

Puget Sound Energy, Inc.

Affiliated Interest and Subsidiary Transaction Report
For the 12 months ended December 31, 2017

1. Refer to Exhibit 1 for a summary of all transactions, except transactions provided at tariff rates, which occurred between Puget Sound Energy, Inc. (PSE), its affiliated interests and subsidiary.

Refer to Exhibit 2 for the corporate organization chart of PSE and its affiliated interests and subsidiaries.

2. Financial information for affiliated interests and subsidiary with total transactions with PSE that equal or exceed \$100,000 during the reporting period:
 - A. Refer to Exhibit 3 for balance sheets and income statements for affiliated interests and subsidiary.
 - B. Refer to Exhibit 1 for a description of the products or services provided to or from PSE and each affiliated interest or subsidiary.
 - C. Refer to Exhibit 4 for a description of the pricing basis or costing method, and procedures for allocating costs for such products or services. Corporate common costs were allocated on a monthly basis. Corporate policy regarding the allocation of common costs is outlined in PSE's Controller Manual CTM-8, attached as Exhibit 4. Refer to Exhibit 1 for the amount and accounts charged during the year.
 - D. There were no loan terms assumed by PSE on behalf of any affiliated interest or subsidiary during the 12 months ended December 31, 2017.
 - E. There were no obligations or liabilities assumed by PSE on behalf of any affiliated interest or subsidiary during the 12 months ended December 31, 2017.
 - F. Refer to Exhibit 2 for a description of activities of each affiliated interest or subsidiary having transactions with PSE.
 - G. Refer to Exhibit 2 for a list of officers and directors common to PSE and affiliated interests and subsidiaries.

3. Not Applicable

4. All outstanding contracts from the current and previous years have been filed with the commission.

PUGET SOUND ENERGY
AFFILIATED INTEREST AND SUBSIDIARY
TRANSACTIONS REPORT

EXHIBIT 1

EXHIBIT 1

Puget Sound Energy, Inc.
Summary of Transactions
For the 12 Months Ended December 31, 2017

The following represents all transactions and balances, except transactions provided at tariff rates, that occurred between PSE and its affiliated interests, and PSE and its subsidiaries.

	<u>Amount</u>
<u>Puget Holdings LLC</u>	
Accounts payable to PSE	\$ 680,739
Reimbursement of labor and other expenses to PSE	\$ 866,705
<u>Puget Intermediate Holdings, Inc.</u>	
Accounts payable to PSE	\$ 2,924
Reimbursement of labor and other expenses to PSE	\$ 56,635
<u>Puget Equico LLC</u>	
Accounts payable to PSE	\$ 447
Reimbursement of labor and other expenses to PSE	\$ 27,868
<u>Puget Energy, Inc.</u>	
Account payable to PSE	\$ 157,645
Reimbursement of labor and other expenses to PSE	\$ 1,123,418
Dividends from PSE	\$ 227,784,248
<u>Puget LNG LLC</u>	
Accounts payable to PSE	\$ 2,490,389
Reimbursement of labor and other expenses to PSE	\$ 75,875,356
<u>Puget Western, Inc.</u>	
Accounts payable to PSE	\$ 35,896
Reimbursement of labor and other expenses to PSE	\$ 303,018
Dividends paid to PSE	\$ 2,000,000

PUGET SOUND ENERGY
AFFILIATED INTEREST AND SUBSIDIARY
TRANSACTIONS REPORT

EXHIBIT 2

EXHIBIT 2

COMPANIES WITH AN AFFILIATED INTEREST

PUGET HOLDINGS, LLC. (Puget Holdings) is a limited liability energy services holding company formed on October 11, 2007 in the State of Delaware, which directly owns Puget Intermediate Holdings, Inc. (Puget Intermediate). All of the operations of Puget Holdings are conducted through its indirect subsidiary Puget Sound Energy (PSE). Puget Holdings has its principal executive office at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004.

PUGET INTERMEDIATE HOLDINGS, INC. (Puget Intermediate) is an energy services holding company formed on October 24, 2007 in the State of Washington that directly owns Puget Equico, LLC. All of the operations of PIH are conducted through its indirect subsidiary PSE. Puget Intermediate has its principal executive office at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004.

PUGET EQUICO, LLC (Puget Equico) is a limited liability energy services holding company formed on October 1, 2008 in the State of Washington, which directly owns Puget Energy. All of the operations of Puget Equico are conducted through its indirect subsidiary, PSE. Puget Equico has its principal executive office at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004.

PUGET ENERGY, INC. (Puget Energy) is an energy services holding company incorporated in the State of Washington in 1999. All of its operations are conducted through its direct subsidiary PSE. Puget Energy has its principal executive office at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004.

PUGET SOUND ENERGY, INC. (Puget Sound Energy) is a wholly-owned utility incorporated in the State of Washington, which generates purchases and sells electricity and purchases transports and sells natural gas in a service territory covering 6,000 square miles, principally in the Puget Sound region of Washington State. PSE has its principal executive office at Address: 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004. Puget Sound Energy had the following subsidiary at December 31, 2010.

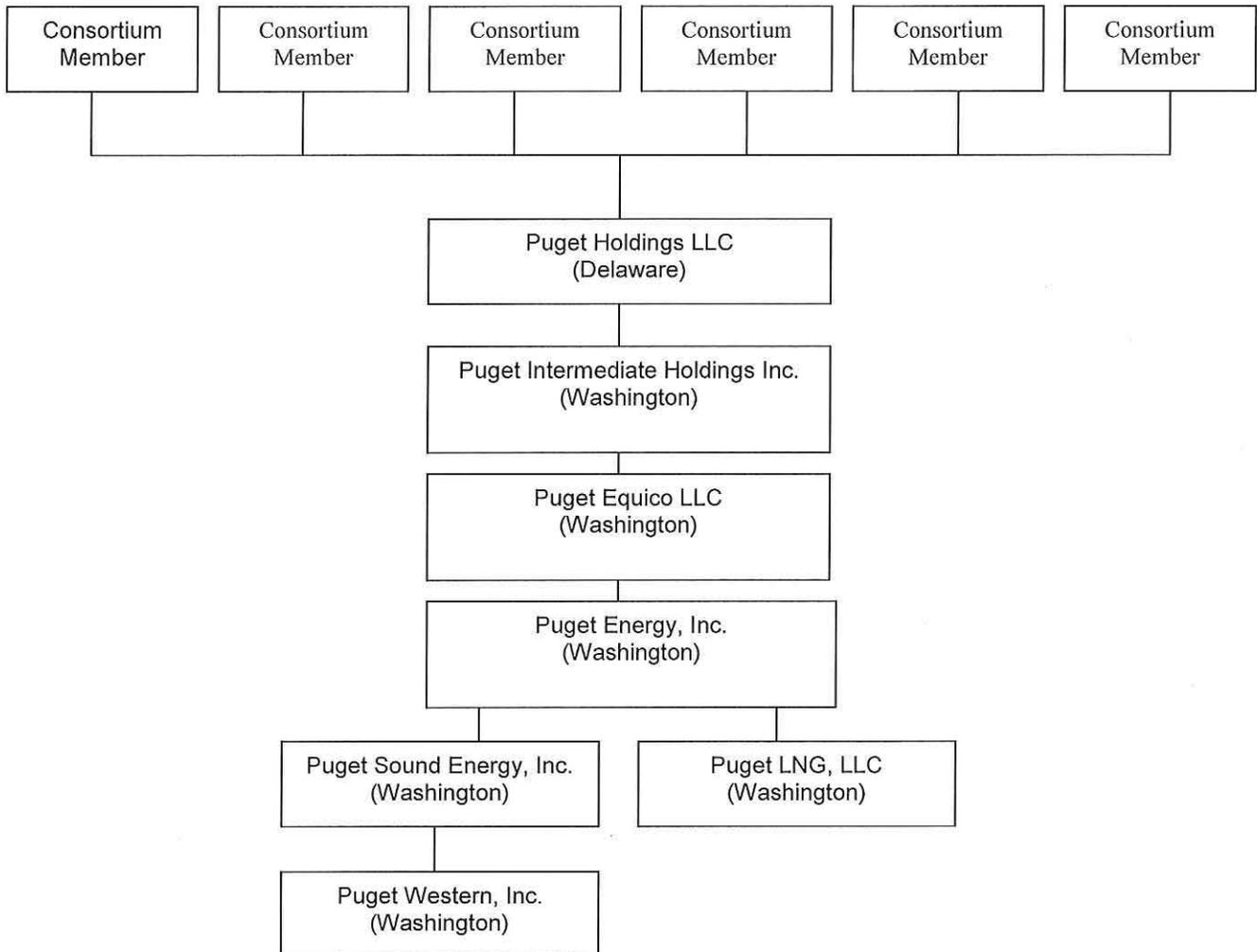
PUGET WESTERN, INC., a Washington corporation, is a real estate investment and development company. Address: 19515 North Creek Parkway, Suite 310, Bothell, Washington 98011.

COMPANIES THAT MAY HAVE AN AFFILIATED INTEREST

MACQUARIE CAPITAL (USA), INC. (Macquarie Capital (USA)), incorporated in March 1, 1994, is a Delaware Corporation that is a wholly owned subsidiary of Macquarie Holdings (USA), Inc. (the "Parent"), which is an indirect wholly owned subsidiary of Macquarie Group Limited ("MGL"), a non-operating holding company located in Sydney, Australia. Macquarie Capital (USA) principal place of business is at 125 West 55th Street, New York, NY 10019.

MACQUARIE ENERGY, LLC (Macquarie Energy), the surviving entity of an internal corporate reorganization that took effect February 1, 2010, pursuant to which the power marketer, Macquarie Cook Power, Incorporated, merged into its affiliated natural gas marketer Macquarie Cook Energy LLC. Macquarie Energy, LLC is an indirect, wholly-owned subsidiary of Macquarie Bank Limited, which in turn is wholly-owned by Macquarie Group Limited ("MGL"), an Australian-based company which is a global provider of banking, financial, advisory, investment and funds management services. Macquarie Energy, LLC is a Delaware limited liability company with its principal place of business at 500 Dallas Street, Suite 3100, Houston, TX 77002.

PUGET HOLDINGS CORPORATE STRUCTURE



PUGET HOLDINGS LLC LISTING OF SUBSIDIARIES

Puget Holdings LLC TIN #26-1273439 (formed 10/12/2007)

Directors

Steve Hooper, Chair
Scott Armstrong
Andrew Chapman
Kimberly Harris
Karl Kuchel
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Etienne Middleton
Christopher Trumpy

Officers

Kimberly J. Harris, President and Chief Executive Officer
Daniel A. Doyle, Senior Vice President and Chief Financial Officer
Steve R. Secrist, Senior Vice President and General Counsel
Steve King, Controller and Principal Accounting Officer
Matthew McArthur, Treasurer
Samuel S. Osborne, Assistant Secretary

Puget Intermediate Holdings Inc. TIN #26-1297959 (formed 10/24/2007)

Directors

Steve Hooper, Chair
Scott Armstrong
Andrew Chapman
Kimberly Harris
Karl Kuchel
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Etienne Middleton
Christopher Trumpy

Officers

Kimberly J. Harris, President and Chief Executive Officer
Daniel A. Doyle, Senior Vice President and Chief Financial Officer
Steve R. Secrist, Senior Vice President and General Counsel
Steve King, Controller and Principal Accounting Officer
Matthew McArthur, Treasurer
Samuel S. Osborne, Assistant Secretary

Puget Equico LLC TIN #26-3755171 (formed 10/1/2008)

Directors

Steve Hooper, Chair
Scott Armstrong
Andrew Chapman
Kimberly Harris
Karl Kuchel
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Etienne Middleton
Christopher Trumpy

Officers

Kimberly J. Harris, President and Chief Executive Officer
Daniel A. Doyle, Senior Vice President and Chief Financial Officer
Steve R. Secrist, Senior Vice President and General Counsel
Steve King, Controller and Principal Accounting Officer
Matthew McArthur, Treasurer
Samuel S. Osborne, Assistant Secretary

Puget Energy, Inc. TIN #91-1969407 (formed 4/23/1999)

Directors

Steve Hooper, Chair
Scott Armstrong
Andrew Chapman
Kimberly Harris
Karl Kuchel
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Etienne Middleton
Christopher Trumpy

Officers

Kimberly J. Harris, President and Chief Executive Officer
Daniel A. Doyle, Senior Vice President and Chief Financial Officer
Steve R. Secrist, Senior Vice President, General Counsel and CE&CO
Steve King, Controller and Principal Accounting Officer
Matthew McArthur, Treasurer
Samuel S. Osborne, Assistant Secretary

SUBSIDIARY OF PUGET ENERGY, INC.

Puget Sound Energy, Inc. TIN #91-0374630 (formed 9/12/1960)

Directors

Steve Hooper, Chair
Scott Armstrong
Andrew Chapman
Barbara Gordon
Kimberly Harris
Karl Kuchel
Christopher Leslie
David MacMillan
Paul McMillan
Mary McWilliams
Etienne Middleton
Christopher Trumpy

Officers

Kimberly J. Harris, President and Chief Executive Officer
Philip K. Bussey, SVP and Chief Customer Officer
Daniel A. Doyle, Senior Vice President and Chief Financial Officer
Booga K. Gilbertson, Senior Vice President Operations
Margaret Hopkins, Vice President and Chief Information Officer
Marla Mellies, Senior Vice President and Chief Administrative Officer
David Mills, Senior Vice President Energy Operations
Steve R. Secrist, Senior Vice President, General Counsel and CE&CO
Andrew W. Wappler, Vice President Customer Operations and
Communications
Steve King, Controller and Principal Accounting Officer
Matthew McArthur, Treasurer
Samuel S. Osborne, Assistant Secretary

Puget LNG, LLC EIN #81-4564062 (formed 11/29/16)

Directors

Roger Garratt, Chair
Dan Doyle
David Mills
Dennis McLerran
John Hatley

Officers

Roger Garratt, President
Samuel Osborne, Vice President and Secretary
Matthew McArthur, Treasurer

SUBSIDIARY OF PUGET SOUND ENERGY, INC.

Puget Western Inc. TIN #91-0716282 (Formed 5/10/60)

Directors

Daniel A. Doyle, Chair
Roger Garratt
Samuel Osborne

Officers

Joel Molander, President
Daniel A. Doyle, Treasurer
Samuel Osborne, Secretary

PUGET SOUND ENERGY
AFFILIATED INTEREST AND SUBSIDIARY
TRANSACTIONS REPORT

EXHIBIT 3

Puget Western, Inc.
BALANCE SHEET
DECEMBER 31, 2017

	PERIOD ENDED 12/31/2017	PERIOD ENDED 12/31/2016	\$ CHANGE FROM PRIOR YEAR END
CURRENT ASSETS			
Petty Cash	1	7	(6)
Cash - Money Market	874,842	3,858,028	(2,983,186)
Cash - MMkt Snoqualmie	88,428	88,409	19
Cash in Bank	12,045	20,355	(8,310)
Prepaid Escrow Deposits	0	40,000	(40,000)
Prepaid Rent	8,601	8,290	311
Prepaid Insurance	7,350	7,009	341
Total Current Assets	991,267	4,022,098	(3,030,831)
Long-Term Assets			
Furniture & Fixtures	298,267	298,267	0
Accum Depr FF&E	(294,268)	(291,380)	(2,888)
Sub-total	3,999	6,887	(2,888)
Land Held for Sale or Development			
Commercial Land	19,746,771	20,961,272	(1,214,501)
Project Development	5,039,827	4,749,081	290,746
Total Long-Term Assets	24,790,597	25,717,240	(926,643)
TOTAL ASSETS	25,781,864	29,739,338	(3,957,474)

Puget Western, Inc.
BALANCE SHEET
DECEMBER 31, 2017

	12/31/2017	12/31/2016	PRIOR YEAR END
CURRENT LIABILITIES			
Interest Payable	50,848	50,848	0
Accounts Payable	468	0	468
Accounts Payable Accruals	13,756	45,000	(31,244)
ULID North Bend Accrual	53,100	0	53,100
Total Current Liabilities	118,172	95,848	(30,776)
LONG-TERM LIABILITIES			
Intercompany Payable to Parent-FIT	(1,779,477)	(2,714,192)	934,715
Notes Payable	2,411,777	2,411,777	0
Property Tax Payable	0	0	0
Security Deposit Payable	8,306	8,306	0
Deferred FIT	(258,929)	416,372	(675,301)
Total Long-Term Liabilities	381,677	122,263	259,414
TOTAL LIABILITIES	499,849	218,111	228,638
EQUITY			
Common Stock	10,200	10,200	0
Additional Paid-In-Capital	44,487,244	44,487,244	0
Retained Earnings	(16,976,216)	(14,599,816)	(2,376,400)
Y-T-D Net Profit (Loss)	(2,239,213)	(376,401)	(1,862,812)
TOTAL EQUITY	25,282,015	29,521,227	(4,239,212)
TOTAL LIABILITIES & EQUITY	25,781,864	29,739,338	(3,957,474)

Puget Western Inc
Income Statement
FOR THE YEAR TO DATE ENDED
DECEMBER 31, 2017

	YTD Ended 12/31/17	Budget YTD Ended 12/31/17	VARIANCE	YTD Ended 12/31/16	VARIANCE
INCOME					
Sales Revenue	\$60,000	\$9,510,000	(\$9,450,000)	\$482,500	(\$422,500)
Cost of Sale	9,045	5,686,210	\$5,677,165	320,628	(\$311,583)
Direct Selling Exp	5,396	1,160,800	\$1,155,404	59,199	(\$53,803)
GROSS PROFIT ON SALES	46,559	2,662,990	(2,617,431)	102,673	(57,114)
Rental Income	92,770	94,600	(\$1,830)	6,000	86,770
Earnings - Other	-	-	-	-	0
Interest Income	1,157	960	197	2,256	(1,099)
Miscellaneous Income	-	-	-	417,500	(417,500)
TOTAL INCOME	139,486	2,758,550	(2,619,064)	528,429	(388,943)
EXPENSE					
North Creek Rent	92,745	94,600	1,855	76,404	16,341
Impairment Expense	1,256,869	-	(1,256,869)	9,250	1,247,619
Consulting Fees	5,886	1,600	(4,286)	14,836	(8,950)
Legal Fees	-	120	120	94	(94)
Accounting Fees	24,798	26,400	1,602	22,230	2,568
Interest Expense	-	-	-	-	0
Bank Service Charges	13	-	(13)	-	13
B & O/Excise Taxes	-	-	-	-	0
Property Taxes	219,561	240,000	20,439	214,749	4,812
Personal Property Tax	-	240	240	218	(218)
Marketing Expense	-	-	-	-	0
General & Admin. Expense	268,855	220,000	(48,855)	476,916	(208,061)
Depreciation Expense	2,888	3,000	112	2,420	468
Sub-Total	1,871,615	585,960	(1,285,655)	817,117	1,054,498
OPERATING EXPENSE					
Misc. Prop Mgmt Expense	2,659	1,800	(859)	4,350	(1,691)
Escrow/Title Fees	(174)	-	100	-	(174)
Employee Expense	-	-	-	-	0
Travel Expense	2,962	4,800	1,838	5,333	(2,371)
Training Expense	-	-	-	-	0
Meals & Entertainment	1,410	1,200	(210)	2,115	(705)
Office Supplies & Equipment	5,535	6,000	465	9,218	(3,683)
Utilities	162,725	96,000	(66,725)	128,071	34,654
Postage	221	480	259	290	(69)
Dues, Subscriptions, Manuals	-	-	-	727	(727)
Donations	785	-	(785)	1,335	(550)
Repairs & Maintenance	-	600	600	-	0
Leasing Expense	-	-	-	-	0
PSE Strander Lease Expense	59,080	50,640	(8,440)	42,200	16,880
Insurance Expense	12,259	14,400	2,141	11,677	582
Licenses	207	240	33	219	(12)
Property Option Expense	-	-	-	-	-
Miscellaneous	-	240	240	200	(200)
TOTAL OPERATING EXP.	247,669	176,400	(71,269)	205,735	42,134
TOTAL EXPENSES	2,119,284	762,360	(1,356,924)	1,022,852	1,096,432
INCOME (LOSS) BEFORE FIT	(1,979,798)	1,996,190	(3,975,988)	(494,423)	(1,485,675)
Federal Income Tax	259,415	714,950	455,534	(172,370)	431,785
NET INCOME	(2,239,213)	1,281,240	(3,520,453)	(322,053)	(1,917,160)

PUGET LNG, LLC.
BALANCE SHEET
(Dollars in Thousands)

		(A)
		December 31, 2017
ASSETS:		
Nonutility Plant:		
1	Other Property and Investments:	
2	Construction Work in Progress	\$ 101,813
3	Plant, Property and Equipment	2,227
4	Total Other Property and Investments	104,040
5	Current Assets:	
6	Cash	1
7	Total Current Assets	1
8	Long-Term Assets:	
9	Total Long-Term Assets	-
10	TOTAL ASSETS	\$ 104,041
11		
12	CAPITALIZATION AND LIABILITIES:	
13	Capitalization:	
14	Common Equity	\$ 21,545
15	Total Capitalization	21,545
16	Current Liabilities:	
17	Accounts Payable	2,491
18	Short-Term Debt Owed to Puget Energy	78,155
19	Accrued expenses:	
20	Taxes	-
21	Salaries and Wages	-
22	Interest	202
23	Other	-
24	Total Current Liabilities	80,848
25	Long-Term Liabilities:	
26	Deferred Income Taxes	(1,449)
27	Other Deferred Credits	3,097
28	Total Long-Term Liabilities	1,648
29	TOTAL CAPITALIZATION AND LIABILITIES	\$ 104,041

PUGET LNG, LLC
GAAP BASIS INCOME STATEMENT
YEAR-TO-DATE DECEMBER 31, 2017
(Dollars in Thousands)

	<u>(A)</u>
	<u>Actual</u>
1 Operating Revenues:	
2 Liquid Natural Gas	-
3 Other	-
4 Total Operating Revenue	<u>-</u>
5	
6 Operating Expenses:	
7 Liquid Natural Gas	-
8 Operations and Maintenance	259
9 Depreciation and Amortization	14
10 Taxes Other than Income Taxes	-
11 Total Operating Expenses	<u>273</u>
12	
13 Operating Income	(273)
14 Other Income (Deductions):	
15 Other Income	-
16 Other Expense	-
17 Interest Charges:	
18 Interest Expense	<u>(1,031)</u>
19 Income Before Income Taxes	(1,304)
20 Income tax expense (benefit)	<u>(1,449)</u>
21 Net Income	<u><u>\$ 145</u></u>

PUGET SOUND ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS

	December 31,	
	2017	2016
Utility plant (at original cost, including construction work in progress of \$495,937 and \$420,278, respectively):		
Electric plant	\$ 10,232,771	\$ 9,813,169
Natural gas plant	3,882,733	3,640,271
Common plant	843,145	632,718
Less: Accumulated depreciation and amortization	(5,131,966)	(4,927,602)
Net utility plant	9,826,683	9,158,556
Other property and investments:		
Other property and investments	76,350	77,960
Total other property and investments	76,350	77,960
Current assets:		
Cash and cash equivalents	25,864	28,481
Restricted cash	10,145	12,418
Accounts receivable, net of allowance for doubtful accounts of \$8,901 and \$9,798, respectively	343,546	344,964
Unbilled revenue	222,186	234,053
Purchased gas adjustment receivable	—	2,785
Materials and supplies, at average cost	107,003	106,378
Fuel and natural gas inventory, at average cost	48,585	56,851
Unrealized gain on derivative instruments	22,247	54,341
Prepaid expenses and other	21,996	43,046
Total current assets	801,572	883,317
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	—	71,517
Power cost adjustment mechanism	4,576	4,531
Other regulatory assets	948,540	1,034,352
Unrealized gain on derivative instruments	2,158	8,738
Other	71,827	58,109
Total other long-term and regulatory assets	1,027,101	1,177,247
Total assets	\$ 11,731,706	\$ 11,297,080

The accompanying notes are an integral part of the consolidated financial statements.

PUGET SOUND ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

	December 31,	
	2017	2016
Capitalization:		
Common shareholder's equity:		
Common stock \$0.01 par value, 150,000,000 shares authorized, 85,903,791 shares outstanding	\$ 859	\$ 859
Additional paid-in capital	3,275,105	3,275,105
Retained earnings	452,066	359,795
Accumulated other comprehensive income (loss), net of tax	(126,906)	(145,511)
Total common shareholder's equity	<u>3,601,124</u>	<u>3,490,248</u>
Long-term debt:		
First mortgage bonds and senior notes	3,164,412	3,362,000
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Debt discount, issuance costs and other	(26,361)	(28,974)
Total long-term debt	<u>3,549,911</u>	<u>3,744,886</u>
Total capitalization	<u>7,151,035</u>	<u>7,235,134</u>
Current liabilities:		
Accounts payable	359,585	317,043
Short-term debt	329,463	245,763
Current maturities of long-term debt	200,000	2,412
Purchased gas adjustment payable	16,051	—
Accrued expenses:		
Taxes	117,063	111,428
Salaries and wages	53,220	49,749
Interest	47,837	48,087
Unrealized loss on derivative instruments	64,859	44,170
Other	80,206	71,996
Total current liabilities	<u>1,268,284</u>	<u>890,648</u>
Other Long-term and regulatory liabilities:		
Deferred income taxes	869,473	1,732,390
Unrealized loss on derivative instruments	21,235	16,261
Regulatory liabilities	730,273	653,296
Regulatory liability for deferred income taxes	1,012,260	—
Other deferred credits	679,146	769,351
Total other long-term and regulatory liabilities	<u>3,312,387</u>	<u>3,171,298</u>
Commitments and contingencies (Note 15)		
Total capitalization and liabilities	<u>\$ 11,731,706</u>	<u>\$ 11,297,080</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET SOUND ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	Year Ended December 31,		
	2017	2016	2015
Operating revenue:			
Electric	\$ 2,420,663	\$ 2,238,492	\$ 2,128,468
Natural gas	997,759	890,510	947,549
Other	41,854	35,616	17,241
Total operating revenue	3,460,276	3,164,618	3,093,258
Operating expenses:			
Energy costs:			
Purchased electricity	590,030	531,596	499,522
Electric generation fuel	206,275	215,331	249,907
Residential exchange	(75,933)	(69,824)	(112,473)
Purchased natural gas	360,009	313,954	403,310
Unrealized (gain) loss on derivative instruments, net	30,790	(83,795)	(12,688)
Utility operations and maintenance	584,263	568,492	530,720
Non-utility expense and other	52,389	37,859	26,618
Depreciation and amortization	481,955	439,579	420,807
Conservation amortization	121,216	107,784	110,866
Taxes other than income taxes	360,673	328,649	320,531
Total operating expenses	2,711,667	2,389,625	2,437,120
Operating income (loss)	748,609	774,993	656,138
Other income (deductions):			
Other income	26,853	25,537	20,711
Other expense	(14,104)	(10,923)	(6,764)
Interest charges:			
AFUDC	10,826	9,304	7,575
Interest expense	(240,144)	(242,983)	(247,571)
Income (loss) before income taxes	532,040	555,928	430,089
Income tax (benefit) expense	211,986	175,347	125,900
Net income (loss)	\$ 320,054	\$ 380,581	\$ 304,189

The accompanying notes are an integral part of the consolidated financial statements.

PUGET ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS

	December 31,	
	2017	2016
Utility plant (at original cost, including construction work in progress of \$495,937 and \$420,278, respectively):		
Electric plant	\$ 8,135,847	\$ 7,673,772
Natural gas plant	3,307,545	3,051,586
Common plant	811,815	594,994
Less: Accumulated depreciation and amortization	(2,428,524)	(2,161,796)
Net utility plant	9,826,683	9,158,556
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	182,355	106,418
Total other property and investments	1,838,868	1,762,931
Current assets:		
Cash and cash equivalents	26,616	28,878
Restricted cash	10,145	12,418
Accounts receivable, net of allowance for doubtful accounts of \$8,901 and \$9,798, respectively	341,110	329,375
Unbilled revenue	222,186	234,053
Purchased gas adjustment receivable	—	2,785
Materials and supplies, at average cost	107,003	106,378
Fuel and natural gas inventory, at average cost	49,908	58,181
Unrealized gain on derivative instruments	22,247	54,341
Prepaid expense and other	21,996	43,046
Power contract acquisition adjustment gain	12,207	33,413
Total current assets	813,418	902,868
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	—	72,038
Power cost adjustment mechanism	4,576	4,531
Regulatory assets related to power contracts	19,454	22,613
Other regulatory assets	948,532	1,034,348
Unrealized gain on derivative instruments	2,158	8,738
Power contract acquisition adjustment gain	162,711	241,648
Other	74,389	58,109
Total other long-term and regulatory assets	1,211,820	1,442,025
Total assets	<u>\$ 13,690,789</u>	<u>\$ 13,266,380</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

	December 31,	
	2017	2016
Capitalization:		
Common shareholder's equity:		
Common stock \$0.01 par value, 1,000 shares authorized, 200 shares outstanding	\$ —	\$ —
Additional paid-in capital	3,308,957	3,308,957
Retained earnings	465,355	413,468
Accumulated other comprehensive income (loss), net of tax	(24,282)	(33,712)
Total common shareholder's equity	3,750,030	3,688,713
Long-term debt:		
First mortgage bonds and senior notes	3,164,412	3,362,000
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Long-term debt	1,902,600	1,812,480
Debt discount, issuance costs and other	(220,943)	(234,679)
Total long-term debt	5,257,929	5,351,661
Total capitalization	9,007,959	9,040,374
Current liabilities:		
Accounts payable	359,586	317,043
Short-term debt	329,463	245,763
Current maturities of long-term debt	200,000	2,412
Purchased gas adjustment payable	16,051	—
Accrued expenses:		
Taxes	117,948	111,428
Salaries and wages	53,220	49,749
Interest	73,564	73,610
Unrealized loss on derivative instruments	64,859	44,310
Power contract acquisition adjustment loss	2,762	3,159
Other	80,206	71,996
Total current liabilities	1,297,659	919,470
Other Long-term and regulatory liabilities:		
Deferred income taxes	746,868	1,570,931
Unrealized loss on derivative instruments	21,235	16,261
Regulatory liabilities	731,587	654,622
Regulatory liability for deferred income taxes	1,011,626	—
Regulatory liabilities related to power contracts	174,918	275,061
Power contract acquisition adjustment loss	16,693	19,454
Other deferred credits	682,244	770,207
Total other long-term and regulatory liabilities	3,385,171	3,306,536
Commitments and contingencies (Note 15)		
Total capitalization and liabilities	\$ 13,690,789	\$ 13,266,380

The accompanying notes are an integral part of the consolidated financial statements.

PUGET ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	Year Ended December 31,		
	2017	2016	2015
Operating revenue:			
Electric	\$ 2,420,663	\$ 2,238,492	\$ 2,128,468
Natural gas	997,759	890,510	947,549
Other	41,854	35,299	16,683
Total operating revenue	<u>3,460,276</u>	<u>3,164,301</u>	<u>3,092,700</u>
Operating expenses:			
Energy costs:			
Purchased electricity	590,030	531,596	499,522
Electric generation fuel	206,275	215,331	249,907
Residential exchange	(75,933)	(69,824)	(112,473)
Purchased natural gas	360,009	313,954	403,310
Unrealized (gain) loss on derivative instruments, net	30,790	(83,795)	(13,233)
Utility operations and maintenance	584,263	568,492	530,720
Non-utility expense and other	40,487	27,151	10,818
Depreciation and amortization	481,969	439,579	420,807
Conservation amortization	121,216	107,784	110,866
Taxes other than income taxes	360,673	328,649	320,531
Total operating expenses	<u>2,699,779</u>	<u>2,378,917</u>	<u>2,420,775</u>
Operating income (loss)	760,497	785,384	671,925
Other income (deductions):			
Other income	27,892	25,539	20,711
Other expense	(14,104)	(10,923)	(6,764)
Non-hedged interest rate swap expense	28	(1,062)	(3,796)
Interest charges:			
AFUDC	10,826	9,304	7,575
Interest expense	(354,802)	(355,139)	(356,696)
Income (loss) before income taxes	<u>430,337</u>	<u>453,103</u>	<u>332,955</u>
Income tax (benefit) expense	255,143	140,204	91,776
Net income (loss)	<u>\$ 175,194</u>	<u>\$ 312,899</u>	<u>\$ 241,179</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET EQUICO LLC
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS

	December 31,	
	2017	2016
Utility plant (at original cost, including construction work in progress of \$495,937 and \$420,278, respectively):		
Electric plant	\$ 8,135,847	\$ 7,673,772
Natural gas plant	3,307,545	3,051,586
Common plant	811,815	594,994
Less: Accumulated depreciation and amortization	(2,428,524)	(2,161,796)
Net utility plant	9,826,683	9,158,556
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	182,355	106,418
Total other property and investments	1,838,868	1,762,931
Current assets:		
Cash and cash equivalents	26,706	28,973
Restricted cash	10,145	12,418
Accounts receivable, net of allowance for doubtful accounts of \$8,901 and \$9,798, respectively	341,110	329,375
Unbilled revenue	222,186	234,053
Purchased gas adjustment receivable	—	2,785
Materials and supplies, at average cost	107,003	106,378
Fuel and natural gas inventory, at average cost	49,908	58,181
Unrealized gain on derivative instruments	22,247	54,341
Prepaid expense and other	21,996	43,046
Power contract acquisition adjustment gain	12,207	33,413
Total current assets	813,508	902,963
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	—	72,038
Power cost adjustment mechanism	4,576	4,531
Regulatory assets related to power contracts	19,454	22,613
Other regulatory assets	948,532	1,034,348
Unrealized gain on derivative instruments	2,158	8,738
Power contract acquisition adjustment gain	162,711	241,648
Other	74,389	58,109
Total other long-term and regulatory assets	1,211,820	1,442,025
Total assets	<u>\$ 13,690,879</u>	<u>\$ 13,266,475</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET EQUICO LLC
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

	December 31,	
	2017	2016
Capitalization:		
Common shareholder's equity:		
Membership interest, \$1 par value, 100 shares authorized and outstanding	\$ —	\$ —
Additional paid-in capital	3,397,331	3,397,331
Retained earnings	377,139	325,292
Accumulated other comprehensive income (loss), net of tax	(24,282)	(33,712)
Total member's equity	<u>3,750,188</u>	<u>3,688,911</u>
Long-term debt:		
First mortgage bonds and senior notes	3,164,412	3,362,000
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Long-term debt	1,902,600	1,812,480
Debt discount, issuance costs and other	(220,943)	(234,679)
Total long-term debt	<u>5,257,929</u>	<u>5,351,661</u>
Total capitalization	<u>9,008,117</u>	<u>9,040,572</u>
Current liabilities:		
Accounts payable	359,586	317,043
Short-term debt	329,463	245,763
Current maturities of long-term debt	200,000	2,412
Purchased gas adjustment payable	16,051	—
Accrued expenses:		
Taxes	117,948	111,428
Salaries and wages	53,220	49,749
Interest	73,564	73,610
Unrealized loss on derivative instruments	64,859	44,310
Power contract acquisition adjustment loss	2,762	3,159
Other	80,206	71,996
Total current liabilities	<u>1,297,659</u>	<u>919,470</u>
Other Long-term and regulatory liabilities:		
Deferred income taxes	746,800	1,570,828
Unrealized loss on derivative instruments	21,235	16,261
Regulatory liabilities	731,587	654,622
Regulatory liability for deferred income taxes	1,011,626	—
Regulatory liabilities related to power contracts	174,918	275,061
Power contract acquisition adjustment loss	16,693	19,454
Other deferred credits	682,244	770,207
Total other long-term and regulatory liabilities	<u>3,385,103</u>	<u>3,306,433</u>
Commitments and contingencies (Note 15)		
Total capitalization and liabilities	<u>\$ 13,690,879</u>	<u>\$ 13,266,475</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET EQUICO LLC
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	Year Ended December 31,	
	2017	2016
Operating revenue:		
Electric	\$ 2,420,663	\$ 2,238,492
Natural gas	997,759	890,510
Other	41,854	35,299
Total operating revenue	<u>3,460,276</u>	<u>3,164,301</u>
Operating expenses:		
Energy costs:		
Purchased electricity	590,030	531,596
Electric generation fuel	206,275	215,331
Residential exchange	(75,933)	(69,824)
Purchased natural gas	360,009	313,954
Unrealized (gain) loss on derivative instruments, net	30,790	(83,795)
Utility operations and maintenance	584,263	568,492
Non-utility expense and other	40,516	27,184
Depreciation and amortization	481,969	439,579
Conservation amortization	121,216	107,784
Taxes other than income taxes	360,673	328,649
Total operating expenses	<u>2,699,808</u>	<u>2,378,950</u>
Operating income (loss)	760,468	785,351
Other income (deductions):		
Other income	27,892	25,539
Other expense	(14,104)	(10,923)
Non-hedged interest rate swap expense	28	(1,062)
Interest charges:		
AFUDC	10,826	9,304
Interest expense	(354,802)	(355,139)
Income (loss) before income taxes	<u>430,308</u>	<u>453,070</u>
Income tax (benefit) expense	255,178	140,193
Net income (loss)	<u>\$ 175,130</u>	<u>\$ 312,877</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET INTEMEDATE HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS

	December 31,	
	2017	2016
Utility plant (at original cost, including construction work in progress of \$495,937 and \$420,278, respectively):		
Electric plant	\$ 8,135,847	\$ 7,673,772
Natural gas plant	3,307,545	3,051,586
Common plant	811,815	594,994
Less: Accumulated depreciation and amortization	(2,428,524)	(2,161,796)
Net utility plant	9,826,683	9,158,556
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	182,355	106,418
Total other property and investments	1,838,868	1,762,931
Current assets:		
Cash and cash equivalents	26,803	29,026
Restricted cash	10,145	12,418
Accounts receivable, net of allowance for doubtful accounts of \$8,901 and \$9,798, respectively	341,466	329,725
Unbilled revenue	222,186	234,053
Purchased gas adjustment receivable	—	2,785
Materials and supplies, at average cost	107,003	106,378
Fuel and natural gas inventory, at average cost	49,908	58,181
Unrealized gain on derivative instruments	22,247	54,341
Prepaid expense and other	21,996	43,046
Power contract acquisition adjustment gain	12,207	33,413
Total current assets	813,961	903,366
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	—	72,038
Power cost adjustment mechanism	4,576	4,531
Regulatory assets related to power contracts	19,454	22,613
Other regulatory assets	948,532	1,034,348
Unrealized gain on derivative instruments	2,158	8,738
Power contract acquisition adjustment gain	162,711	241,648
Other	74,389	58,109
Total other long-term and regulatory assets	1,211,820	1,442,025
Total assets	\$ 13,691,332	\$ 13,266,878

The accompanying notes are an integral part of the consolidated financial statements.

PUGET INTERMEDIATE HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

	December 31,	
	2017	2016
Capitalization:		
Common shareholder's equity:		
Common stock \$0.01 par value, 1,000 shares authorized and outstanding	\$ —	\$ —
Additional paid-in capital	2,175,442	2,175,442
Retained earnings	298,785	422,969
Accumulated other comprehensive income (loss), net of tax	(24,282)	(33,712)
Total common shareholder's equity	<u>2,449,945</u>	<u>2,564,699</u>
Long-term debt:		
First mortgage bonds and senior notes	3,164,412	3,362,000
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Long-term debt	1,902,600	1,812,480
Puget Intermediate Holdings senior secured investor notes	1,626,823	1,626,823
Debt discount, issuance costs and other	(220,943)	(234,679)
Total long-term debt	<u>6,884,752</u>	<u>6,978,484</u>
Total capitalization	<u>9,334,697</u>	<u>9,543,183</u>
Current liabilities:		
Accounts payable	359,586	317,043
Short-term debt	329,463	245,763
Current maturities of long-term debt	200,000	2,412
Purchased gas adjustment payable	16,051	—
Accrued expenses:		
Taxes	118,981	111,428
Salaries and wages	53,220	49,749
Interest	73,564	73,610
Unrealized loss on derivative instruments	64,859	44,310
Power contract acquisition adjustment loss	2,762	3,159
Other	80,206	71,996
Total current liabilities	<u>1,298,692</u>	<u>919,470</u>
Other Long-term and regulatory liabilities:		
Deferred income taxes	419,640	1,068,620
Unrealized loss on derivative instruments	21,235	16,261
Regulatory liabilities	731,587	654,622
Regulatory liability for deferred income taxes	1,011,626	—
Regulatory liabilities related to power contracts	174,918	275,061
Power contract acquisition adjustment loss	16,693	19,454
Other deferred credits	682,244	770,207
Total other long-term and regulatory liabilities	<u>3,057,943</u>	<u>2,804,225</u>
Commitments and contingencies (Note 15)		
Total capitalization and liabilities	<u>\$ 13,691,332</u>	<u>\$ 13,266,878</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET INTERMEDIATE HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	Year Ended December 31,	
	2017	2016
Operating revenue:		
Electric	\$ 2,420,663	\$ 2,238,492
Natural gas	997,759	890,510
Other	41,854	35,299
Total operating revenue	<u>3,460,276</u>	<u>3,164,301</u>
Operating expenses:		
Energy costs:		
Purchased electricity	590,030	531,596
Electric generation fuel	206,275	215,331
Residential exchange	(75,933)	(69,824)
Purchased natural gas	360,009	313,954
Unrealized (gain) loss on derivative instruments, net	30,790	(83,795)
Utility operations and maintenance	584,263	568,492
Non-utility expense and other	40,574	27,315
Depreciation and amortization	481,969	439,579
Conservation amortization	121,216	107,784
Taxes other than income taxes	360,673	328,649
Total operating expenses	<u>2,699,866</u>	<u>2,379,081</u>
Operating income (loss)	760,410	785,220
Other income (deductions):		
Other income	27,892	25,539
Other expense	(14,104)	(10,923)
Non-hedged interest rate swap expense	28	(1,062)
Interest charges:		
AFUDC	10,826	9,304
Interest expense - investors	(124,653)	(121,895)
Interest expense	<u>(354,802)</u>	<u>(355,139)</u>
Income (loss) before income taxes	305,597	331,044
Income tax (benefit) expense	429,609	97,586
Net income (loss)	<u>\$ (124,012)</u>	<u>\$ 233,458</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET HOLDINGS LLC
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS

	December 31,	
	2017	2016
Utility plant (at original cost, including construction work in progress of \$495,937 and \$420,278, respectively):		
Electric plant	\$ 8,135,847	\$ 7,673,772
Natural gas plant	3,307,545	3,051,586
Common plant	811,815	594,994
Less: Accumulated depreciation and amortization	(2,428,524)	(2,161,796)
Net utility plant	9,826,683	9,158,556
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	182,355	106,418
Total other property and investments	1,838,868	1,762,931
Current assets:		
Cash and cash equivalents	26,964	29,508
Restricted cash	10,145	12,418
Accounts receivable, net of allowance for doubtful accounts of \$8,901 and \$9,798, respectively	340,214	328,852
Unbilled revenue	222,186	234,053
Purchased gas adjustment receivable	—	2,785
Materials and supplies, at average cost	107,003	106,378
Fuel and natural gas inventory, at average cost	49,908	58,181
Unrealized gain on derivative instruments	22,247	54,341
Prepaid expense and other	21,999	43,046
Power contract acquisition adjustment gain	12,207	33,413
Total current assets	812,873	902,975
Other long-term and regulatory assets:		
Regulatory asset for deferred income taxes	—	72,038
Power cost adjustment mechanism	4,576	4,531
Regulatory assets related to power contracts	19,454	22,613
Other regulatory assets	948,532	1,034,348
Unrealized gain on derivative instruments	2,158	8,738
Power contract acquisition adjustment gain	162,711	241,648
Other	74,389	58,109
Total other long-term and regulatory assets	1,211,820	1,442,025
Total assets	<u>\$ 13,690,244</u>	<u>\$ 13,266,487</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET HOLDINGS LLC
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

CAPITALIZATION AND LIABILITIES

	December 31,	
	2017	2016
Capitalization:		
Member's equity:		
Membership interest, no par value, 98,328 shares authorized and outstanding	\$ —	\$ —
Additional paid-in capital	2,200,062	2,200,062
Retained earnings	279,166	407,839
Accumulated other comprehensive income (loss), net of tax	(24,282)	(33,712)
Total member's equity	<u>2,454,946</u>	<u>2,574,189</u>
Long-term debt:		
First mortgage bonds and senior notes	3,164,412	3,362,000
Pollution control bonds	161,860	161,860
Junior subordinated notes	250,000	250,000
Long-term debt	1,902,600	1,812,480
Puget Intermediate Holdings senior secured investor notes	1,626,823	1,626,823
Debt discount, issuance costs and other	(220,943)	(234,678)
Total long-term debt	<u>6,884,752</u>	<u>6,978,485</u>
Total capitalization	<u>9,339,698</u>	<u>9,552,674</u>
Current liabilities:		
Accounts payable	359,586	317,043
Short-term debt	329,463	245,763
Current maturities of long-term debt	200,000	2,412
Purchased gas adjustment payable	16,051	—
Accrued expenses:		
Taxes	118,981	111,428
Salaries and wages	53,220	49,749
Interest	73,564	73,610
Unrealized loss on derivative instruments	64,859	44,310
Power contract acquisition adjustment loss	2,762	3,159
Other	80,207	71,996
Total current liabilities	<u>1,298,693</u>	<u>919,470</u>
Other Long-term and regulatory liabilities:		
Deferred income taxes	413,550	1,058,738
Unrealized loss on derivative instruments	21,235	16,261
Regulatory liabilities	731,587	654,622
Regulatory liability for deferred income taxes	1,011,626	—
Regulatory liabilities related to power contracts	174,918	275,061
Power contract acquisition adjustment loss	16,693	19,454
Other deferred credits	682,244	770,207
Total other long-term and regulatory liabilities	<u>3,051,853</u>	<u>2,794,343</u>
Commitments and contingencies (Note 15)		
Total capitalization and liabilities	<u>\$ 13,690,244</u>	<u>\$ 13,266,487</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET HOLDINGS LLC
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	Year Ended December 31,	
	2017	2016
Operating revenue:		
Electric	\$ 2,420,663	\$ 2,238,492
Natural gas	997,759	890,510
Other	41,854	35,299
Total operating revenue	<u>3,460,276</u>	<u>3,164,301</u>
Operating expenses:		
Energy costs:		
Purchased electricity	590,030	531,596
Electric generation fuel	206,275	215,331
Residential exchange	(75,933)	(69,824)
Purchased natural gas	360,009	313,954
Unrealized (gain) loss on derivative instruments, net	30,790	(83,795)
Utility operations and maintenance	584,263	568,492
Non-utility expense and other	41,443	27,737
Depreciation and amortization	481,969	439,579
Conservation amortization	121,216	107,784
Taxes other than income taxes	360,673	328,649
Total operating expenses	<u>2,700,735</u>	<u>2,379,503</u>
Operating income (loss)	759,541	784,798
Other income (deductions):		
Other income	27,892	25,539
Other expense	(14,104)	(10,923)
Non-hedged interest rate swap expense	28	(1,062)
Interest charges:		
AFUDC	10,826	9,304
Interest expense - investors	(124,653)	(121,895)
Interest expense	<u>(354,802)</u>	<u>(355,139)</u>
Income (loss) before income taxes	304,728	330,622
Income tax (benefit) expense	433,401	97,438
Net income (loss)	<u>\$ (128,673)</u>	<u>\$ 233,184</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUGET SOUND ENERGY
AFFILIATED INTEREST AND SUBSIDIARY
TRANSACTIONS REPORT

EXHIBIT 4



Controller's Manual

SUBJECT CORPORATE AND AFFILIATED INTEREST COST ALLOCATION METHODOLOGY	Page 1 of 10 Date 12/21/17 Revision 6
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references

key words				
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Approvals

 Stephen J King Controller & Principle Accounting Officer	/s/ Susan Free Manager Revenue Requirements
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BACKGROUND

MERGER ORDER U-072375

On January 16, 2009 pursuant to the First Condition of Order No. 08 issued by the Commission on December 30, 2008 in Docket No. U-072375, Puget Holdings LLC ("Puget Holdings") and Puget Sound Energy, Inc. ("PSE") accepted each of the conditions set forth in Attachment B to Order No. 08 as to the purchase of PSE by Puget Holdings. Puget Holdings closed on the purchase of the outstanding common stock of Puget Energy, Inc. (Puget Energy) on February 6, 2009 and in doing so accepted the terms of the Washington Utilities and Transportation Commission's order.

In Order No. 08 the Washington Utilities and Transportation Commission, approved and adopted subject to conditions a Settlement Stipulation proposed by all parties except Public Counsel, authorizing Puget Holdings to acquire Puget Energy, and its wholly-owned subsidiary PSE. As part of the requirements in Docket No. UE-072375 PSE must adhere to the following commitments¹ from the Settlement Stipulation regarding allocation of costs:

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, or any of their subsidiaries or affiliates, without Commission approval.

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

¹ Please see Attachment B to Order No. 08, Docket No. U-072375 for further Commission clarification regarding several of the listed commitments.



Controller's Manual

SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

Page 2 of 10
Date 12/21/17
Revision 6

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

21. 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.

26. In furtherance of Commitment 9:

(a) Puget Holdings and PSE commit that PSE's customers will be held harmless from the liabilities of any non-regulated 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 non-regulated activities. Any new non-regulated 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 non-regulated 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 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 Transaction and the resulting corporate structure, the Commission is without jurisdiction over any transaction that results in a change of control of PSE.

27. In furtherance of Commitment 19:

(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.



Controller's Manual

SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

Page 3 of 10
Date 12/21/17
Revision 6

(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.

(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.

28. In furtherance of Commitment 20:

(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



Controller's Manual

SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

Page 4 of 10
Date 12/21/17
Revision 6

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 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 non-regulated or affiliate businesses to PSE's regulated utility operations.

29. PSE and Puget Holdings acknowledge that all existing orders issued by the Commission with respect to PSE or its predecessors, Puget Sound Power & Light Company and Washington Natural Gas Company, will remain in effect, and are not modified or otherwise affected by the Proposed Transaction or any order of the Commission approving the Proposed Transaction. Notwithstanding the immediately preceding sentence, the Commission's *Order Accepting Stipulation and Approving Corporate Reorganization to Create a Holding Company, With Conditions*, dated August 15, 2000, in Docket No. UE-991779 will be superseded and replaced in its entirety by any order of the Commission approving the Proposed Transaction.

LIQUEFIED NATURAL GAS ORDER UG-151663

On November 1, 2016, under UG-151663, the Commission approved a settlement agreement among parties to the proceeding that authorized the formation of a Puget Energy subsidiary, Puget LNG, LLC. Puget LNG is a special purpose limited liability company formed by Puget Energy solely for the purposes of owning, developing and financing the Tacoma LNG Facility with PSE. The Tacoma LNG Facility will provide LNG fuel to unregulated customers and will serve as a peaking resource for PSE's regulated core gas customers. The settlement agreement and order requires specific ring-fencing provisions that follow along the lines of the Merger Order requirements.



Controller's Manual

SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

Page 5 of 10
Date 12/21/17
Revision 6

The settlement agreement calls for specific agreed upon allocation factors. Specifically, paragraphs 25 and 26 of the settlement states:

25. *Each of the Settling Parties agree to the following capital cost allocators with respect to the Tacoma LNG Facility:*
- a. *Liquefaction Allocator. The liquefaction allocator allocates capital costs associated with liquefaction, which include the costs of facilities used to receive natural gas, treat the gas, cool the gas below its boiling point and deliver the gas to onsite storage.*
 - b. *Storage Allocator. The storage allocator allocates capital costs associated with storage, which include the costs of the site-erected full containment cryogenic storage tank as well as the costs of foundations and other supporting facilities.*
 - c. *Bunkering Allocator. The bunkering allocator allocates capital costs associated with bunkering, which include facilities used to move the LNG from the onsite storage tank to the marine loading facility, which will be located at TOTE's berthing location.*
 - d. *Truck Loading Allocator. The truck loading allocator allocates capital costs associated with truck loading, which include facilities used to move the LNG from the onsite storage tank to tanker trucks or ISO containers*
 - e. *Vaporization Allocator. The vaporization allocator allocates capital costs associated with vaporization, which include facilities used to vaporize the gas and inject it into PSE's distribution system.*
 - f. *Common Allocator. The common allocator allocates common project costs, which include facilities that cannot be allocated to any individual service (e.g., facility development, civil and site work, site utilities, etc.).*
26. *Each of the Settling Parties agree to the following Ownership Shares with respect to*



Controller's Manual

SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

Page 6 of 10
Date 12/21/17
Revision 6

the following allocators:

<i>Component Ownership Share</i>	<i>PSE</i>	<i>Puget LNG</i>
<i>Liquefaction</i>	<i>10%</i>	<i>90%</i>
<i>Storage</i>	<i>79%</i>	<i>21%</i>
<i>Bunkering</i>	<i>0%</i>	<i>100%</i>
<i>Truck Loading</i>	<i>5%</i>	<i>95%</i>
<i>Vaporization</i>	<i>100%</i>	<i>0%</i>

The Ownership Shares for the common cost allocator shall equal the weighted costs of the liquefaction, storage, bunkering, truck loading, and vaporization allocation factors. Please see Attachment D to this Settlement Stipulation for the projected Ownership Shares of common items of the Tacoma LNG Facility.

Attachment D to the LNG settlement which is copied below, provides the specific agreed upon allocations to be used for the Tacoma LNG Facility. Costs must be recorded and tracked in a manner consistent with the settlement agreement.



Controller's Manual

SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

Page 7 of 10
Date 12/21/17
Revision 6

**ATTACHMENT D
Tacoma LNG Facility Ownership Shares**

Component Ownership Share	PSE	Puget LNG	Projected Capital Expenditures (No AFUDC)	Projected Capital Expenditures Allocated to PSE	Projected Capital Expenditures Allocated to Puget LNG
Liquefaction	10%	90%	\$88,546,234	\$8,854,623	\$79,691,611
Storage	79%	21%	\$96,237,245	\$76,027,424	\$20,209,821
Bunkering	0%	100%	\$29,671,922	\$0	\$29,671,922
Truck Loading	5%	95%	\$6,229,252	\$311,463	\$5,917,789
Vaporization	100%	0%	\$17,135,822	\$17,135,822	\$0
Common	43%	57%	\$72,884,330	\$31,340,262	\$41,544,068
TOTAL	N/A	N/A	\$310,704,805	\$133,669,593	\$177,035,212

* The common cost allocator for PSE shall equal the quotient of (i) the sum of the values for liquefaction, storage, bunkering, truck loading, and vaporization in the column "Projected Capital Expenditures Allocated to PSE," divided by (ii) the sum of the values for liquefaction, storage, bunkering, truck loading, and vaporization in the column "Projected Capital Expenditures (No AFUDC)."

** The common cost allocator for Puget LNG shall equal the quotient of (i) the sum of the values for liquefaction, storage, bunkering, truck loading, and vaporization in the column "Projected Capital Expenditures Allocated to Puget LNG," divided by (ii) the sum of the values for liquefaction, storage, bunkering, truck loading, and vaporization in the column "Projected Capital Expenditures (No AFUDC)."

GUIDELINES

The guidelines that existed at the time Order No. 08 in WUTC Docket No. U-072375 and the LNG order were issued continue to be sufficient to maintain the new commitments outlined above. These guidelines were based on testimony provided in WUTC Docket No. UE-960195 and are summarized as follows.

As part of the merger proceeding in Docket No. UE-960195, the Commission reviewed and approved the cost allocation methodology presented by PSE. In the Commission order on page 48, it states:



Controller's Manual

SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

Page 8 of 10
Date 12/21/17
Revision 6

h. The method for allocating costs between electric and gas operations and for accounting for intra-company transfers of natural gas set forth in the Stipulation shall be implemented.

In Exhibit T-21 of Docket UE-960195, Merger Application, the direct testimony proposes a cost allocation methodology for electric, gas, common and non-regulated business. The cost allocation factors were:

1. *direct charging;*
2. *allocation using causal relationship; and*
3. *allocation using a general allocation factor.*

In the direct testimony, direct charging and allocation using causal relationships are defined as:

Direct charging - Direct charging will be the preferred method for assignment of costs. When a cost can be uniquely identified to one service or the other, the costs will be charged to an account for that specific service.

Allocation using causal relationships – Costs that cannot be directly charged to one service or the other. Costs will be allocated based upon a common cause of the cost.

In addition, the direct testimony addresses nonregulated subsidiary companies. In the testimony, when utility personnel provide services to nonregulated subsidiaries, the subsidiary would be billed for the salary, employee benefits and facility costs associated with supporting the utility employee. This methodology as discussed in Docket No. UE-960195 is consistent with previous cost allocations of Puget Sound Power & Light Company. Below is an excerpt from this testimony:

Where practical, nonregulated subsidiaries will maintain separate facilities for staff and operations. The cost for these facilities and personnel will be charged to nonoperating expenses using the FERC system of accounts. When utility personnel provide service to the nonregulated subsidiary, the subsidiary will be billed for the salary, employee benefits and facility costs associated with supporting the utility employee. Facility costs will include an allocation for building rental, telephone service, purchasing support, payroll support, human resource and administrative support. Charges by subsidiary to the regulated company would have a similar overhead applied to its labor costs.

GUIDELINE The purpose of this guideline is that PSE customers must be held harmless from the liabilities of any non-regulatory activities of PSE or its affiliated entities. The following guidelines are intended to establish procedures for allocating costs that are corporate in nature among and between PSE



Controller's Manual

SUBJECT

**CORPORATE AND AFFILIATED INTEREST COST ALLOCATION
METHODOLOGY**

Page 9 of 10
Date 12/21/17
Revision 6

and its affiliates. Allocations will be based upon direct charging or upon an allocation using a causal or general relationship. Any related transactions will be charged on a monthly basis to the appropriate company.

When utility personnel provide service to a PSE affiliate or subsidiary, utility personnel will directly charge their time. In addition to their direct labor, labor overheads will be applied along with a facility overhead. Labor overheads will include the following overhead rates that are applied on direct labor: benefits, payroll tax, PTO, and incentives. Facility overhead includes an allocation for the following items:

- o Support departments including payroll, human resources, insurance, security, accounting, facilities and IT
- o Facilities rent
- o Furniture and office equipment

For cost allocation purposes herein, factors used for causal relationships will be determined as of December 31 of each year. Below are general guidelines for determining cost allocation of corporate related costs:

Function	Basis of Allocation
Salaries/Employee Expenses	Direct charging, or causal or general allocation
PSE independent Directors' Fees/Expenses	Direct charging, or causal or general allocation
Reimbursements of expenses of non-independent directors of PSE	Direct or causal allocation
Directors' & Officers Liability Insurance	Direct charging, or causal or general allocation
SEC and Other Regulatory Filing Fees	Direct charging, or causal or general allocation
Audit Fees	Direct charging, or causal or general allocation
Consultants and contract labor costs	Direct charging, or causal or general allocation
Line of Credit Fees and interest payments	Direct charging, or causal or general allocation
Legal Fees	Direct charging, or causal or general allocation
Impacts related to FAS-141R business combination accounting requirements	Direct charging, or causal or general allocation
Rating Agency Fees	Direct charging, or causal or general allocation