

EXHIBIT NO. ___(CJL-1T)
DOCKET NO. UE-07___/UG-07___
2007 MERGER PROCEEDING
WITNESS: CHRISTOPHER J. LESLIE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of
PUGET HOLDINGS LLC
and
PUGET SOUND ENERGY, INC.
For an Order Authorizing Proposed Transaction

Docket No. UE-07___
Docket No. UG-07___

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
CHRISTOPHER J. LESLIE
ON BEHALF OF PUGET HOLDINGS LLC

DECEMBER 17, 2007

PUGET HOLDINGS LLC

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
CHRISTOPHER J. LESLIE**

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1 **PUGET HOLDINGS LLC**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **CHRISTOPHER J. LESLIE**

4 **I. INTRODUCTION**

5 **Q. Will you please state your name, business address, and position with Puget**
6 **Holdings LLC (“Puget Holdings”)?**

7 A. My name is Christopher J. Leslie. My business address is Level 22, 125 West
8 55th Street, New York, New York 10019. I am a manager of Puget Holdings.
9 After the proposed merger of Puget Energy with Puget Holdings is closed, I will
10 be chairman of the Puget Holdings Board of Managers.

11 **Q. By whom are you employed and in what capacity?**

12 A I am employed by Macquarie Holdings (USA) Inc, as an Executive Director of
13 the Macquarie Group of Companies (“Macquarie Group”).¹ I also hold the office
14 of Chief Executive Officer of Macquarie Infrastructure Partners, which is a
15 Macquarie Group managed fund and lead investor in the Investor Consortium.²

¹ For purposes of this Joint Application, the Macquarie Group refers to Macquarie Group Limited with its subsidiaries, affiliates and the vehicles they manage. Macquarie Group comprises two separate sub groups, a Banking Group (including Macquarie Bank Limited) and a Non-Banking Group, known as Macquarie Capital, which undertakes principal investment activity and provides a full range of investment services including financial advisory and funds management.

² Macquarie Infrastructure Partners, Macquarie Capital Group Ltd., Macquarie-FSS Infrastructure Trust, Canada Pension Plan Investment Board, British Columbia Investment Management Corporation and

1 **Q. Have you prepared an exhibit describing your education, relevant**
2 **employment experience, and other professional qualifications?**

3 A. Yes, I have. It is Exhibit No. ___(CJL-2).

4 **Q. What position will you hold with Puget Sound Energy (“PSE”) after the**
5 **transaction is closed?**

6 A. I will serve as Chairman of the Board of Directors of PSE.

7 **Q. Have you previously testified or sponsored testimony before the Washington**
8 **Utilities and Transportation Commission (“Commission”) and other utility**
9 **commissions in the United States?**

10 A. I have not previously testified or sponsored testimony before the Commission. I
11 have previously testified or sponsored testimony before other utility commissions
12 in other states in relation to other regulated utilities owned or managed by the
13 Macquarie Group. Such other commissions include the Connecticut Department
14 of Public Utility Control, the New Hampshire Public Utilities Commission and
15 the Pennsylvania Public Utility Commission. I have also testified before the
16 Federal Energy Regulatory Commission.

17 **Q. What is the purpose of your testimony in this proceeding?**

18 A. My testimony provides an overview of Puget Holdings and its members
19 (Section II); describes the Agreement and Plan of Merger, dated as of October 25,

Alberta Investment Management are referred to collectively in this Joint Application as the “Investor

1 2007 (the “Merger Agreement”) by and among Puget Energy, Inc. (“Puget
2 Energy”), Puget Holdings,³ Puget Intermediate Holdings Inc.⁴ (“Puget
3 Intermediate”) and Puget Merger Sub Inc.⁵ (“Merger Sub”) (“collectively, the
4 “Merger Parties”); and describes the proposed transaction underlying the Merger
5 Agreement (the “Proposed Transaction”) (Section III). My testimony then
6 describes the corporate structure of Puget Holdings and where PSE fits into that
7 structure as well as the anticipated governance of Puget Holdings and PSE after
8 the closing (Section IV). My testimony then states why the Proposed Transaction
9 is consistent with the public interest and describes how PSE’s regulated electric
10 and natural gas businesses will become a ring-fenced business under Puget
11 Holdings (Section V). Section V also describes the various structural and
12 financial commitments offered by Puget Holdings and PSE (collectively, the
13 “Joint Applicants”) to insulate PSE from the financial activities of Puget Holdings
14 and its subsidiaries. I summarize my recommendations in Section VI. To
15 facilitate reference, I include as Exhibit No. ___(CJL-3) a glossary of the entities
16 referenced in my testimony and a description of these entities.

Consortium.”

³ Please note that Puget Holdings was called Padua Holdings LLC at the time the Merger Parties executed the Merger Agreement. Since such time, the name has been changed to Puget Holdings LLC.

⁴ Please note that Puget Intermediate Holdings Inc. was called Padua Intermediate Holdings Inc. at the time the Merger Parties executed the Merger Agreement. Since such time, the name has been changed to Puget Intermediate Holdings Inc.

⁵ Please note that Puget Merger Sub Inc. was called Padua Merger Sub Inc. at the time the Merger Parties executed the Merger Agreement. Since such time, the name has been changed to Puget Merger Sub Inc.

1 **Q. Please summarize why the Proposed Transaction is consistent with the public**
2 **interest and why Puget Holdings is the appropriate long-term owner and**
3 **manager of PSE.**

4 A. PSE is a well-managed public utility with a long track record of providing
5 excellent electricity and natural gas service throughout its region as well as
6 serving as a leading corporate citizen of the region. Indeed, it is PSE's reputation
7 for service and innovation that attracted our investors to PSE. However, PSE
8 faces substantial need for equity and debt capital to invest in new energy
9 resources and distribution infrastructure necessary to support the growth of the
10 region in an environmentally responsible manner. Specifically, as shown in the
11 testimony of Mr. Eric M. Markell, Exhibit No. ___(EMM-1T), PSE has projected
12 a capital expenditure requirement of approximately \$5.7 billion between 2008 and
13 2013, which will require that it raise an estimated \$3.4 billion from the capital
14 markets over the next six years (2008 – 2013) including \$900 million of equity.
15 This external financing requirement poses a significant challenge for PSE in
16 relation to its current equity capitalization of \$2.1 billion. Accordingly, PSE's
17 ability to service the growing needs of its region and, therefore, the ability of the
18 region to actually obtain the energy needed to support its growth, depend on
19 PSE's ability to access capital at a reasonable rate on a regular basis for the
20 foreseeable future. This capital requirement also exposes PSE to the volatility of
21 capital market conditions.

22 The proposed transfer of control of PSE to Puget Holdings provides a long-term

1 solution to this capital need. The members of the Investor Consortium are
2 experienced long-term investors who have access to significant funds dedicated to
3 invest in infrastructure businesses like PSE. The Investor Consortium, led by
4 members of the Macquarie Group, also have a substantial track record in
5 financing and managing infrastructure investments; the Macquarie Group alone
6 manages or owns 112 infrastructure and specialized assets globally with
7 aggregate proportionate enterprise value of \$114 billion. The Investor
8 Consortium members seek out well run businesses like PSE and are eager to
9 invest additional funds in such businesses. They also have a proven track of
10 partnering with existing management to support the overall performance,
11 stewardship and growth of the businesses in which they invest. Given PSE's
12 track record as an innovative, well-managed public utility, the Investor
13 Consortium is also committed to retaining the current management team and
14 maintaining PSE as a leading corporate citizen in its region.

15 II. PUGET HOLDINGS AND ITS MEMBERS

16 Q. Please explain the corporate structure of Puget Holdings.

17 A. Puget Holdings is a Delaware limited liability company, whose members are
18 wholly owned indirect subsidiaries of:

- 19 (i) Macquarie Infrastructure Partners⁶ (31.8% ownership interest);
- 20 (ii) Macquarie Capital Group Ltd. (15.9% ownership interest);

⁶ Macquarie Infrastructure Partners consists of three limited partnerships that will invest indirectly in Puget Holdings: Macquarie Infrastructure Partners A, L.P., Macquarie Infrastructure Partners International, L.P., and Macquarie Infrastructure Partners Canada, L.P.

- 1 (iii) Macquarie-FSS Infrastructure Trust (3.7% ownership interest);
2 (iv) Canada Pension Plan Investment Board (28.1% ownership
3 interest);
4 (v) British Columbia Investment Management Corporation (14.1%
5 ownership interest); and
6 (vi) Alberta Investment Management (6.3%).⁷

7 Macquarie Infrastructure Partners, Macquarie Capital Group Ltd. and Macquarie-
8 FSS Infrastructure Trust are all members of the Macquarie Group.

9 As outlined in Exhibit No. ___(CJL-4), Puget Holdings wholly owns Puget
10 Intermediate, which is a Washington corporation. Puget Intermediate wholly
11 owns Merger Sub which is also a Washington corporation and will, upon
12 successful approval of the Proposed Transaction, merge with Puget Energy,
13 thereby effecting the change of control. Puget Energy will be the surviving entity
14 of that merger and PSE will remain a direct wholly owned subsidiary of Puget
15 Energy.

16 **Q. Please describe the Investor Consortium and the investment goals of its**
17 **investors.**

18 A. The Investor Consortium comprises investment funds and specialized
19 infrastructure investors. The investors in these funds generally include entities
20 such as pension funds, foundations and endowments with long-term investment
21 horizons. Accordingly, these funds generally seek out investments that produce
22 steady, predictable, long-term cash flow streams from high quality assets and do

1 not require a sale or defined exit strategy to achieve their investment goals. These
2 types of investments effectively match the long-term liabilities of public sector
3 and corporate pension plans such as Canada Pension Plan Investment Board,
4 British Columbia Investment Management Corporation, Alberta Investment
5 Management, and many of the investors in Macquarie Group's managed funds.

6 **Q. Please explain what you mean by saying that these investors “do not require**
7 **a sale or defined exit strategy to achieve their investment goals.”**

8 A. Many institutional investors are willing to commit to an investment for a set
9 number of years only if they receive a commitment that the fund will exit the
10 investment at the end of that term. Private equity typically works in this fashion.
11 Private equity investors typically seek businesses which are perceived to be
12 under-performing and then invest with the expectation of substantially changing
13 management practices to improve performance in anticipation of a sale of the
14 business within three to five years. The Macquarie Group and the Investor
15 Consortium members approach infrastructure investments very differently than
16 the way private equity funds approach investments. Because they have long-term
17 investment horizons and are constantly receiving new funds to invest, the Investor
18 Consortium investors do not necessarily want the assets to be sold in the near or
19 medium term. The Macquarie Group's investment in the Chicago Skyway, for
20 example, is based on a 99 year concession.

⁷ Please note that the ownership interests add to 99.9% due to rounding.

1 **Q. Please describe the individual members of Puget Holdings.**

2 A. A detailed description of the individual members of Puget Holdings is outlined
3 below.

4 **A. The Macquarie Group**

5 **Q. Please describe the Macquarie Group investors in the Investor Consortium.**

6 A. The Investor Consortium includes three members of the Macquarie Group:

7 (i) Macquarie Infrastructure Partners: Macquarie Infrastructure
8 Partners is a diversified unlisted fund that is headquartered in New
9 York which focuses on infrastructure investments in the United
10 States and Canada. The majority of Macquarie Infrastructure
11 Partners' investors are US and Canadian institutions such as public
12 pension funds, corporate pension funds, endowments and
13 foundations and Taft-Hartley (Union) funds. Macquarie
14 Infrastructure Partners has eleven infrastructure investments in the
15 utility, toll road, ports and communications sectors.

16 (ii) Macquarie-FSS Infrastructure Trust: Macquarie-FSS
17 Infrastructure Trust is an unlisted Australian infrastructure trust
18 managed by Macquarie Specialised Asset Management Limited.
19 The investment objective of Macquarie-FSS Infrastructure Trust is
20 to make investments in a diversified range of infrastructure assets
21 and related assets. Macquarie-FSS Infrastructure Trust currently
22 holds interests in five assets across sectors including
23 communications infrastructure, vehicle inspection, utilities, and
24 water infrastructure in three countries: the USA, Spain, and the
25 U.K.

26 (iii) Macquarie Capital Group Ltd.: Macquarie Capital Group Ltd. is a
27 wholly owned subsidiary of the Australian-listed Macquarie Group
28 Limited and the operating company for Macquarie Group
29 Limited's non banking operations. Macquarie Capital Group Ltd.
30 often invests alongside Macquarie Group managed funds in
31 investments of this kind in an underwriting capacity. This is the
32 case for Puget Holdings, and Macquarie Capital Group Ltd. will
33 look to sell down its minority position to other Macquarie Group

1 managed funds or other like-minded third party investors prior to
2 financial close or shortly thereafter.

3 **Q. Please describe the Macquarie Group and its business activities.**

4 A. The Macquarie Group is a diversified international provider of banking, financial,
5 advisory and investment services, with approximately US\$200 billion of total
6 assets under management (as of September 30, 2007). The Macquarie Group is
7 headquartered in Australia with subsidiaries located across the globe and employs
8 over 11,000 people in 25 countries including more than 1,300 in North America.
9 The Macquarie Group has been active in the North America for over a decade,
10 establishing its first office in New York in 1994. As discussed above, three of the
11 Investor Consortium members – Macquarie Infrastructure Partners, Macquarie
12 Capital Group Ltd. and Macquarie-FSS Infrastructure Trust—are also members of
13 the Macquarie Group. The Macquarie Group is one of the world’s largest owners
14 and managers of infrastructure assets, managing more than \$50 billion of equity
15 in infrastructure and specialized assets around the world. Through its 31 listed
16 and unlisted funds and other managed entities, the Macquarie Group manages,
17 operates and invests in a diversified group of infrastructure businesses, including
18 water companies, natural gas transmission and distribution companies, and
19 electricity generation, transmission and distribution companies. Through its
20 investments, the Macquarie Group is responsible for providing utility service to
21 over 13.7 million households. In addition, the Macquarie Group through its
22 investments in airports and rail serves over 75 million air passengers and over 2.7
23 million rail passengers annually. Over 1.9 million cars per day travel on toll

1 roads in which the Macquarie Group has invested.

2 The Macquarie Group is a committed, long-term investor in infrastructure that
3 seeks to own, develop and responsibly manage investments in the infrastructure
4 sector that are financially stable and predictable over the long-term. From these
5 investments, it seeks stable, predictable cash flows and seeks to effectively
6 manage and grow the businesses under its control.

7 **Q. What previous acquisitions has the Macquarie Group undertaken in the**
8 **energy and utility industries?**

9 A. In North America, the Macquarie Group's energy and utility investments include:
10 (i) Aquarion Company, a regulated New England water utility; (ii) Duquesne
11 Light Company, a regulated Pennsylvania electric utility; (iii) AltaLink, an
12 Alberta electricity transmission company; (iv) Cardinal Power, an Ontario
13 cogeneration power facility; (v) The Gas Company, a Hawaiian full-service gas
14 utility; (vi) Thermal Chicago Corporation, a district energy⁸ company with assets
15 located in Chicago, Illinois, and Las Vegas, Nevada; and (vii) Clean Power
16 Operating Trust, which invests in renewable generation assets in Canada and the
17 U.S.

18 Outside of North America, Macquarie Group's utility investments include:

19 (i) Wales & West Utilities, a regulated gas utility in the U.K.; (ii) Thames Water,

⁸ District energy is the provision of chilled water, steam and/or hot water to customers from a centralized plant through underground piping for cooling and heating purposes. A typical district energy customer is the owner/manager of large office or condominium buildings or facilities such as hospitals, universities and other municipal buildings.

1 the largest regulated water utility in the U.K.; (iii) the Dampier to Bunbury
2 pipeline, a natural gas transmission pipeline in Australia; (iv) Multinet, a gas
3 utility in Australia; and (v) United Energy Distribution, an electricity utility in
4 Australia.

5 **Q. Do you have any examples that illustrate the Macquarie Group’s “buy and
6 hold” investment strategy?**

7 A. Since the inception of the Macquarie Capital Funds business in 1996, the
8 Macquarie Group has rarely sold any of the approximate 120+ infrastructure and
9 specialized assets it has invested in to unrelated third parties. In some cases the
10 assets were required to be sold as a condition of another transaction. In the
11 majority of the other circumstances, the Macquarie Group-managed investment
12 was only a minority interest in the infrastructure asset. Increasingly, the
13 Macquarie Group now targets investments where it holds a majority position.
14 This record of ownership demonstrates that the Macquarie Group is
15 fundamentally different from general private equity funds which, as previously
16 discussed, acquire underperforming businesses and seek to improve performance
17 and exit the business in five years or less.

18 **B. Canada Pension Plan Investment Board**

19 **Q. Please describe the business activities of the Canada Pension Plan Investment
20 Board.**

21 A. The Canada Plan Pension Investment Board invests the funds not needed by the

1 Canada Pension Plan to pay current benefits on behalf of 16 million Canadian
2 contributors and beneficiaries. In order to build a diversified portfolio of Canada
3 Pension Plan assets, the Canada Plan Pension Investment Board is investing in
4 publicly-traded stocks, private equities, real estate, inflation-linked bonds,
5 infrastructure and fixed income. Based in Toronto, the Canada Plan Pension
6 Investment Board is governed and managed independently of the Canada Pension
7 Plan and at arm's length from governments. At September 30, 2007, the Canada
8 Pension Plan Fund totaled C\$121.3 billion, including \$2.5 billion in infrastructure
9 investments. For more information, please visit www.cppib.ca.

10 **Q. What previous acquisitions has Canada Pension Plan Investment Board**
11 **undertaken in the energy and utility industries?**

12 A. The Canada Pension Plan Investment Board's utility and energy interests include:
13 (i) AWG Plc., whose key business is Anglian Water Services, a regulated water
14 and sewage business in the South East of England; (ii) Transelec S.A., which is
15 the leading electrical transmission company in Chile, serving more than 98% of
16 the population; and (iii) Wales & West Utilities, a regulated gas utility in the U.K.
17 (a Macquarie Group led transaction).

18 **C. British Columbia Investment Management Corporation**

19 **Q. Please describe the business activities of the British Columbia Investment**
20 **Management Corporation.**

21 A. British Columbia Investment Management Corporation is an investment

1 management corporation based in Victoria, British Columbia. With over \$83
2 billion in assets under administration, British Columbia Investment Management
3 Corporation offers fund management services for all major asset classes,
4 including currency and infrastructure investment. British Columbia Investment
5 Management Corporation's clients include public sector pension plans, provincial
6 government, public trusts, and insurance funds. For more information, visit
7 www.bcimc.com.

8 **Q. What previous acquisitions has the British Columbia Investment**
9 **Management Corporation undertaken in the energy and utility industries?**

10 A. British Columbia Investment Management Corporation's direct utility and energy
11 investments include: (i) Aquarion Water Company, a U.S. water utility (a
12 Macquarie Group led transaction); (ii) Thames Water, the largest regulated water
13 utility in the U.K.(a Macquarie Group led transaction); (iii) Transelec S.A., which
14 is the leading electrical transmission company in Chile; (iv) InterGen N.V., an
15 international power generation company; and (v) Corix, a water products, water
16 systems and water utility company.

17 **D. Alberta Investment Management**

18 **Q. Please describe the business activities of the Alberta Investment**
19 **Management.**

20 A. Alberta Investment Management, based in Edmonton, Alberta, is one of the
21 largest asset managers in Canada, with US\$78 billion in assets under management

1 as of October 31, 2007. Alberta Investment Management manages capital for
2 public sector pension plan and government endowment fund clients across a wide
3 range of asset classes, and is mandated to maximize the risk-adjusted returns of
4 client funds, without regard to political or other non-investment related criteria.
5 Alternative investments include private equity, real estate, timberland, and
6 infrastructure. Alberta Investment Management has made infrastructure
7 investments and investment commitments of more than US\$1.5 billion and has
8 significant investment experience in the regulated energy and utility sectors.
9 Infrastructure investments are made on a long-term basis. The portfolio is
10 diversified across sector and geography, including investments in North America,
11 Europe, Asia, and Australia. For more information on Alberta Investment
12 Management and its investments, please visit
13 www.finance.alberta.ca/business/investments.

14 **Q. What previous acquisitions has the Alberta Investment Management**
15 **undertaken in the energy and utility industries?**

16 A. Alberta Investment Management's direct utility and energy interests include:
17 (i) InterGen N.V., an international power generation company with an equity
18 share of 5,235MW of production capacity; (ii) Thames Water, the largest
19 regulated water utility in the U.K. (a Macquarie Group led transaction); and
20 (iii) Sutton & East Surrey Water, a regulated water utility in the U.K.

1 **E. Additional Details Regarding the Investor Consortium and its Access**
2 **to Capital**

3 **Q. Please describe the Investor Consortium's access to capital, both to finance**
4 **the Proposed Transaction and in providing for the future capital needs of**
5 **PSE.**

6 A. PSE expects to require \$3.4 billion in external financing to support its investment
7 program over the next five years. In addition to the large pools of capital
8 managed by the members of the Investor Consortium, the Macquarie Group has a
9 proven track record sourcing equity and debt capital for infrastructure businesses,
10 both at acquisition and on an ongoing basis.

11 The Macquarie Group has raised \$14 billion of equity capital in 12 months ending
12 September 2007 for its infrastructure and specialized funds. Specifically in North
13 America the Macquarie Group during 2006 and early 2007 obtained commitments
14 totaling \$4.0 billion for Macquarie Infrastructure Partners. These funds were
15 obtained from over 90 different investors with the majority of funds sourced from
16 North American investors and more than 80% of total funds raised were from
17 public, union and corporate pension funds. The Macquarie Group's acquisition of
18 Thames Water in the U.K. provides another good example of the Macquarie
19 Group's ability to raise significant equity capital. That transaction required over
20 \$4 billion of equity capital and was sourced from 19 different global investors
21 including Macquarie Group managed funds.

22 The Macquarie Group also has substantial experience sourcing debt capital. Over

1 the 12 months ending June 30, 2007, the Macquarie Group was responsible for
2 raising over \$80 billion of debt globally. Given the global range of relationships
3 with lenders, the Macquarie Group is able to negotiate with multiple lenders in
4 multiple markets to obtain the best debt pricing and terms. Further, despite the
5 current concerns in the credit markets the Macquarie Group has still been able to
6 source debt financing for its transactions as evidenced by the recent \$970 million
7 refinancing of Macquarie Infrastructure Company's ("MIC") Airport Services
8 Business, a \$188.5 million refinancing of MIC's District Energy businesses, \$2.5
9 billion refinancing of Thames Water, and the \$3.6 billion committed debt raising
10 for this proposed acquisition of Puget Energy. The Macquarie Group has
11 demonstrated its ability to source debt capital on favorable terms in a wide variety
12 of market conditions.

13 PSE already has benefited from the Investor Consortium's access to capital. On
14 December 3, 2007, members of the Investor Consortium invested approximately
15 \$296 million in newly issued Puget Energy equity which has enabled Puget
16 Energy to fund its ongoing capital expenditure program.

17 **III. DESCRIPTION OF THE PROPOSED TRANSACTION**

18 **Q. Please describe the Proposed Transaction.**

19 A. On October 26, 2007, Puget Energy announced that it had entered into the Merger
20 Agreement. Under the terms of the Merger Agreement, Merger Sub will merge
21 with and into Puget Energy, with Puget Energy continuing as the surviving

1 corporation. Upon completion of the Proposed Transaction, Puget Energy's
2 common stock will cease to be publicly traded, and Puget Energy will be a wholly
3 owned subsidiary of Puget Intermediate, which itself is the sole wholly-owned
4 subsidiary of Puget Holdings. PSE will continue to be a wholly owned subsidiary
5 of Puget Energy. A diagram outlining the corporate structure at financial close is
6 provided as Exhibit No. ____ (CJL-5).

7 Pursuant to the Merger Agreement, the merger consideration will be \$30.00 per
8 share in cash, representing a premium of over 25% based upon Puget Energy's
9 closing share price on October 25, 2007 (the last trading day prior to the
10 announcement of the Proposed Transaction) and a premium of over 25% over
11 Puget Energy's average 90-day closing price ending October 25, 2007. The
12 transaction has an enterprise value of approximately \$7.4 billion.

13 The transaction was approved by the Board of Directors of Puget Energy and the
14 members of the Investor Consortium. The Proposed Transaction is also subject to
15 customary closing conditions, including the approval of Puget Energy's
16 shareholders, this Commission and the Federal Energy Regulatory Commission.

17 Once acquired by Puget Holdings, I expect PSE to be operated much as it is
18 today, and it will continue to be headquartered in Bellevue, Washington. Post-
19 transaction operations of PSE are discussed further in later sections of my
20 testimony.

1 **Q. Has the Investor Consortium made additional equity investment in Puget**
2 **Energy?**

3 A. Yes. The members of the Investor Consortium agreed to invest in aggregate
4 approximately \$296 million in 12.5 million shares of newly issued common stock
5 of Puget Energy under a separate private placement, priced at \$23.67 per share.
6 This stock purchase transaction closed on December 3, 2007. These proceeds
7 were invested in PSE to strengthen its equity base and will be used to fund PSE's
8 ongoing construction program and working capital needs.

9 **Q. Please describe the reasons for Puget Holdings' proposed acquisition of PSE.**

10 A. As explained above, the members of the Investor Consortium seek to invest in
11 infrastructure assets that provide stable returns, and particularly in stable utility
12 systems that are managed by a locally based, highly competent, management team
13 and are subject to reasonable and fair regulation. PSE fits this model
14 exceptionally well.

15 PSE is a well-run utility that provides safe, reliable and efficient service to its
16 customers through its plant, equipment and operations. PSE is a strong, stable
17 company with a growing customer base in a market that has displayed consistent
18 demand over time. PSE is recognized for its consistent track record of providing
19 exceptional service in its service territory. PSE also has a strong commitment to
20 customers, the environment and to the communities it serves. The Investor
21 Consortium was particularly attracted to the near 100% regulated nature of the

1 Puget Energy business with its focus on electricity and gas distribution and
2 electricity generation. Finally, PSE is subject to regulation by the Commission,
3 which has a reputation for balanced and fair regulatory policies. These are some
4 of the primary reasons the Investor Consortium was attracted to Puget Energy.

5 **Q. Please describe how the acquisition will be funded.**

6 A. At completion, the Proposed Transaction will be funded as follows:

- 7 (i) \$3.2 billion in shareholder capital provided by the Investor
8 Consortium;
9 (ii) \$1.6 billion of newly issued bank debt; and
10 (iii) \$2.6 billion of existing debt.

11 **Q. What effects will the Proposed Transaction and its financing have on Puget
12 Energy and PSE capital structures?**

13 A. As discussed in Mr. Markell's testimony, the Proposed Transaction, at closing,
14 will produce a stronger balance sheet for PSE and a comparable capital structure
15 at Puget Energy. Specifically, before the Proposed Transaction, PSE's projected
16 capital structure, as of September 30, 2008, is expected to comprise
17 approximately 43.7% equity and after the Proposed Transaction is completed, the
18 comparable figure will be 50.4% common equity. *See* Exhibit No. ____ (EMM-4)
19 at 1. Comparable figures for Puget Energy before and after the Proposed
20 Transaction, respectively, will be 44.1% and 42.0% common equity. *See* Exhibit
21 No. ____ (EMM-4) at 2. Therefore, the Proposed Transaction will result in

1 providing PSE with a stronger equity position while largely maintaining Puget
2 Energy's current capital structure.

3 **Q. Will the acquisition of control of PSE affect the debt ratings of Puget**
4 **Holdings, Puget Energy or PSE?**

5 A. As discussed previously, the Proposed Transaction is structured to strengthen
6 PSE's balance sheet at closing, and as a result PSE is expected to preserve its
7 existing investment grade ratings. Additional new debt will be issued by Puget
8 Energy to fund the purchase price and to support PSE's stated six-year,
9 \$5.7 billion capital program. The ratings of Puget Energy after the Proposed
10 Transaction is completed are not anticipated to fall significantly below current
11 levels. Puget Holdings and Puget Intermediate are both currently unrated entities
12 without any third party financing and will remain as such after the Proposed
13 Transaction closes.

14 **IV. POST-TRANSACTION GOVERNANCE AND**
15 **OPERATIONS OF PSE**

16 **Q. How will governance and decision-making at PSE change after the closing of**
17 **the Proposed Transaction?**

18 A. The governance and decision-making structure at PSE will essentially be
19 unchanged as a result of the Proposed Transaction with the exception that Puget
20 Holdings will replace Puget Energy as the ultimate parent company in the PSE
21 ownership structure. Otherwise, the board and committee structure of PSE will

1 be unchanged.

2 **Q. Please describe the new governance structure.**

3 A. Puget Holdings will be governed by a Board of Managers representing the
4 Investor Consortium members. The Chief Executive Officer of PSE will be a
5 member of the Puget Holdings Board of Managers. PSE will continue to be
6 governed by a Board of Directors and it is expected that largely the same persons
7 who serve on the Puget Holdings Board of Managers will also serve on the PSE
8 Board of Directors. The Puget Holdings Board of Managers will have generally
9 the same Board Committees as PSE currently has in place, specifically (i) Audit,
10 (ii) Compensation and Leadership Development, (iii) Governance, (iv) Securities
11 Pricing, and (v) Public Affairs. In addition, two new committees will be
12 included: (vi) Business Plan and Budget Review, and (vii) Asset Management.

13 The primary purpose of the Puget Holdings Board of Managers will be (i) to
14 review and approve the multi-year Business Plan (the first year of which shall
15 constitute the annual budget) of PSE and the other subsidiaries, and (ii) to
16 undertake various member-specific activities such as dividend distributions,
17 financing etc.

18 The PSE Board of Directors will be the primary decision-making authority of
19 PSE. It shall review and approve the PSE Business Plan prepared by PSE
20 management and shall submit that Plan to the Puget Holdings Board of Managers
21 for review. As is currently the case, the management of PSE shall have broad

1 authority to implement the approved Business Plan and to make the commitments
2 of staff, capital and resources necessary for PSE to provide service.

3 A prospective Governance Memorandum is provided as Exhibit No. ____ (CJL-6).

4 The memorandum explains our expectations for the various entities in the
5 corporate structure, how the boards of the various entities will be established, how
6 these boards will interact, and the board committee structure, among other things.

7 **Q. Will PSE have its own individual business plan?**

8 A. Yes. The PSE Business Plan will be prepared by PSE management and approved
9 by the Boards of PSE and Puget Holdings. The plan will set forth operational and
10 customer service targets, and financial expectations, and key management actions
11 and capital programs over a five-year planning horizon.

12 **Q. Will PSE have the ability to take its own, independent position on political
13 and regulatory issues that affect its service area?**

14 A. Yes. The Macquarie Group has found that it is critically important to the success
15 of a public utility that the business remain aligned with the objectives of the
16 communities that it serves. Maintaining alignment with the communities PSE
17 serves is a key role of management. Accordingly, management will have the
18 ability to take its own, independent position on key issues that affect its service
19 area.

1 **Q. Will PSE have independent control and responsibility for making decisions**
2 **that achieve objectives such as customer satisfaction, reliable service,**
3 **employee safety, and environmental stewardship?**

4 A. Yes. It is expected that the Business Plan will set forth specific targets in relation
5 to customer service, employee safety, environmental compliance and stewardship.
6 Management will have broad latitude to implement the Business Plan so that such
7 targets are achieved.

8 **Q. Will there be other changes in the PSE's management, beyond those noted**
9 **previously?**

10 A. No other changes are planned. However, businesses need to respond to their
11 changing circumstances, hence we cannot, nor should anyone want us to, "freeze"
12 the business in its current state.

13 **Q. Is the planned post-transaction governance and operation of PSE consistent**
14 **with the actual post-transaction governance and operation of other utilities**
15 **acquired by the Macquarie Group?**

16 A. Yes. After the Macquarie Group acquired Duquesne Light Holdings ("DQE"),
17 The Gas Company ("TGC") and Aquarion Company ("Aquarion"), the Macquarie
18 Group sought to retain senior management, maintain adequate staffing, honor
19 labor contracts, and continue the utilities' active participation in community
20 affairs.

1 **Q. Please describe the experience of DQE since its acquisition by the Macquarie**
2 **Group.**

3 A. A Macquarie Group-led consortium completed the purchase of DQE in May
4 2007, following approval by the Federal Energy Regulatory Commission and the
5 Pennsylvania Public Utility Commission. The intent of the consortium with
6 respect to DQE was that senior management would be retained, that the company
7 would continue with its “back to basics” strategy which called for further
8 divestment of subsidiaries and functions that were not core to the transmission
9 and distribution of electricity in its southwestern Pennsylvania service territory,
10 that the company would complete its three year infrastructure improvement
11 program, and that the headquarters would remain in Pittsburgh so that DQE
12 would continue to be a positive force in the region. In the six months since
13 closing, that plan has been followed. Capital investment since closing has
14 remained at planned levels. Senior management has been retained. The company
15 has divested certain non-regulated operations and investments (e.g. landfill gas,
16 tax-oriented leasing investments). In the process of simplifying the operating
17 business, the company reduced its management ranks; this reduction was initiated
18 by the existing management prior to the acquisition. Field personnel were
19 unaffected by this reduction. The company continues to meet its service level
20 targets.

1 **Q. Please describe the experience of TGC since its acquisition by the Macquarie**
2 **Group.**

3 A. Macquarie Group's NYSE-listed infrastructure investment vehicle purchased
4 100% of TGC in June 2006. TGC is Hawaii's only full service gas company and
5 comprises a regulated synthetic natural gas manufacturing and distribution
6 business on Oahu and a non-regulated propane business on Hawaii's neighbor
7 islands. Prior to acquisition, TGC was owned for a short period by a private
8 equity firm. Since the transaction closed, the Macquarie Group has worked with
9 TGC management to recruit new financial capability to TGC (replacing an out-
10 sourcing arrangement under the prior owners), and develop a comprehensive
11 business plan which prioritizes capital spending and includes specific plans to
12 reposition TGC within Hawaii's competitive, crude oil based energy economy.
13 The Macquarie Group has also assisted TGC implement new procurement and
14 capital program management processes. Finally, in August 2007, the CEO of
15 TGC left the business to join an investment group planning to purchase Hawaii's
16 largest gasoline retailer and the Macquarie Group has just completed a search for
17 a successor CEO. The outgoing CEO has agreed to serve on an advisory board
18 for TGC. There have been no other management changes and workforce levels
19 have been sustained.

20 **Q. Please describe the experience of Aquarion since its acquisition by the**
21 **Macquarie Group.**

22 A. A consortium consisting of Macquarie Infrastructure Partners, Macquarie

1 Essential Assets Partnership, and British Columbia Investment Management
2 Corporation closed on the purchase of Aquarion in April 2007. Aquarion consists
3 of regulated water companies in Connecticut, Massachusetts and New Hampshire.
4 Initially, the Macquarie Group assisted Aquarion in completing the
5 implementation of its SAP enterprise resource planning system, including a new
6 billing system and mobile workforce dispatch and management system. The
7 Macquarie Group had specific expertise with SAP implementations and was able
8 to provide that expertise to Aquarion. Subsequently, the Macquarie Group has
9 assisted Aquarion implement quantitative key performance indicators to better
10 control its operations and customer service levels, has assisted Aquarion in rolling
11 out a low-income customer support plan, and has assisted Aquarion with its
12 previously planned rate filing with the State of Connecticut. As expected, senior
13 management has been retained and workforce levels have been sustained.

14 **V. THE PROPOSED TRANSACTION IS CONSISTENT WITH**
15 **THE PUBLIC INTEREST**

16 **Q. Please explain why the Proposed Transaction is consistent with the public**
17 **interest.**

18 A. PSE is a well-run public utility that provides excellent service to a growing
19 region. However, to fund the energy resources and distribution infrastructure to
20 support the region's growth, PSE must obtain substantial external financing on a
21 regular basis going forward. As described by Mr. Markell in his testimony, the
22 capital needs in relation to the current capital base of PSE are very large. The

1 magnitude of this external funding need puts PSE and the region at risk. The
2 investors comprising Puget Holdings can address that need given their access to
3 significant sources of capital. They are seeking investments in businesses like
4 PSE, given the essential service it provides, the quality of its management, and its
5 overall business environment. Furthermore, Puget Holdings wants to retain the
6 current management team and the existing headquarters. Accordingly, the
7 Proposed Transaction is consistent with the public interest because Puget
8 Holdings will provide needed capital to sustain a successful, locally managed
9 public utility. In addition to providing these substantial benefits for PSE's
10 customers, the Joint Applicants are offering specific commitments to ensure that
11 PSE will be insulated from the financial activities of its affiliates.

12 **Q. How does the Proposed Transaction provide benefits for PSE's customers?**

13 A. As discussed below, the Joint Applicants are offering a list of commitments that
14 the Commission may include as conditions in approving the Proposed
15 Transaction. These commitments are set forth in Exhibit No. ___(CJL-7). The
16 first 24 commitments were made as part of the Merger Agreement. The
17 subsequent 10 commitments (Commitments 25 to 34) are additional commitments
18 that the Joint Applicants are making as part of this Joint Application. In general,
19 the commitments can be characterized in the following categories:

- 20 • Quality of Service
- 21 • Capital Requirements
- 22 • Environmental, Renewable, Energy Efficiency

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- Ring-Fencing
- Financial Integrity
- Rate Treatment of Cost Savings
- Staffing, Management, Governance
- Local Presence
- Regulatory
- Low-Income Assistance

The commitments regarding Quality of Service, Capital Requirements, Environmental, Renewable and Energy Efficiency, and Cost Savings provide benefits for PSE’s customers. In addition, the commitment of Puget Holdings LLC to make a one-time contribution of \$5 million to the Puget Sound Energy Foundation (Commitment No. 19) represents a benefit of the Proposed Transaction for those local organizations receiving assistance from the Foundation.

In addition to providing these substantial benefits for PSE’s customers, the remaining commitments are generally designed to ensure that the Proposed Transaction will not harm PSE’s customers.

A. Commitments Regarding Quality of Service

Q. What commitment do the Joint Applicants offer with regard to quality of service?

A. The Joint Applicants offer the following commitment with regard to quality of

1 service:

- 2 1. PSE and Puget Holdings commit to continue the Service
3 Quality measures currently in place for PSE.

4 Exhibit No. ___(CJL-7) at 1.

5 **Q. How does this commitment benefit PSE's customers?**

6 A. This commitment provides for PSE's existing Service Quality Indices ("SQIs") to
7 continue after the Proposed Transaction has been approved, and thus provides
8 assurance to the Commission and PSE's customers that the high quality of service
9 PSE has been providing will continue. PSE will continue to report to the
10 Commission on its progress in meeting the SQI benchmarks and will continue to
11 be subject to penalties if the benchmarks are not met.

12 **B. Commitments Regarding Capital Requirements**

13 **Q. What commitment do the Joint Applicants offer with regard to capital
14 requirements?**

15 A. The Joint Applicants offer the following commitments with regard to capital
16 requirements:

- 17 2. Puget Holdings acknowledges PSE's need for significant
18 amounts of capital to invest in its energy supply and
19 delivery infrastructure and commits that meeting these
20 capital requirements will be considered a high priority by
21 the Boards of Puget Holdings and PSE.

- 22 3. Puget Holdings will secure and provide at closing
23 contractually committed credit facilities for PSE and Puget

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Energy of a term not less than three years, in an amount not less than \$1.4 billion to support PSE’s capital expenditure program as set forth in the summary of PSE’s multi-year Business Plan, dated October 19, 2007.

Exhibit No. ____ (CJL-7) at 1.

Q. How do these commitments benefit PSE’s customers?

A. As discussed above, the Proposed Transaction is structured to strengthen PSE’s balance sheet at closing. In addition, these commitments benefit PSE’s customers because they provide a more reliable source of funding for PSE’s capital investments needs, including the acquisition of electric generation resources to meet the growing needs of PSE’s customer base, and replacement of aging energy delivery infrastructure so that PSE can continue providing reliable electric and gas service to its customers.

C. Commitments Regarding Environmental, Renewable, and Energy Efficiency

Q. What do the Joint Applicants offer with regard to environmental, renewable, and energy efficiency?

A. The Joint Applicants offer the following commitments with regard to environmental, renewable, and energy efficiency:

- 4. Puget Holdings acknowledges PSE’s obligations under Washington’s Renewable Portfolio Standard and commits to support PSE with additional expertise and capital as necessary to enable PSE to fulfill those obligations.

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- 5. Puget Holdings commits to work with PSE to acquire all renewable energy resources required by law and such other renewable energy resources as may from time to time be deemed advisable in accordance with its biennial integrated resource planning process.
- 6. Puget Holdings commits to and supports PSE’s Greenhouse Gas and Carbon Policy contained in PSE’s current Integrated Resource Plan.
- 7. Puget Holdings commits to and supports PSE’s energy efficiency goals and objectives set forth in PSE’s May 2007 Integrated Resource Plan and its ongoing collaborative efforts to expand and enhance them.

Exhibit No. ___(CJL-7) at 1.

Q. How do these commitments benefit PSE’s customers?

A. Through these commitments, PSE’s customers and the communities PSE serves will be assured that PSE will continue to focus on the environmental goals that the Company has pursued over the past several years—including obtaining renewable resources at reasonable prices, limiting greenhouse gasses and promoting energy efficiency goals. These efforts benefit PSE’s customers and the communities PSE serves. Puget Holdings has committed to support these efforts with additional expertise and capital as needed.

D. Commitment Regarding Rate Treatment of Cost Savings

Q. What commitment do the Joint Applicants offer with regard to cost savings?

A. The Joint Applicants offer the following commitment with regard to cost savings:

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12. Any net cost savings that may be achieved by PSE as a result of the Proposed Transaction will be reflected in subsequent rate proceedings, as such savings materialize.

Exhibit No. ____ (CJL-7) at 2.

Q. How does this commitment provide benefits to PSE’s customers?

A. This commitment provides a benefit to customers because it provides a mechanism for customers to realize any savings that result from the Proposed Transaction.

E. Commitments Regarding Ring-Fencing

Q. What commitment do the Joint Applicants offer with regard to ring-fencing?

A. The Joint Applicants offer the following commitments with regard to ring-fencing:

8. Within ninety (90) days of the Proposed Transaction closing, PSE and Puget Holdings will file a non-consolidation opinion with the Commission which concludes, subject to customary assumptions and exceptions, that the ring fencing provisions are sufficient that a bankruptcy court would not order the substantive consolidation of the assets and liabilities of PSE with those of Puget Energy or its affiliates or subsidiaries.

9. PSE will (i) maintain separate books and records; (ii) agree to prohibitions against loans or pledges of utility assets to Puget Energy or Puget Holdings without Commission approval; and (iii) generally hold PSE customers harmless from any business and financial risk exposures associated with Puget Energy, Puget Holdings and its other affiliates.

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- 26. In furtherance of Commitment 8, if the ring-fencing provisions are insufficient to obtain a non-consolidation opinion, Puget Holdings and PSE agree to promptly undertake the following actions:
 - (i) Notify the Commission of this inability to obtain a non-consolidation opinion.
 - (ii) Propose and implement, upon Commission approval, such additional ring-fencing provisions around PSE as are sufficient to obtain a non-consolidation opinion subject to customary assumptions and exceptions.

- 27. In furtherance of Commitment 9:
 - (a) Puget Holdings and PSE commit that PSE’s customers will be held harmless from the liabilities of any nonregulated activity of PSE or Puget Holdings. In any proceeding before the Commission involving rates of PSE, the fair rate of return for PSE will be determined without regard to any adverse consequences that are demonstrated to be attributable to the nonregulated activities. Any new nonregulated subsidiary will be established as a subsidiary of either Puget Holdings, Puget Intermediate Holdings Inc., or Puget Energy rather than as a subsidiary of PSE. Measures providing for separate financial and accounting treatment will be established for each nonregulated activity.
 - (b) Puget Holdings and PSE will notify the Commission subsequent to Puget Holdings’ board approval and as soon as practicable following any public announcement of: (1) any acquisition of a regulated or unregulated business representing 5 percent or more of the capitalization of Puget Holdings; or (2) the change in effective control or acquisition of any material part or an of PSE by any other firm, whether by merger, combination, transfer of stock or assets.
 - (c) Neither PSE nor Puget Holdings will assert in any future proceedings, that, by virtue of the Proposed

1 Transaction and the resulting corporate structure,
2 the Commission is without jurisdiction over any
3 transaction that results in a change of control of
4 PSE.

5 Exhibit No. ____ (CJL-7) at 1-4.

6 **Q. How will these commitments ensure that the Proposed Transaction will not**
7 **expose PSE's customers to any risk of harm?**

8 A. These commitments insulate PSE's customers from the financial activities of
9 entities associated with the new holding company structure. These commitments
10 are intended to isolate PSE's regulated utility operations from any negative
11 financial impacts flowing from unregulated units. The ring fencing commitments
12 allow PSE to maintain a strong credit rating and attract capital. They prevent
13 cross-subsidization of non-regulated ventures, and they provide the Commission
14 access to timely and accurate information relating to PSE.

15 **F. Commitments Regarding Financial Integrity**

16 **Q. What commitment do the Joint Applicants offer with regard to financial**
17 **integrity?**

18 A. The Joint Applicants offer the following commitments with regard to financial
19 integrity:

- 20 10. PSE will maintain separate debt and preferred stock, if any.
21 PSE will maintain its own corporate and debt credit rating,
22 as well as ratings for long-term debt and preferred stock.

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11. PSE will commit to a common equity ratio for PSE of not less than 50% at closing or shortly thereafter, and not less than 44% thereafter except to the extent a lower equity ratio is established for ratemaking purposes by the Commission.

Exhibit No. ____ (CJL-7) at 2.

Q. How will these commitments ensure that the Proposed Transaction will not expose PSE’s customers to any risk of harm?

A. These commitments provide further assurances to customers that PSE will remain financially strong and independent and that it will not be highly leveraged with debt.

G. Commitments Regarding Staffing, Management, and Governance

Q. What commitment do the Joint Applicants offer with regard to staffing, management, and governance?

A. The Joint Applicants offer the following commitment with regard to staffing, management, and governance:

- 13. Puget Holdings and PSE commit that PSE will honor its existing labor contracts.
- 14. PSE will maintain its current pension funding policy in accordance with sound actuarial practice.
- 15. PSE and Puget Holdings will maintain staffing and presence in the communities in which PSE operates at levels sufficient to maintain the provision of safe and reliable service and cost-effective operations.

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16. As part of the Proposed Transaction, Puget Holdings will seek to retain all current senior management of PSE.

17. At least one director of PSE will be an Independent Director who is not a member, stockholder, director (except as such Independent Director of PSE), officer, or employee of Puget Holdings or its affiliates. The organizational documents for PSE will not permit PSE, without the unanimous consent of all its directors including the Independent Director, to consent to the institution of bankruptcy proceedings or the inclusion of PSE in bankruptcy proceedings. The Chief Executive Officer of PSE will be a member of the board of PSE.

Exhibit No. ____ (CJL-7) at 2.⁹

Q. Why will the Independent Director serve on the Board of Directors of PSE instead of Puget Energy?

A. Commitment No. 17 in Exhibit B to the Merger Agreement placed this Independent Director at Puget Energy. Subsequent to the execution of that agreement, however, the Joint Applicants agreed to place this Independent Director at the operating utility to better protect the utility from any nonregulated activities of any affiliates.

Q. How will these commitments ensure that the Proposed Transaction will not expose PSE's customers to any risk of harm?

A. These commitments provide assurance that the Company will proceed with business as usual, notwithstanding this change in ownership. Customers benefit when the Company retains a highly skilled workforce. By honoring labor

1 contracts and continuing to fund its pension at the appropriate rate, the Company
2 will continue to retain its workforce and recruit talented employees. Puget
3 Holdings has also committed to retain PSE's senior management, which will
4 provide stability to the Company.

5 **H. Commitments Regarding Local Presence**

6 **Q. What commitment do the Joint Applicants offer with regard to local
7 presence?**

8 A. The Joint Applicants offer the following commitment with regard to local
9 presence:

10 18. PSE and Puget Holdings commit that PSE and Puget
11 Energy corporate headquarters will remain in the Bellevue,
12 Washington area for a period of at least five years after
13 closing (unless such headquarters are relocated as a result
14 of a decision issued by the Commission).

15 19. PSE and Puget Sound Energy Foundation will maintain its
16 existing level of corporate contributions and community
17 support in the State of Washington (as identified by PSE
18 for such region in its budget for 2007) for a period five
19 years after closing. Upon closing of the Proposed
20 Transaction, Puget Holdings will make a one-time
21 contribution of \$5 million to the Puget Sound Energy
22 Foundation.

23 Exhibit No. ____ (CJL-7) at 2.

1 **Q. How will these commitments ensure that the Proposed Transaction will not**
2 **expose PSE’s customers to any risk of harm?**

3 A. PSE is an active, responsible corporate citizen in the communities it serves, and
4 these commitments are designed to make clear that PSE will continue that role in
5 the future. In addition, the commitment of Puget Holdings to make a one-time
6 contribution of \$5 million to the Puget Sound Energy Foundation represents a
7 benefit of the Proposed Transaction for those organizations receiving assistance
8 from the Foundation.

9 **I. Commitments Regarding Regulatory Matters**

10 **Q. What commitments do the Joint Applicants offer with regard to regulatory**
11 **matters?**

12 A. The Joint Applicants offer the following commitment with regard to regulatory
13 matters:

14 20. Puget Holdings and PSE will make reasonable
15 commitments, consistent with recent Commission merger
16 orders, to provide access to PSE’s books and records;
17 access to financial information and filings; audit rights with
18 respect to the documents supporting any costs that may be
19 allocable to PSE; and access to PSE’s board minutes, audit
20 reports, and information provided to credit rating agencies
21 pertaining to PSE.

22 21. Affiliate Transactions, Cross-Subsidization: PSE agrees (i)
23 to file cost allocation methodologies used to allocate Puget
24 Energy or Puget Holdings-related costs to PSE; (ii) to
25 propose methods and standards for treatment of affiliate
26 transactions; and (iii) that there will be no cross-
27 subsidization by PSE customers of unregulated activities.

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22. Transaction Costs: PSE and Puget Holdings agree that there will be no recovery of legal and financial advisory fees associated with the Proposed Transaction in rates and no recovery of the acquisition premium in rates.

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28. In furtherance of Commitment 20:

- (a) PSE and Puget Holdings will maintain the necessary books and records so as to provide an audit trail for all corporate, affiliate, or subsidiary transactions with PSE, or that result in costs that may be allocable to PSE.

- (b) PSE will provide Commission Staff and Public Counsel access to books and records (including those of Puget Holdings or any affiliate or subsidiary companies) required to be accessed to verify or examine transactions with PSE, or that result in costs that may be allocable to PSE. The Proposed Transaction will not result in reduced access to the necessary books and records that relate to transactions with PSE, or that result in costs that may be allocable to PSE, and the Proposed Transaction and resulting corporate structure will not be used by PSE as a basis to oppose requests for such books and records made by the Commission or by Commission Staff or Public Counsel.

- (c) Nothing in the Proposed Transaction will limit or affect the Commission's rights with respect to inspection of accounts, books, papers and documents of PSE pursuant to RCW 80.04.070 or RCW 80.16.030. Nothing in the Proposed Transaction will limit or affect the Commission's rights with respect to inspection of accounts, books, papers and documents of Puget Holdings pursuant to RCW 80.16.030; provided, that such right to inspection shall be limited to those accounts, books, papers and documents of Puget Holdings that pertain to transactions affecting PSE's regulated utility operations.

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(d) Puget Holdings and PSE will provide the Commission with access to written information provided by and to credit rating agencies that pertains to PSE. Puget Holdings and each of its members will also provide the Commission with access to written information provided by and to credit rating agencies that pertains to Puget Holdings' subsidiaries to the extent such information may potentially affect PSE.

29. In furtherance of Commitment 21:

(a) If and when any subsidiary of PSE becomes a subsidiary of Puget Holdings, Puget Intermediate Holdings Inc., or Puget Energy, PSE will so advise the Commission within thirty (30) days and will submit to the Commission a written document setting forth PSE's proposed corporate and affiliate cost allocation methodologies.

(b) PSE will notify the Commission of any change in corporate structure that affects PSE's corporate and affiliate cost allocation methodologies. PSE will propose revisions to such cost allocation methodologies to accommodate such changes. PSE will not argue that compliance with this provision constitutes approval by the Commission of a particular methodology for corporate and affiliate cost allocation.

(c) PSE and Puget Holdings will comply with all applicable provisions of Title 80 RCW, including those pertaining to transfers of property under Chapter 80.12 RCW, affiliated interests under Chapter 80.16 RCW, and securities and the assumption of obligations and liabilities under Chapter 80.08 RCW.

(d) With respect to the ratemaking treatment of affiliate transactions, PSE and Puget Holdings will comply with the Commission's then-existing practice; provided, however, that nothing in this Commitment limits PSE from also proposing a different ratemaking treatment for the

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Commission’s consideration or limit the positions any other party may take with respect to ratemaking treatment.

- (e) PSE will bear the burden of proof in any general rate case that any corporate and affiliate cost allocation methodology it proposes is reasonable for ratemaking purposes. Neither PSE nor Puget Holdings will contest the Commission’s authority to disallow, for retail ratemaking purposes in a general rate case, unsupported, unreasonable, or misallocated costs from nonregulated or affiliate businesses to PSE’s regulated utility operations.

Exhibit No. ____ (CJL-7) at 2-5.

Q. How will these commitments ensure that the Proposed Transaction will not expose PSE’s customers to any risk of harm?

A. PSE’s customers will not be exposed to higher rates to recover the legal and financial consulting fees associated with the Proposed Transaction. The Joint Applicants will not cause the transaction premium to be recorded on either Puget Energy’s or PSE’s books and there will be no claim for a return on or recovery of the premium in a future rate case by PSE. Also, PSE will continue to be regulated by the Commission, and the Company’s obligation to comply with statutory requirements provides additional protections for customers.

1 **J. Commitments Regarding Low-Income Assistance**

2 **Q. What commitments do the Joint Applicants offer with regard to low-income**
3 **assistance?**

4 A. The Joint Applicants offer the following commitment with regard to low-income
5 assistance:

6 23. PSE and Puget Holdings commit to maintain existing low-
7 income programs.

8 24. PSE and Puget Holdings commit to continue to work with
9 low-income agencies to address issues of low-income
10 customers.

11 Exhibit No. ____ (CJL-7) at 3.

12 **Q. How will these commitments ensure that the Proposed Transaction will not**
13 **expose PSE's customers to any risk of harm?**

14 A. PSE has a long history of funding low income programs and working with
15 agencies in the community that assist low income customers. The above
16 commitments provide that PSE will continue to fund these programs and PSE's
17 low income customers will not be exposed to harm as a result of the Proposed
18 Transaction.

19 **VI. CONCLUSION**

20 **Q. What do you conclude with respect to the Proposed Transaction?**

21 A. PSE is a well-run company with capital needs for supply and distribution

1 infrastructure which are huge relative to its current capital base. The ongoing
2 need for substantial external financing puts PSE and the region it serves at risk.
3 The Investor Consortium represents investors which seek investments like PSE,
4 have additional funds to invest, and are committed to retain existing management.
5 Accordingly, the Proposed Transaction provides PSE with needed capital and
6 retains for the region one of its leading corporate citizens. The public interest
7 would be served by the Proposed Transaction, and I urge the Commission to grant
8 its approval.

9 **Q. Does this conclude your direct testimony?**

10 A. Yes, it does.