EXHIBIT NO. ___(CJL-11)
DOCKET NO. UE-072375
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. U-072375**

THIRD EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
CHRISTOPHER J. LESLIE
ON BEHALF OF PUGET HOLDINGS LLC

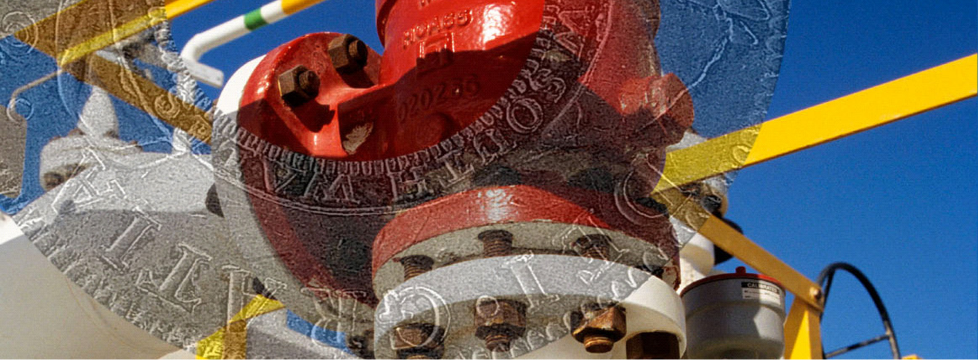
JULY 3, 2008

1	**Claim:**	**The Macquarie Group's infrastructure funds management business is similar to that of traditional "private equity" models. See Exhibit No. ___(SGH-1THC) at page 23, lines 9-10); Exhibit No. ___(RHS-1HCT) at page 13, lines 11-18.**
	Response:	Macquarie Group's infrastructure funds management business has several clear differentiations from traditional "private equity" or "leveraged buyout" models. Macquarie's infrastructure funds investment horizon is by design of a much longer duration than that of traditional private equity. Macquarie aims to identify well-managed and capital intensive quality businesses and invest in them for the long term. In its infrastructure investments, Macquarie seeks stable, predictable returns that are more modest than traditional private equity. Pension funds make up a majority of Macquarie's infrastructure funds investor base and long-term investments are well matched to their long-dated pension obligations. Macquarie also seeks to partner with the companies it invests in, typically retaining existing management and staff. This is often not the case with traditional private equity.
2	**Claim:**	**The Macquarie Group's investments in 116 different infrastructure assets increases the risk of a loss of reputation that in turn could restrict Macquarie's and the assets access to capital? *See* Exhibit No. ___(WNH-1HCT) at page 4-5, 12.**
	Response:	The Macquarie Group is well known and highly regarded for its track record of responsible management of essential community assets over the long term. Each of Macquarie's investments are viewed on and financed on a completely standalone basis. Any financing associated with these assets is project based and is non-recourse to the manager or to Macquarie.
3	**Claim:**	**The Macquarie Group's recent restructuring was done because of "recognition on the part of Macquarie of the limits to its access to funding." Exhibit No. ___(WNH-1HCT) at page 12, lines 10-15.**
	Response:	No. The restructuring was pursued because Macquarie had effectively outgrown the conventional banking regulatory model. Macquarie undertakes many activities which are not traditional banking activities. These activities were not easily accommodated by Australia's banking regulations thus making it necessary to restructure them. The restructuring allowed Macquarie to sustain the growth of the non-banking businesses while allowing it to continue operating with a bank in the Group. The NOHC structure gave Macquarie the flexibility to continue to pursue growth in the regions and markets in which it operates. The Macquarie Group's rationale for pursuing the

		restructuring has been well documented in public announcements and well understood by the market and Macquarie's investors. The restructured Macquarie Group has a structure similar to that used by a number of major financial institutions globally.
4	**Claim:**	**Macquarie may face exposure to sub-prime mortgages, CDOs, and auction rate securities. *See* Exhibit No. ___(SGH-1THC) at pages 21-22.**
	Response:	Despite market conditions, Macquarie's global business platform has never been stronger (*see* Exhibit No. ___(CJL-9) at page 12)). Macquarie is governed by a strong commitment to risk management. Macquarie's robust risk management has proven effective in this environment. Macquarie remains well capitalized, well funded and very profitable. Macquarie has no unusual trading exposures, no unusual concerns with credit quality and has no direct exposure to US sub-prime mortgages in its mortgage lending business or elsewhere. Macquarie has no problems with debt underwritings, no underwriting of leveraged loans and very little underwriting of corporate loans. Macquarie is more diversified than most Wall Street investment banks as its main business focus is making returns by providing services to clients rather than by principal trading. Infrastructure and specialist funds are important businesses, but represent 20% of operating income (*see* Exhibit No.___(CJL-9) at page 18)). Macquarie recently reported: • Liquid assets of $A18.3 billion, approximately three times the level of a year ago • A deposit base of $13.2 billion and growing • Term funding of almost $A31 billion in place which is $A3.6 billion more than what we consider to be term assets • $A3 billion in excess of the Group's minimum regulatory capital requirement, as of March 31, 2008. Since March 31, 2008 has raised $A600 million through the Macquarie Convertible Preference Securities • A 23% increase in profit at its Full Year 2008 Results on May 20, 2008. *See* Exhibit No. ___(CJL-9) at page 5. For the above figures, please see Exhibit No.___(CJL-9) at pages 32, 34, and 37)

5	**Claim:**	**The Fortune article provided by Public Counsel as Exhibit No.___(SGH-4) raises various criticisms of Macquarie.**
	Response:	The *Fortune* article raised no new claims that Macquarie has not already provided detailed public responses. *See* Appendix A to this Exhibit No. ___(CJL-11). The article references earlier comments on Macquarie's business model that have been made by people who have not taken the trouble to study Macquarie closely.
6	**Claim:**	**Public Counsel notes several criticisms by James Chanos. Exhibit No. ___(SGH-1THC) at pages 23-25.**
	Response:	James Chanos, a professional short seller, has recycled factually incorrect claims which have been made previously and which, at the time they were expressed, were fully refuted by Macquarie. Macquarie has made these detailed responses (see, e.g., Appendix B to this Exhibit No. ___(CJL-11)) correcting the factual inaccuracies made by James Chanos available on its website at: http://www.macquarie.com.au/au/about_macquarie/media_centre/20071019a.htm.
7	**Claim:**	**The RiskMetrics report provided by Public Counsel as Exhibit No. ___(SGH-5) raises various criticisms of Macquarie.**
	Response:	The Macquarie Group believes that many of the concerns raised in the report are without foundation. Macquarie's analysis of the report highlights a number of inaccuracies and misinterpretations in the body of the RiskMetrics report. Macquarie has published a detailed response to the RiskMetrics report in a letter dated May 14, 2008. See Appendix C to this Exhibit No.___(CJL-11). Macquarie is working through the identified points in detail with Risk Metrics Melbourne staff from where the report originated, in order to assist in the improvement of their understanding of the way Macquarie operates and manages its funds.

Appendix A



MACQUARIE CAPITAL FUNDS

Fact Sheet

1 Background

Macquarie Capital Funds (MacCap Funds) has prepared a short fact sheet in response to questions raised about the Funds and Macquarie.

All figures current as of 30 September 2007, unless otherwise stated.

2 MacCap Funds Fact Sheet

(i) Evidence of Diversity of Business

- Macquarie has a diversified revenue base with multiple high performing businesses.
- Macquarie has over 11,000 staff in 25 countries.
- Although an important and high profile area of the Macquarie group, Macquarie's success is not reliant solely on the contribution of any individual area of business, including MacCap Funds.

(ii) Relevance of Related Party Transactions to Macquarie Performance

- During 1H08[1], less than 5% of Macquarie's Total Operating Income was derived from the sale of infrastructure assets by Macquarie to the funds.
- Advisory fees paid by MacCap Funds was less than 7% of Total Operating Income.
- MacCap Funds completed 18 acquisitions with total deal value of A$18.0bn during 1H08. Of these completed acquisitions, none related to sales of assets from one MacCap Fund to another.[2]

(iii) Evidence of Investment Discipline

- Detailed financial analysis and due diligence completed prior to asset acquisitions.
- Funds acquire assets that are expected to be value accretive (IRR/distribution accretive).
- Importantly, each deal is assessed on a fund-by-fund basis:
  - Compared against stated fund investment mandate and criteria.
  - Expected to be value accretive (IRR) and maintain/enhance distributions over time.
- This investment discipline is evident in the returns of Macquarie's MacCap funds which have delivered a compound annual return of 19%[3] since inception 13 years ago.
- In many cases equity is raised after a listed fund is declared preferred bidder for an asset. This provides investors the opportunity to scrutinise the transaction and decide if they will support it with new equity.

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[1] Macquarie's financial year, ending 31 March.

[2] Macquarie International Infrastructure Fund agreed to sell a 100% interest in TanQuid (German oil and chemical storage business) and a 3.2% interest in Brussels Airport to other Macquarie managed funds, completed in 2H08.

[3] Annualised return based on all capital raised, distributions paid and valuations (market capitalisation for listed funds and net asset value for unlisted funds and managed assets) for MacCap Funds since inception to 30 September 2007 (listed funds as at 30 September 2007, unlisted funds and managed assets as at 30 June 2007). Calculated on an AUD basis, with cashflows converted at fixed exchange rates (based on listing for listed funds, first close date for unlisted funds and financial close date for managed assets).

- Many more assets are reviewed and rejected than are acquired. By way of example:
  - Since inception MIG has reviewed over 125 deal proposals of which it has invested in 31.
  - Since inception MCG has reviewed over 60 deal proposals of which it has invested in four.
- Macquarie and its funds declined to increase their offer price for a number of transactions. These include London City Airport, SH121 Texas Tollway, Chicago City Car Parks, OOIL (Vancouver and New York ports), and Associated British Ports.
- Other notable public transactions in which Macquarie or its Funds were unsuccessful by reason of price include the London Stock Exchange, Budapest Airport, the Cross City Tunnel and the Lane Cove Tunnel.

(iv) Why Have Valuations?

- Accounting rules require the assessment of market value of assets in many cases.
- Market expects directors' and Macquarie assessment of asset values.
- There is no connection between the accounting at the fund level and the funding at the asset level. Valuations are only undertaken at the fund level whereas the debt is held at the asset level.
- Assets do not produce valuations but traditional historic cost accounts.

(v) Evidence of Robustness of Valuation Model

- Market analysts consistently value assets above fund directors' valuations.
- While Macquarie infrastructure funds are predominantly long-term owners of their assets, between 1994 and 2007, 11 assets with a combined enterprise value[4] of A$13bn (or circa 10% of total MacCap Funds' Assets Under Management) have been realised/ sold to unrelated third parties.
  - Realisation proceeds have delivered approximately 2.1x equity invested for the funds and a weighted average compound annual return of 21%.
- Importantly, asset values on realisation have equalled or exceeded directors' valuations in all cases, eg:
  - Cintra was sold at €8.24 and is now trading at €10.68, almost three years later.
  - The sale of an interest in Birmingham Airport for 63% above the December 2006 directors' valuation was completed in September 2007.
  - The sale of an interest in Rome Airport for 88% above the December 2006 directors' valuation was completed in July 2007.
- Where we have invested in businesses that have remained listed on a local stock exchange, those businesses are now trading at prices materially higher than the funds' entry prices, eg:
  - MAp acquired its initial stake in Copenhagen Airports (CPH) at DKK 1247, it then made its takeover offer for CPH at DKK 2000. CPH is trading at DKK 2417.
  - MIG, MEIF and Eiffage acquired a stake in APRR for €61. APRR is trading at approx €74.
- Where funds have co-invested with equity partners who also produce valuations, the Macquarie fund valuations are seen as conservative compared to our partners[5], eg:
  - Cintra valued the 407 ETR 5% higher than MIG.
  - Cintra valued Chicago Skyway 41% higher than MIG.
  - Cintra valued Indiana Toll Road 84% higher than MIG.

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[4] Enterprise value calculated on proportionate basis according to the respective equity ownership of the fund in the asset.

[5] Valuations as at 30 June 2007. Cintra's valuations of 407 ETR, Chicago Skyway and Indiana Toll Road converted at EUR/AUD rate of 1.5944.

(vi) Distributions Are Derived from Cashflow, not Valuations

– Distributions are determined by cashflow, not valuations. The table below shows the extent to which MIG's, MAp's, MCG's and MIC's distributions are sourced from operating cashflows.

Fund	Proportion of Distribution from operating cashflow
MIG	53%[6]
MAp	70%[7]
MCG	100%[8]
MIC	108%[9]

– Note: MIG's distributions are comprised of operating cashflows, proceeds from refinancing of assets and current cash balances because many of the assets in the MIG portfolio are currently in growth or ramp-up phases.

(vii) Debt – Gearing, Debt Maturity and Interest Rate Hedging Profile

The following information has been prepared in relation to the debt profile of MacCap funds and managed assets, including assets held directly by Macquarie that have been acquired with a view that they may be sold into new or existing MacCap funds.

– MacCap Funds currently manages 31 vehicles and has 112 assets under management (this includes interests in six assets held directly by Macquarie[10]).
– Liquidity management for all funds and assets is robust and able to fund continuing operations.
– The debt extended to the Funds and the assets is non-recourse to the manager or Macquarie.
– All current and scheduled refinancings over the next 12 months are expected to be completed with minimal impact from recent credit market events.

Gearing

Average gearing across all MacCap Funds managed assets is 57%.

MacCap Funds average gearing = Proportionate Debt / (Proportionate Debt + Proportionate Equity), where:
– Proportionate Debt (or Equity) is the proportion of net debt (or equity) in the assets based on the percentage ownership of the MacCap Funds managed investment in that asset.
– Proportionate Equity is based on the most recent valuation.[11]

Debt Maturity and Amortisation Profile[12]

Less than 2% of the debt of MacCap Funds' managed assets requires refinancing/amortisation in the next 12 months.

Less than 9% of the debt of MacCap Funds' managed assets requires refinancing/amortisation over the next 1 – 3 years.

6 Based on FY2007 operating cashflows pre management fees and post other fees and FY2007 distributions of 20 cents per security.
7 Based on FY2007 distribution guidance of 26 cents per security.
8 Based on FY2007 distributions of 42 cents per security.
9 Based on Cash Available for Distribution for six months ending 30 June 2007, relative to distributions declared for the same period.
10 Excludes assets where Macquarie has co-invested with MacCap funds.
11 Valuations as at 30 June 2007.
12 As at 30 June 2007.

Interest Rate Hedging Profile

– The majority of the debt of MacCap Funds managed assets is fixed rate or hedged.
– Over the short to medium term, asset cashflows are relatively insensitive to changes in interest rates due to significant interest rate hedging.

The table below shows the percentage of asset debt at fixed rates or hedged over various time periods.[13]

0 – 2 yrs	2 – 4 yrs	4 – 7 yrs	> 7 yrs
89%	80%	68%	43%

– A significant proportion of MacCap Funds managed assets are insensitive to movements in interest rates caused by inflation due to revenue structures which allow changes in inflation to be passed through.

	407 ETR (A$m)	M6 Toll (A$m)
Valuation at 30 June 2007	3,039	2,469
Interest rates +1%	(75)	(7)
Risk-free rate +1%	(601)	(382)
Inflation +1%	830	527
Valuation	**3,193**	**2,607**
Valuation uplift	**5.1%**	**5.6%**

Impact of Tightening Credit Markets: Borrowing Margins Increase / Base Rates Reduce

– All planned refinancing are expected to complete on schedule and on materially the same terms as envisaged.
– The impact on debt margins varies between asset classes, but in the short term is estimated to be:
  – Senior debt: margins increasing by 5–30 bps.
  – Subordinated / Mezzanine debt: margins increasing by 50–100 bps.
– Of particular note is the recent off-setting impact of benchmark bond yields on any increase in debt margins. For example, the change in long term government benchmarks[14] for selected countries has been as follows:

Country	30 June 07	30 Sep 07	Basis Points Reduction
Australia	6.26%	6.16%	10 bps
Canada	4.55%	4.34%	21 bps
Europe	4.57%	4.33%	24 bps
UK	5.46%	5.01%	45 bps
US	5.03%	4.59%	44 bps

(viii) Complexity of Structures

– Most funds include a pass-through vehicle to ensure the efficient flow of income and capital from underlying assets to fund investors.
– The funds generally finance each acquisition using limited recourse debt. One of the consequences of using limited recourse debt is that intermediate holding companies are required to hold the debt and therefore the structures appear complicated.

End

[13] Calculated as the amount of fixed rate debt and swapped principal as a proportion of the forecast net debt outstanding over the relevant period as of 30 June 2007.
[14] Yields of nominal 10 year government bonds on relevant dates.

Appendix B

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MACQUARIE BANK

MACQUARIE BANK RESPONSE TO COMMENTS BY JAMES CHANOS

Sydney, 31 May 2007 - The recent commentary of Mr James Chanos, a hedge fund manager with a New York-based hedge fund, Kynikos, needs to be put into context, particularly in view of a Bloomberg report of May 25 which reported than Mr Chanos had publicly stated that he “had a short position on the bank”:

1. Mr Chanos is a short seller of equities. The process of short selling only generates profit if the price of a particular stock falls during the short sell period. Fund managers like Mr Chanos typically choose to sell securities that are borrowed, and then buy securities back later at a cheaper price, thus making a profit.

2. It is therefore in the interests of hedge fund short-sellers like Mr Chanos for a targeted stock to fall in value. Conversely, a rise in the targeted share price, could lead to a substantial loss.

3. Mr Chanos has recycled factually incorrect claims which have been made previously and which, at the time they were expressed, were fully refuted by Macquarie. The market well understands the structure and performance of Macquarie Bank and the funds.

4. Macquarie has prepared the following in response to Mr Chanos’ claims some of which were repeated [today] in a report on a US-based news website:

CLAIM: *Macquarie doesn’t care what it pays for its assets.*

FACT: This is inconsistent with the facts. Macquarie has declined to meet the market price for many assets. Macquarie and its funds declined to increase their offer price for a number of assets in the last 12 months. These include London City Airport, SH121 Texas Tollway, Chicago City Car Parks, OOIL (Vancouver and New York ports), and Associated British Ports.

Other notable public transactions in which Macquarie or its funds were unsuccessful by reason of price include the London Stock Exchange, Budapest Airport, the Cross City Tunnel and the Lane Cove Tunnel.

This investment discipline is evident in the returns of Macquarie’s Investment Banking Funds – 20.2% compound annual return since inception 13 years ago.

CLAIM: *The Bank has been selling the assets at inflated values to the funds it manages.*

FACT: This is incorrect. Almost all assets are acquired by the funds directly from the market. All dealings between the funds and Macquarie are pursuant to strict governance requirements and subject to the approval of the independent directors of the funds.

A few small infrastructure assets were sold by the Bank to the funds in the year to 31 March 2007 and profits on those sales contributed less than one per cent of Macquarie Bank's total operating income.

CLAIM: *Macquarie uses suspect valuation techniques*

FACT: All the Macquarie funds undertake detailed analysis and industry benchmarking in valuing assets. The assumptions on which the ongoing valuations are based are reviewed and accepted by the independent directors of the funds and verified by major accounting firms.

In addition, the major listed infrastructure funds are comprehensively covered by independent analysts who have consistently valued the assets above director valuations.

While Macquarie infrastructure funds are predominantly long term owners of their assets, between 1994 and 2007, eight assets worth more than $US8 billion in enterprise value have been sold to unrelated third parties. Sale proceeds have in all cases exceeded directors' valuations and delivered in excess of 2.2 x equity invested for the funds and a weighted average compound annual return of 28%.

Appendix C

Macquarie Capital Funds Limited
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14 May 2008

MACQUARIE

Marc Siegel
Risk Metrics
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Dear Marc

Re: RiskMetrics Group Report: "Infrastructure Funds: Managing, Financing, Accounting – In whose interest?" April 2008

In relation to Macquarie, many of the propositions suggested in the RiskMetrics report are without foundation. Our detailed review has highlighted a number of inaccuracies and misinterpretations in the body of the RiskMetrics report. Macquarie is working through the identified points in detail with RiskMetrics Melbourne staff from where the report originated, in order to assist in the improvement of their understanding of the way Macquarie operates and manages its Funds.

However, Macquarie would make four statements of principle in response to the RiskMetrics report:

1. Since RiskMetrics first published the report in 2006 there have been a number of material developments in the areas of Macquarie-managed fund business activity, alignment of interest and disclosure. The omission of these developments in the April 2008 RiskMetrics report results in an incomplete representation of Macquarie, its reporting and its management of the funds and businesses in which the funds invest.

2. No Macquarie-managed fund pays distributions out of revaluations. Distributions are funded from a combination of operating cash flow and capital returns from assets.

3. There is no Macquarie participation in decisions by the fund boards on related party transactions. All related party transactions are externally benchmarked and/or reviewed by independent experts who provide an opinion on their arms length nature to the Independent Directors on the fund Board or to the funds Independent Prudential Review Committee.

4. Macquarie is motivated and rewarded on the total return (capital growth and distributions paid) delivered from investments made on behalf of fund investors. The base and performance fee structure rewards the delivery of sustainable and increasing returns from the businesses Macquarie manages on behalf of fund investors.

Below are examples of facts that counter errors, misunderstandings and omissions from the RiskMetrics report. We note that the facts below were available in the public domain or could have been sourced from Macquarie prior to the RiskMetrics report being published.

- Of over 120 businesses acquired by the listed and unlisted Macquarie-managed funds, over 90% of those businesses have been acquired directly by the funds. The acquisition of a business by the Macquarie Group for on-sale to a Macquarie-managed fund is an exception.

- Macquarie has not declared a preference for developing unlisted funds. Macquarie will continue to develop listed and unlisted funds in response to investor demand.

- Macquarie discloses how it can be removed or replaced as manager of the Macquarie managed funds, including Australian listed funds.

- Calculation of Macquarie base fees is not based on the enterprise value of the businesses within the fund portfolio or the business level debt.

- Macquarie's external fund management model is the same as a number of major global private equity managers.

- Macquarie accepts that the accounting standards under which its funds operate make it difficult to understand the underlying performance of the funds' businesses based on the statutory financial accounts. As a result, some of the conclusions in the RiskMetrics report, which are referenced to the statutory financial reports, misinterpret the results. To address statutory accounting complexities, Macquarie produces detailed voluntary management information reports for all Australian listed funds which address key metrics including the operating performance of assets, distribution coverage from operating cash flows and debt levels.

- Macquarie-managed funds are charged market benchmarked fees for advisory and other services provided by the Macquarie Group.

- Base and performance fees charged by Macquarie-managed funds are in line, if not below, market norms.

- As the title of the report asserts, it is incorrect that acquisitions/investments of the funds are made with reference to the earning potential of Macquarie as an external manager, to the detriment of fund investors. The Macquarie Capital funds model is structured to ensure the alignment of interest between Macquarie Group, employees and fund investors. Evidence of this alignment is the fact that Macquarie and its executives combined have approximately US$3.25bn invested in the funds which have delivered an 18.3%[1] compound annual return to investors since inception.

- Macquarie-managed listed funds always have a majority of Independent Directors. Directors of externally managed entities such as the Macquarie-managed funds have a fiduciary duty at law to prefer the interests of investors in the fund to those of Macquarie.

In addition to the points highlighted above please find attached a detailed analysis of the RiskMetrics report.

Macquarie has the privilege of the support of many private and sovereign institutional investors as well as hundreds of thousands of retail investors in markets around the world. Equity under management for Macquarie Capital Funds now exceeds US$50 billion which today is invested in 120 operating businesses under the active management of Macquarie.

We can confirm that we take our responsibility to the investors and the communities that are served by the businesses in which we invest and our commitment to creating long term value for institutional and retail investors very seriously and at all times seek to apply the highest professional and ethical standards.

Yours sincerely

John Roberts

Executive Director
Macquarie Capital Funds Limited

[1] Annualised return based on all capital raised, distributions paid and valuations (market capitalisation for listed funds and net asset value for unlisted funds and managed businesses) for Macquarie Capital Funds since inception to 31 December 2007 (listed funds as at 31 December 2007, unlisted funds and managed businesses as at 30 June 2007). Calculated on an AUD basis, with cash flows converted at fixed exchange rates (based on the date of listing for listed funds, first close date for unlisted funds, and financial close date for managed businesses). Past performance is not indicative of future results and the investment objectives and investments of other Macquarie-managed vehicles will differ.