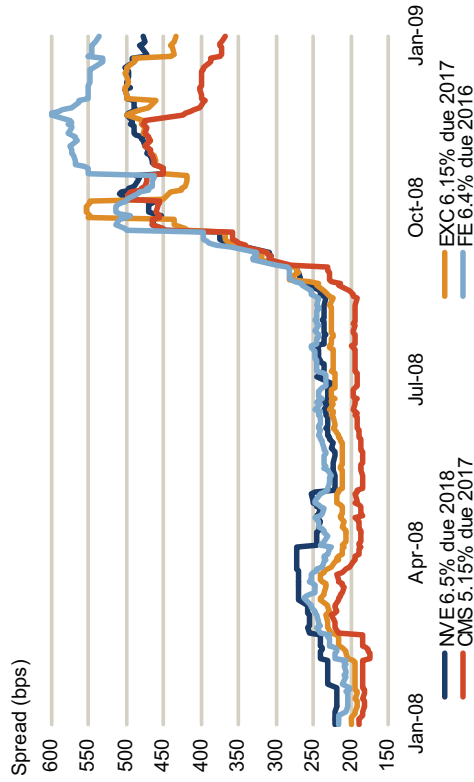
Ticker	Issue Date	Issuer	Ratings		Amt (\$mm)	Coupon	Structure	Type	Company	Reoffer Spread (bp)
			Moody's	S&P						
ETR	01/27/09	Energy Texas	Baa3	BBB+	500	7.125%	10 NC/L	FMB	Opco	+470
ISRELE	01/23/09	Israel Electric	Baa2	BBB+	500	9.375%	11 NC/L	Unsecured	Opco	+684
FE	01/22/09	Jersey Central Power & Light	Baa2	BBB	300	7.350%	10 NC/L	Unsecured	Opco	+475
EDF	01/21/09	Electricite de France ("EDF")	Aa3	A+	1,250	5.500%	5 NC/L	Unsecured	Holdco	+400
EDF	01/21/09	Electricite de France ("EDF")	Aa3	A+	2,000	6.500%	10 NC/L	Unsecured	Holdco	+400
EDF	01/21/09	Electricite de France ("EDF")	Aa3	A+	1,750	6.950%	30 NC/L	Unsecured	Holdco	+388
DUK	01/21/09	Duke Energy	Baa2	BBB+	750	6.300%	5 NC/L	Unsecured	Holdco	+475
PSD	01/20/09	Puget Sound Energy	Baa2	A-	250	6.750%	7 NC/L	FMB	Opco	+480
FE	01/14/09	Metropolitan Edison	Baa2	BBB	300	7.700%	10 NC/L	Unsecured	Opco	+536
AFP	01/12/09	Indiana Michigan Power	Baa2	BBB	475	7.000%	10 NC/L	Unsecured	Opco	+475
PGN	01/08/09	Progress Energy Carolinas	A2	A-	600	5.300%	10 NC/L	FMB	Opco	+285
NVE	01/07/09	Nevada Power	Baa3	BBB	125	7.375%	5 NC/L	FMB	Opco	+572
CEG	01/06/09	Centerpoint Energy Houston	Baa2	BBB+	500	7.000%	5 NC/L	FMB	Opco	+528.6
BFK	01/05/09	Pacificorp	A3	A-	650	6.000%	30 NC/L	FMB	Opco	+310
BFK	01/05/09	Pacificorp	A3	A-	350	5.500%	10 NC/L	FMB	Opco	+310
<b>2009 Total Volume YTD \$10,300</b>										
AYE	12/10/08	Monongahela Power	Baa2	BBB+	300	7.950%	5 NC/L	FMB	Opco	+639
FPL	12/09/08	FPL Group Capital	A2	A-	450	7.875%	7 NC/L	Unsecured	Holdco	+597
OGI	12/08/08	Oklahoma Gas & Electric	A2	BBB+	250	8.250%	10 NC/L	Unsecured	Opco	+537
WEC	12/08/08	Wisconsin Electric Power	A1	A-	250	6.250%	7 NC/L	Unsecured	Opco	+425
AEE	12/04/08	Central Illinois Light	Baa2	BBB+	150	8.875%	5 NC/L	FMB	Opco	+735
POM	12/03/08	Potomac Electric Power	Baa1	BBB+	250	7.900%	30 NC/L	FMB	Opco	+463
WGL	12/02/08	Washington Gas Light	A2	AA-	50	7.464%	10 NC/L	Unsecured	Opco	+475
ED	12/02/08	Consolidated Edison of NY	A1	A-	600	7.125%	10 NC/L	Unsecured	Opco	+450
TEG	12/01/08	Wisconsin Public Service	Aa3	A+	125	6.375%	7 NC/L	FMB	Opco	+435
D	11/25/08	Dominion Resources	Baa2	A-	600	8.875%	10NP5	Unsecured	Holdco	+679
PEG	11/24/08	Public Service Electric and Gas	A3	A-	275	6.330%	5 NC/L	FMB	Opco	+413
SRE	11/18/08	Southern California Gas	A1	A+	250	5.500%	5 NC/L	FMB	Opco	+332
WR	11/18/08	Westar Energy	Baa2	BBB	300	8.625%	10 NC/L	FMB	Opco	+521.3
POM	11/18/08	Delmarva Power and Light	Baa1	A-	250	6.400%	5 NC/L	FMB	Opco	+420
SRE	11/17/08	Sempra Energy	Baa1	BBB+	250	8.900%	5 NC/L	Unsecured	Holdco	+670
SRE	11/17/08	Sempra Energy	Baa1	BBB+	500	9.800%	10 NC/L	Unsecured	Holdco	+618.9
XEL	11/14/08	Southwestern Public Services	Baa1	BBB+	250	8.750%	10 NC/L	Unsecured	Opco	+515.5
SO	11/14/08	Mississippi Power	A1	A	50	6.000%	5 NC/L	Unsecured	Opco	+375
SO	11/14/08	Alabama Power	A2	A	250	5.800%	5 NC/L	Unsecured	Opco	+355
FE	11/13/08	Cleveland Electric Illuminating	Baa2	BBB+	300	8.875%	10 NC/L	FMB	Opco	+513.6
PCG	11/13/08	Pacific Gas & Electric	A3	BBB+	400	6.250%	5 NC/L	Unsecured	Opco	+410
PCG	11/13/08	Pacific Gas & Electric (re-opening)	A3	BBB+	200	8.250%	10 NC/L	Unsecured	Opco	+455.7
SO	11/12/08	Georgia Power	A2	A	400	6.000%	5 NC/L	Unsecured	Opco	+360
DUK	11/12/08	Duke Energy Carolinas	A2	A	500	7.000%	10 NC/L	FMB	Opco	+340
DUK	11/12/08	Duke Energy Carolinas	A2	A	400	5.750%	5 NC/L	FMB	Opco	+345
POM	11/06/08	Atlantic City Electric	A3	A-	250	7.750%	10 NC/L	FMB	Opco	+412.5
D	11/03/08	Virginia Electric & Power	Baa1	A-	700	8.875%	30 NC/L	Unsecured	Opco	+456
<b>2008 Total Volume \$49,017</b>										

Source: Barclays Capital Note: Ratings at time of issuance

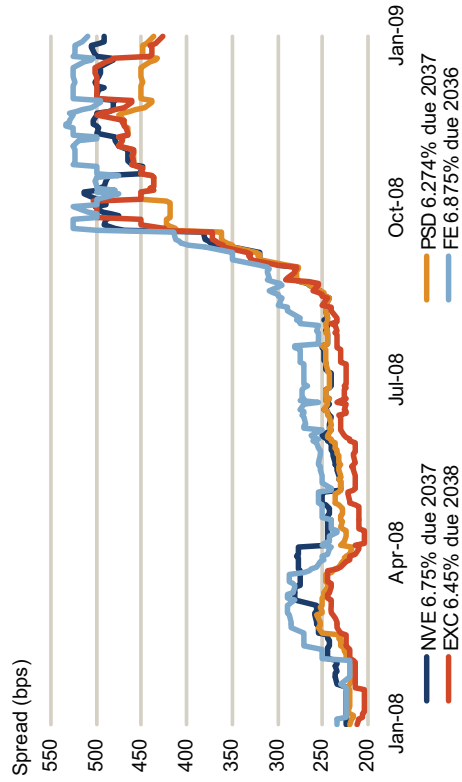


# Historical Relative Value for PSD

## 10-Year Comparable Secondary Levels



## 30-Year Comparable Secondary Levels



## 10-Year Analysis – Last 12 Months

Issuer	Ratings		LTM			As of 1/26
	Moody's	S&P	High	Low	Avg	
Nevada Power	Baa3	BBB	+510	+219	+312	+477
Commonwealth Edison	Baa2	BBB+	+553	+192	+295	+433
Consumers Energy	Baa1	BBB	+500	+175	+268	+369
Ohio Edison	Baa1	BBB+	+601	+201	+326	+536

## 30-Year Analysis – Last 12 Months

Issuer	Ratings		LTM			As of 1/26
	Moody's	S&P	High	Low	Avg	
Puget Sound Energy	Baa2	A-	+475	+216	+300	+436
Nevada Power	Baa3	BBB	+513	+222	+319	+492
Commonwealth Edison	Baa2	BBB+	+503	+205	+299	+427
Ohio Edison	Baa1	BBB+	+535	+220	+337	+509

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