

**EXHIBIT NO. \_\_\_(RG-27)**  
**DOCKET NO. UE-07\_\_\_/UG-07\_\_\_**  
**2007 PSE GENERAL RATE CASE**  
**WITNESS: ROGER GARRATT**

**BEFORE THE**  
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-07\_\_\_**  
**Docket No. UG-07\_\_\_**

**TWENTY-SIXTH EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED DIRECT TESTIMONY OF  
ROGER GARRATT  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**DECEMBER 3, 2007**

This SECOND LEASE SUPPLEMENT dated as of January 31, 2003 is between (i) U.S. BANK NATIONAL ASSOCIATION, a national banking association, not in its individual capacity but solely as trustee under the Trust Agreement ("USBNA"; successor by merger to U.S. Bank Trust National Association; formerly named "First Trust of California, National Association"; successor trustee to Bankers Trust Company of California, N.A.; in turn successor trustee to The Bank of California, N.A., the original named Owner Trustee; USBNA being herein in such capacity called "Lessor" or the "Owner Trustee"), and (ii) PUGET SOUND ENERGY, INC., a Washington corporation (formerly named "Puget Sound Power & Light Company"; herein called "Lessee").

#### RECITALS

A. Lessor and Lessee have heretofore entered into that certain Lease Agreement, dated as of May 1, 1981, as amended by the First Lease Supplement, dated as of August 2, 1982 (the "Lease Agreement").

B. Lessor and Lessee have agreed, subject to the terms and conditions of this Second Lease Supplement, to amend the Lease Agreement as hereinafter provided.

In consideration of the premises and the mutual agreements hereinafter contained, Lessor and Lessee agree as follows:

#### SECTION 1. DEFINITIONS

Unless otherwise provided herein, for all purposes of this Second Lease Supplement capitalized terms defined in the Lease Agreement shall be used with the meanings therein assigned.

#### SECTION 2. FIRST RENEWAL TERM

(a) The lease of the Facility is renewed for a Renewal Term commencing on August 2, 2004 and ending on February 2, 2009 (the "First Renewal Term").

(b) The First Renewal Term is a Renewal Term provided for in Section 13(a) of the Lease Agreement for purposes of Section 13(b) of the Lease Agreement.

#### SECTION 3. BASIC RENT FOR FIRST RENEWAL TERM

Lessee shall pay to Lessor, during the First Renewal Term, Basic Rent for the Facility in nine (9) consecutive installments, in arrears, commencing on February 2, 2005, and on each of the eight (8) following Rent Payment Dates, each such installment to be in the amount of Eight-Hundred Two Thousand, Five Hundred Twenty-Seven Dollars and Thirty-Three Cents (\$802,527.33).

#### SECTION 4. STIPULATED LOSS VALUE AND TERMINATION VALUE DURING REMAINDER OF PRIMARY TERM AND FIRST RENEWAL TERM

(a) Effective as of the date hereof, during the remainder of the Primary Term, and during and after the First Renewal Term, the Stipulated Loss Value and Termination Value as of any particular Semi-Annual Date shall mean the amount specified opposite such Semi-Annual Date in the following table:

<u>Semi-Annual Date</u>	<u>Stipulated Loss Value and Termination Value</u>
February 2, 2003	\$33,115,000.00
August 2, 2003	\$32,220,000.00
February 2, 2004	\$31,325,000.00
August 2, 2004	\$30,430,000.00
February 2, 2005	\$29,535,000.00
August 2, 2005	\$28,640,000.00
February 2, 2006	\$27,745,000.00
August 2, 2006	\$26,850,000.00
February 2, 2007	\$25,955,000.00
August 2, 2007	\$25,060,000.00
February 2, 2008	\$24,165,000.00
August 2, 2008	\$23,270,000.00
February 2, 2009 and thereafter	\$22,375,000.00

(b) The Stipulated Loss Value and Termination Value percentages specified in Schedules II and III to the Lease Agreement, respectively, shall no longer be of any effect.

**SECTION 5. AMENDMENT TO SECTION 7 OF LEASE AGREEMENT**

The first sentence of Section 7 of the Lease Agreement is amended and restated to read as follows: "Lessee will use and operate the Facility in a careful and proper manner in the conduct of its lawful business." Lessor hereby waives and releases any and all claims that it has or may have in respect of Lessee's use or operation of the Facility based on former clause (ii) of the first sentence of Section 7 of the Lease Agreement.

**SECTION 6. AMENDMENT TO SECTION 15 OF LEASE AGREEMENT**

Section 15 of the Lease Agreement is amended to add a new paragraph (g) thereto as follows:

"Transfer of Governmental Actions. Unless the Facility is purchased by Lessee pursuant to any applicable provision of this Lease, Lessee shall, upon expiration of the Term, at the cost and expense of Owner Participant and upon written request of Lessor, use its commercially reasonable efforts to effect a transfer to Lessor (or its assignee) of all Governmental Actions (as defined in the Participation Agreement) then granted or available to Lessee as are necessary or, in the opinion of counsel to Lessor (or its assignee), advisable, in connection with such return and the continued use and operation of the Facility. The immediately preceding sentence is without prejudice to the parties' respective positions with respect to the meaning and continued effectiveness of Section 7 of the Sale Agreement and correlative provisions of the Basic Agreements."

## SECTION 7. EXPENSES

Lessee shall reimburse Owner Participant and Lessor for legal fees and expenses incurred by them in connection with negotiations concerning the First Renewal Term, this Second Lease Supplement and related instruments, and matters in connection therewith, in an aggregate amount not to exceed Fifty Thousand Dollars (\$50,000).

## SECTION 8. CONDITIONS TO EFFECTIVENESS

This Second Lease Supplement shall become effective upon the execution, delivery and effectiveness of the following instruments not later than March 31, 2003:

- (a) an instrument amending the Power Interconnection Agreement dated as of May 1, 1981 between Lessee and the Owner Trustee in the form of Annex I attached hereto; and
- (b) an instrument amending the Facilities Agreement dated as of May 1, 1981 between Lessee and the Owner Trustee in the form of Annex II attached hereto.

## SECTION 9. LEASE AGREEMENT

Except as expressly supplemented or amended hereby, the Lease Agreement shall continue in full force and effect in accordance with the provisions thereof.

## SECTION 10. GOVERNING LAW

This Second Lease Supplement shall be governed by, and construed in accordance with, the law of the State of Washington, without reference to such state's choice of law principles to the contrary.

## SECTION 11. COUNTERPARTS

This Second Lease Supplement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, Lessor and Lessee have each caused this Second Lease Supplement to be duly executed and delivered by their officers thereunto duly authorized, as of the date first above written.

U.S. BANK NATIONAL ASSOCIATION, not in its individual capacity but solely as trustee under the Trust Agreement referred to herein,

By: *D. Huhta*  
Name: DYAN M. HUHTA  
Title: VICE PRESIDENT

PUGET SOUND ENERGY, INC.

By: \_\_\_\_\_  
Name:  
Title:

DIRECTION AND AUTHORIZATION

The undersigned hereby directs and authorizes U.S. Bank National Association to enter into the instrument on which this direction and authorization has been subscribed.

PUBLIC SERVICE RESOURCES  
CORPORATION

By: \_\_\_\_\_  
Eileen A. Moran  
President

IN WITNESS WHEREOF, Lessor and Lessee have each caused this Second Lease Supplement to be duly executed and delivered by their officers thereunto duly authorized, as of the date first above written.

U.S. BANK NATIONAL ASSOCIATION, not in its individual capacity but solely as trustee under the Trust Agreement referred to herein,

By: \_\_\_\_\_  
Name:  
Title:

PUGET SOUND ENERGY, INC.

By: *[Signature]*  
Name: *William A. Gaines*  
Title: *Vice President, Energy Supply*

DIRECTION AND AUTHORIZATION

The undersigned hereby directs and authorizes U.S. Bank National Association to enter into the instrument on which this direction and authorization has been subscribed.

PUBLIC SERVICE RESOURCES CORPORATION

By: \_\_\_\_\_  
Eileen A. Moran  
President

IN WITNESS WHEREOF, Lessor and Lessee have each caused this Second Lease Supplement to be duly executed and delivered by their officers thereunto duly authorized, as of the date first above written.

U.S. BANK NATIONAL ASSOCIATION, not in its individual capacity but solely as trustee under the Trust Agreement referred to herein,

By: \_\_\_\_\_  
Name:  
Title:

PUGET SOUND ENERGY, INC.

By: \_\_\_\_\_  
Name:  
Title:

DIRECTION AND AUTHORIZATION

The undersigned hereby directs and authorizes U.S. Bank National Association to enter into the instrument on which this direction and authorization has been subscribed.

PUBLIC SERVICE RESOURCES  
CORPORATION

By: Eileen A. Moran  
Eileen A. Moran  
President







