

**EXHIBIT NO. ___(SPR-4)
DOCKET NO. U-072375
2007 MERGER PROCEEDING
WITNESS: STEPHEN P. REYNOLDS**

**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

**FIRST EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
STEPHEN P. REYNOLDS
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JULY 2, 2008

ADDITIONAL TRANSACTION COMMITMENTS

In addition to the commitments in Appendix C to the Joint Application offered by Puget Holdings LLC (“Puget Holdings”) and Puget Sound Energy, Inc. (“PSE”), in support of the Joint Application, Puget Holdings and PSE make the following commitments in connection with Commission approval of the transaction pursuant to which Puget Holdings would acquire all of the outstanding common stock of Puget Energy, Inc. (“Puget Energy” or “PE”) and PSE would thereafter become an indirect, wholly-owned subsidiary of Puget Holdings (the “Proposed Transaction”).

C. Additional Transaction Commitments (July 2, 2008)

35. Joint Applicants commit to provide rate credits of \$100 million (\$10 million per year for a 10-year period) commencing at the closing of the Proposed Transaction. These rate credits will consist of two components:
 - (a) An \$8.8 million rate credit per year for ten years that is not offsettable, but that reflects the Investor Consortium’s willingness to accept what, in effect, is a reduction in its returns for a ten-year period.
 - (b) A \$1.2 million fully offsettable rate credit per year for ten years connected with the savings associated with de-listing from the New York Stock Exchange. To the extent PSE can demonstrate in any subsequent rate proceeding that these savings are reflected in the underlying cost of service, the rate credit would cease to be provided separately to customers.
36. PSE shall not be permitted to declare or make any PSE distribution, unless, on the date of such PSE distribution, either:
 - (a) The ratio of PSE EBITDA to PSE interest expense for the most recently ended four fiscal quarter period prior to such date of any PSE distribution is not less than 3.00 to 1.00; or
 - (b) PSE’s corporate credit/issuer rating is at least BBB- (or its then equivalent) with Standard & Poor’s Ratings Group and Baa3 (or its then equivalent) with Moody’s Investors Service, Inc.
37. PSE shall not be permitted to declare or make any PSE distribution unless, on the date of such PSE distribution, the PSE common equity ratio is not less than 44%, except to the extent a lower equity ratio is established for ratemaking purposes by the Commission.
38. Puget Energy may not declare or make a PE distribution, unless on the date of such PE distribution, the ratio of consolidated EBITDA to consolidated interest expense for the most recently ended four fiscal quarter period prior to such date is equal or greater than 2.00 to 1.00.
39. The Joint Applicants agree to amend the corporate organizational structure by inserting a new entity (tentatively identified as “Equico”) in the organizational structure between

Puget Intermediate and Puget Energy. See the post-acquisition organizational chart in Exhibit No. ___(CJL-10). In summary, following closing of the Proposed Transaction, all of the common stock of Puget Energy will be owned by “Equico,” which will be a new Washington limited liability company. “Equico” will be a wholly-owned subsidiary of Puget Intermediate. “Equico” is expected to be established as a bankruptcy-remote special purpose entity, and shall not have debt.

40. Each of the Joint Applicants commits to maintain PSE’s and Puget Energy’s headquarters in Bellevue, Washington indefinitely.
41. Joint Applicants commit that (i) the board of directors of PSE will include at least three directors who are residents of the region, one of whom shall be the chief executive officer of PSE, and (ii) the board of directors of Puget Energy will include at least two directors who are residents of the region, one of whom shall be the chief executive officer of PSE.
42. Joint Applicants agree to PSE’s proposal to increase bill assistance benefits for qualifying low-income customers by making the appropriate tariff filings in the on-going general rate case to:
 - (a) increase the total aggregate funding cap for its low income customer bill assistance program to approximately \$15 million per year from approximately \$10.25 million per year, and
 - (b) permit benefit funds not distributed to qualifying customers in any single program year be able to be carried over to provide supplemental benefit funding to be available in the next program year.

Furthermore, the Joint Applicants agree to PSE’s proposal for clarification of the program accounting rules to define the program caps to include benefits and administrative costs. Amounts to be set in rates would include a gross-up over and above the program caps sufficient to cover PSE’s revenue sensitive items.

43. PSE will to the extent practical, comply with the rules applicable to a registrant under NYSE rules. Please see Exhibit No. ___(EMM-11) at pages 1-4 for an analysis of PSE’s present reporting and governance obligations under NYSE Corporate Governance Standards. Such analysis identifies the applicable NYSE rule, describes the current requirement, describes the post-closing requirement, and sets forth PSE’s post-closing commitment with respect to each requirement in the event a current requirement is not a continuing obligation. Such analysis also details the requirements of the NYSE with respect to the following:
 - (a) annual report availability,
 - (b) interim financial statements,
 - (c) independent directors,
 - (d) director executive sessions,

- (e) communication with non-management directors,
 - (f) nominating and governance committee matters,
 - (g) compensation committee matters,
 - (h) the audit committee and committee membership,
 - (i) the internal audit function,
 - (j) corporate governance guidelines,
 - (k) disclosure of corporate governance guidelines,
 - (l) code of business conduct and ethics, and
 - (m) officer certification.
44. Joint Applicants commit that Puget Energy and PSE will continue to make the same SEC financial reporting requirements after closing of the Proposed Transaction with respect to the following:
- (a) Section 13(a) disclosure requirements,
 - (b) Section 15(d) disclosure requirements, and
 - (c) indenture covenants disclosure requirements.
45. Joint Applicants commit to the following post-closing commitments with respect to the Sarbanes-Oxley Act for both PSE *and* Puget Energy:
- (a) Section 201 guidance on the use of outside auditors,
 - (b) Section 202 pre-approval requirements with respect to the engagement and compensation of auditors,
 - (c) Section 203 requirements with respect to audit partner rotation,
 - (d) Section 204 guidance with respect to the requirements of auditor reports to audit committees,
 - (e) Section 206 guidance with respect to auditor conflicts of interest,
 - (f) Section 301 requirements with respect to audit committee requirements,
 - (g) Section 302 requirements with respect to corporate responsibility for financial reports,

- (h) Section 401 requirements with respect to the form and content of periodic and annual reports,
 - (i) Section 403 requirements with respect to disclosures of certain transactions involving management and shareholders,
 - (j) Section 404 requirements with respect to management assessment of internal controls,
 - (k) Section 406 requirements with respect to the code of ethics for senior financial officers,
 - (l) Section 407 requirements with respect to disclosure of audit committee financial expert, and
 - (m) Section 906 requirements with respect to corporate responsibility for financial statements.
46. PSE will continue to meet all the applicable FERC reporting requirements with respect to annual reports (FERC Form 1) and quarterly reports (FERC Form 3) after closing of the Proposed Transaction.
47. Joint Applicants agree to an increase in the total annual penalty for Service Quality Indices (SQI) from \$10 million to \$15 million, to become effective at the start of the next SQI reporting year, January 1, 2009. The \$15 million maximum amount would be spread evenly over all metrics subject to penalties.
48. Joint Applicants commit to a billing accuracy/timeliness SQI, with more rigorous benchmarks over the following schedule :
- First four months 1.50% of bills no older than 120 days
 - Next four months 1.00% of bills no older than 120 days
 - Next four months 0.75% of bills no older than 120 days
 - 2010 SQI Year 0.50% of bills no older than 120 days
- This SQI would become effective at the start of the next SQI reporting year, January 1, 2009, for reporting purposes only and beginning in the 2010 SQI Year, the metric would become one of the SQIs subject to penalties.
49. Joint Applicants commit to a collaborative with Commission Staff, Public Counsel and other interested parties (“Interested Parties”), review the entire SQI program, and by November 1, 2008 propose a modified program to the Commission for implementation on January 1, 2009.

50. Each of the Joint Applicants agrees that PSE can commit in this proceeding to (i) undertake a study, in collaboration with NWEAC, to identify specific energy efficiency improvements in its distribution, transmission and generation assets (in addition to any analysis required as part of the Integrated Resource Plan (“IRP”) process) and (ii) implement all cost-effective and prudent efficiency improvements to PSE’s energy generation and delivery systems identified in such study, provided that such improvements are consistent with the IRP, subject to the Conservation Resource Advisory Group (CRAG) approval process, and ultimately accepted for rate recovery by the Commission.
51. Each of the Joint Applicants agrees that PSE can commit to support increased funding in the next Northwest Energy Efficiency Alliance budget cycle, if such funding is determined to have merit as an outcome of the strategic planning process and contingent on availability of sufficient rider/tracker funds.
52. Each of the Joint Applicants agrees that PSE can commit to acquire renewable resources, to the extent such resources are reasonably commercially available and determined to be necessary and cost-effective pursuant to PSE’s established IRP and resource evaluation and acquisition processes, that will enable PSE to meet its internal objective of serving 10% of load with renewable energy resources by 2013, provided that nothing in such commitment would prohibit PSE from selling renewable energy credits associated with such resources that are surplus to PSE’s needs to meet Washington Renewable Portfolio Standards targets. In return, NWEAC will agree to actively support PSE’s efforts to recover the costs of such resources in rates.
53. Each of the Joint Applicants agrees that PSE can commit to increased penetration of the Green Power Program to at least 2% of PSE’s annual load or at least 5% of electric customers subscribed within five years of the close of the Proposed Transaction, provided that (i) NWEAC agrees to support PSE’s requests for increased program expenses and (ii) the Commission approves the program and related program costs. To meet such a commitment, PSE will enlist the services of a third-party marketer experienced with the Northwest marketplace.
54. Each of the Joint Applicants agrees that PSE can commit to (i) offer customers the investment cost recovery incentive authorized by RCW 82.16.120 each year for as long as the law is in effect and (ii) dedicate resources to market and promote net metering. Such a commitment, however, would require the WUTC to approve an appropriate cost recovery mechanism.
55. Each of the Joint Applicants agrees that PSE can commit to advance solutions and provide analyses and resources on transmission issues, pricing policies, siting requirements, and interconnection and integration policies.
56. Each of the Joint Applicants agree that PSE can commit to:
 - (a) evaluate and publish its carbon footprint;
 - (b) integrate carbon analysis into its IRP studies; and

- (c) support federal legislation that will (i) achieve necessary reductions in greenhouse gas emissions, (ii) support significant increases in research of new technologies (such as carbon sequestration), and (iii) establish improved energy efficiency standards for transportation, appliances and buildings.
57. While it is not possible at this time to commit to timeline to achieve carbon neutrality, each of the Joint Applicants agree to set the goal that PSE be carbon neutral by 2050.
58. Each of the Joint Applicants agrees that PSE can commit to file a carbon-offset program for PSE's natural gas customers with the Commission within the two years.
59. Each of the Joint Applicants agrees that PSE can commit to
- (a) assess carbon risk in its IRP process;
 - (b) consider the final recommendations of the Oregon Public Utility Commission within the context of the IRP; and
 - (c) report to the Commission and the parties to this proceeding the results of PSE's assessment of the final recommendations of the Oregon Public Utility Commission and their applicability to PSE's IRP process within twelve months of the close of the Proposed Transaction.
60. Each of the Joint Applicants agrees that PSE can commit to work with the CRAG to propose programs that accomplish electrical load reduction through the direct use of natural gas as identified in PSE's IRP. In addition to the economic and emissions benefit study for its own customers, PSE recently completed a joint study with Public Utility District No. 1 of Snohomish County, Washington. Each of the Joint Applicants agrees that PSE can commit to similar efforts of appropriate scale and scope with all neighboring utilities subject to their willingness and interest to participate. PSE agrees to report back the results to the Commission and intervenors.
61. Each of the Joint Applicants commit to not advocate in the 2009 Washington legislative session for any modification of the annual targets establishing the percent of load that each utility is required to meet with eligible renewable resources or equivalent renewable energy credits as currently contained in RCW 19.285.040(2)(a).