

EXHIBIT NO. _____ (WAG-38)
DOCKET NO. UE-031725
2003 POWER COST ONLY RATE CASE
WITNESS: WILLIAM A. GAINES

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-031725

REBUTTAL TESTIMONY OF
WILLIAM A. GAINES
ON BEHALF OF PUGET SOUND ENERGY, INC.

FEBRUARY 13, 2004

Puget Sound Power & Light Company

Minute Excerpt from the July 9, 1996 Board of Directors' meeting

MANAGEMENT UPDATE ON COMPETITIVE BUSINESS ISSUES. The President then reviewed with the Board certain national, state and local developments that Management believes are shaping competitive forces in the electric utility. He then gave the Board an overview of the impacts on the industry of the PURPA of 1978, certain FERC Commission orders on transmission access, the Energy Policy Act of 1992, and FERC Commission Orders 888 and 889.

The President then gave the Board an overview of the Regional Review of Energy Issues being conducted at the request of the governors of Idaho, Montana, Oregon and Washington under the stewardship of the Northwest Power Planning Council and the WUTC's Policy Statement establishing interim principles for regulation of electric utilities issued August 14, 1995.

The President then asked C. Omohundro, K. Owens, S. Vortman, G. Swofford and D. Gaines to present to the Board electric utility competitive matters as they are affecting the Company's current and anticipated future business and strategies being implemented to take advantage of future business opportunities. A copy of materials presented to the Board during this report is filed with the records of this meeting.

**COPIES OF MATERIALS PRESENTED BY
MS. OMOHUNDRO, MR. OWENS, MS. VORTMAN ,
MR. SWOFFORD AND MR. GAINES DURING A JULY 9, 1996
PUGET SOUND POWER & LIGHT COMPANY BOARD MEETING**

**PUGET SOUND
POWER & LIGHT COMPANY**

***Presentation to the
Board of Directors***

July 9, 1996

STRATEGIC PRESENTATION
Emerging Competition

EMERGING COMPETITION IN THE RETAIL MARKETPLACE

- o Primary drivers of the debate on competition in the retail electric marketplace
- o How customers are seeking the advantages of lower bulk power prices

STRATEGIC PRESENTATION
Emerging Competition

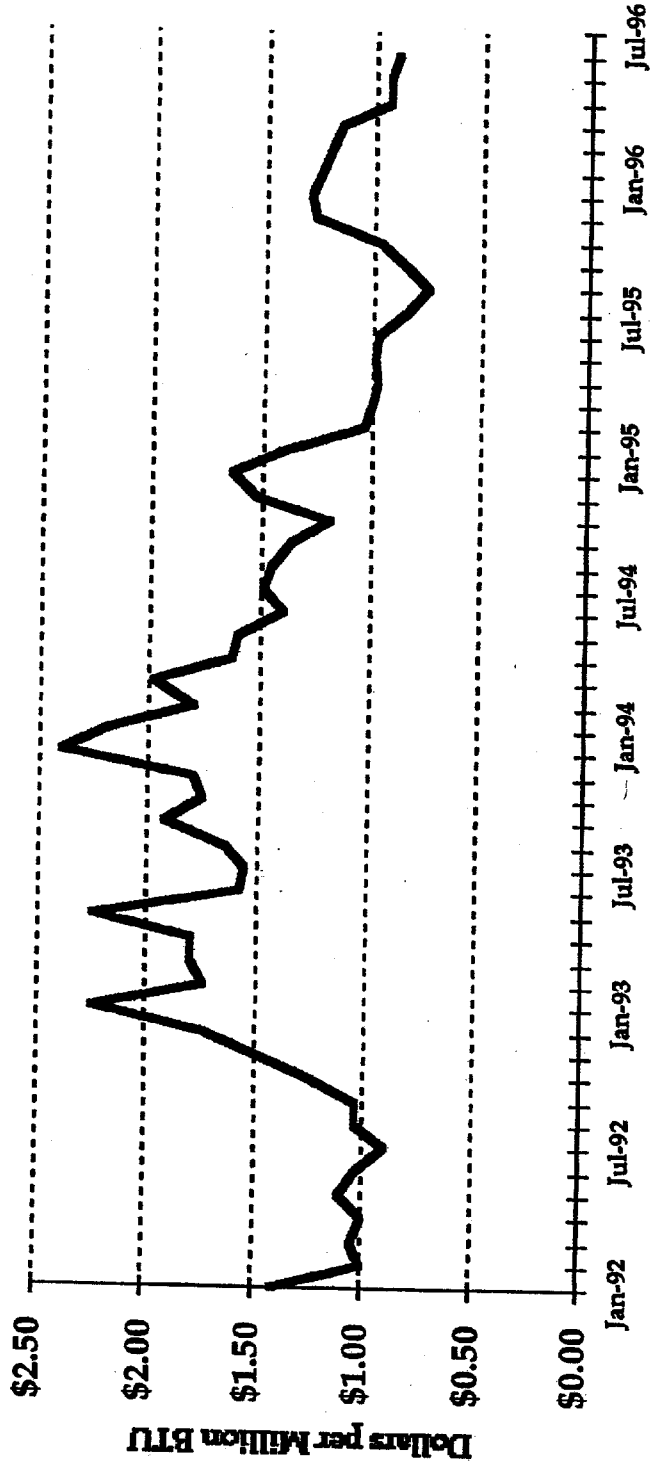
**PRIMARY DRIVERS OF THE DEBATE ON COMPETITION IN
THE RETAIL ELECTRIC MARKETPLACE**

- o Natural Gas Prices
- o Electric Prices in the Secondary Market
- o Retail Electric Rates for High Voltage Customers

STRATEGIC PRESENTATION

Natural Gas Prices

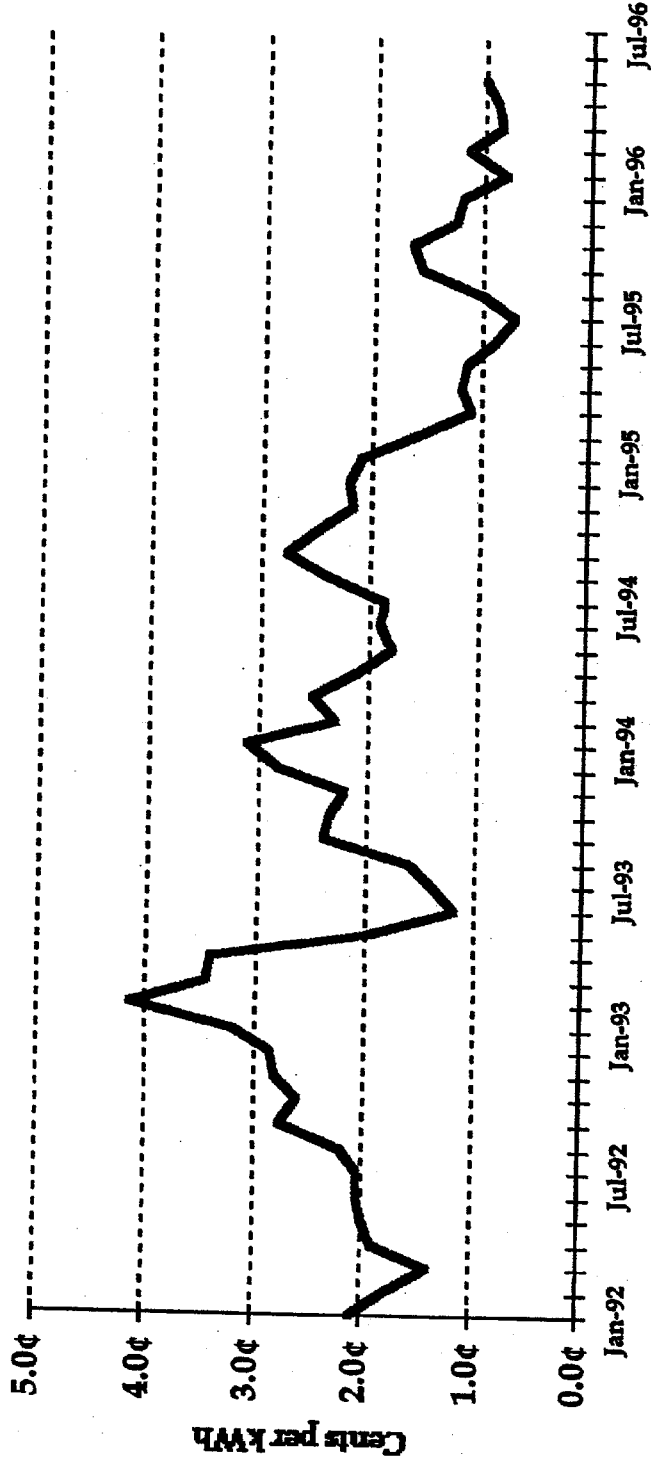
NATURAL GAS PRICES
Sumas Index



STRATEGIC PRESENTATION

Electric Prices in the Secondary Market

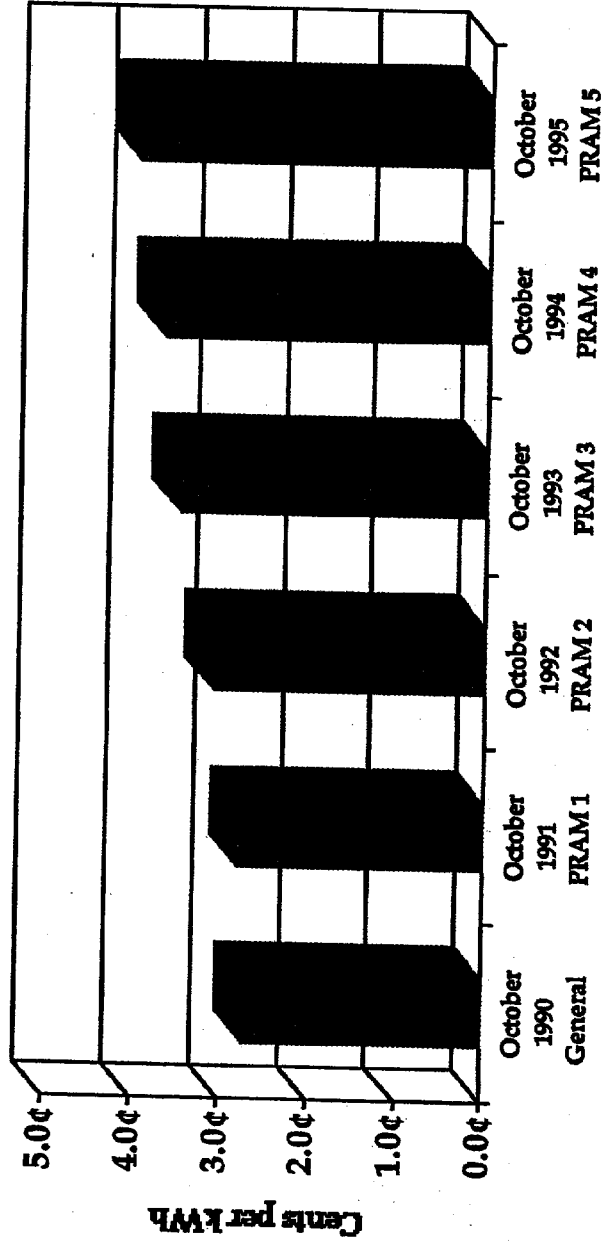
SECONDARY MARKET ELECTRIC PRICES - DURING PEAK DEMAND
California-Oregon Border



STRATEGIC PRESENTATION

Retail Electric Rates for High Voltage Customers

PUGET POWER ELECTRIC RATES High Voltage Customers



STRATEGIC PRESENTATION
Emerging Competition

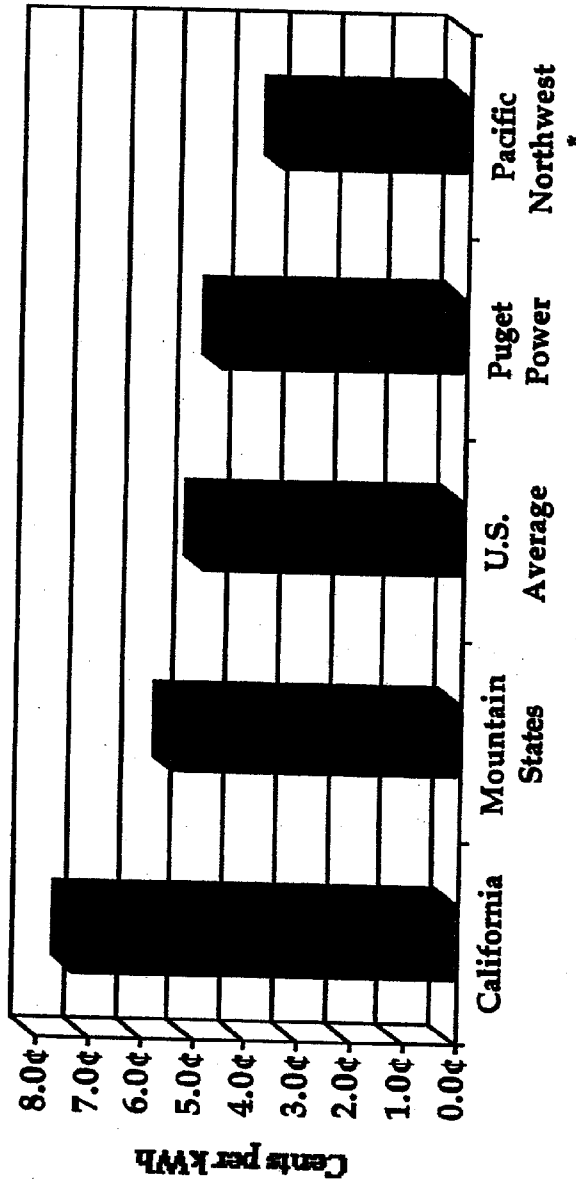
**HOW CUSTOMERS ARE SEEKING THE ADVANTAGES OF
LOWER BULK POWER PRICES**

- o Self-generation
- o Physical Bypass
- o Municipalization
- o Retail Access Through Legislation

STRATEGIC PRESENTATION

Comparative Electric Rates

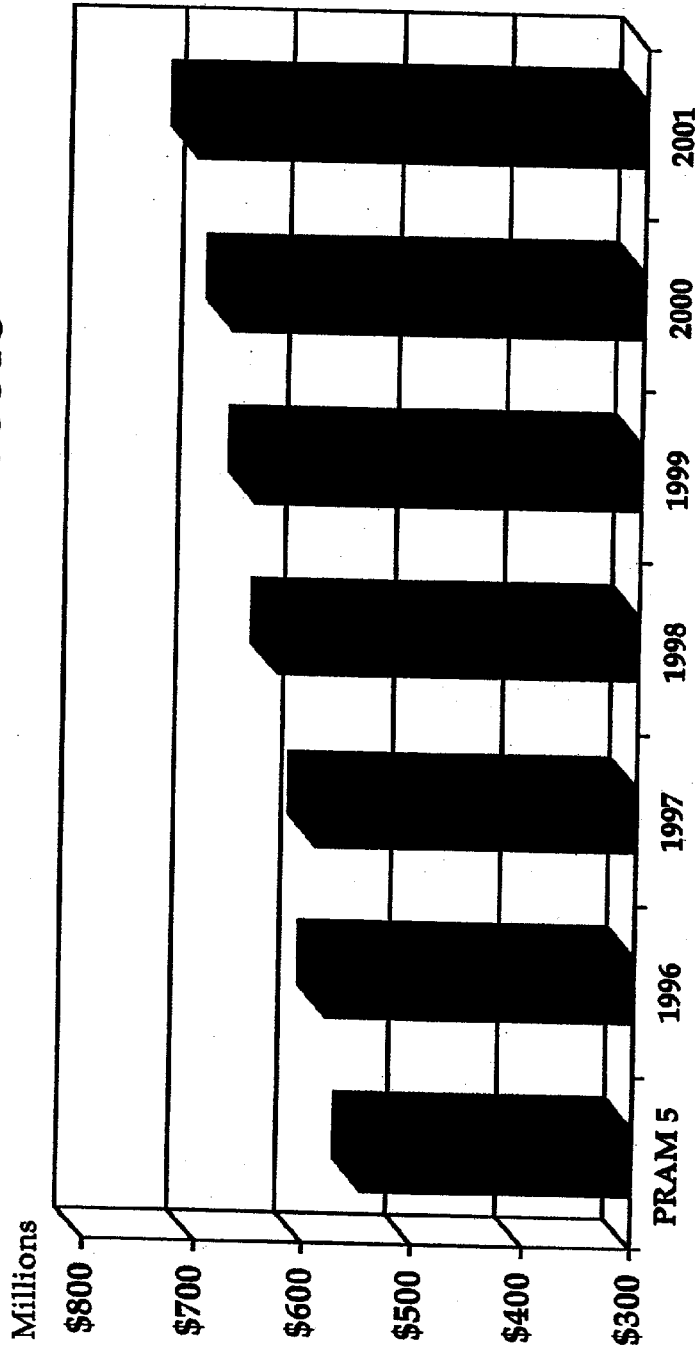
INVESTOR OWNED ELECTRIC UTILITIES 1995 Industrial Rates



* Excludes Puget Power

**STRATEGIC PRESENTATION
Streamline Bulk Power Operations**

FORECASTED POWER COSTS



STRATEGIC PRESENTATION
1995 Annual Report

NEAR-TERM BUSINESS STRATEGIES

*"The Northwest's leading provider of energy
and related services to homes and businesses"*

- o Grow Our Retail Distribution Business
 - New customer additions
 - Puget Power + Washington Energy = Puget Sound Energy
- o Streamline Bulk Power Operations, e.g.
 - Continue to work on IPP contracts
 - Colstrip generation costs

STRATEGIC PRESENTATION
Our View

LONGER-TERM VIEW OF THE INDUSTRY'S FUTURE:

ENERGY

Unregulated

Commodity
Sales

**TRANSMISSION
& DISTRIBUTION**

Regulated

Wires & Pipes

SERVICES

Unregulated

New Services

STRATEGIC PRESENTATION
Grow Our Retail Distribution Business

MERGER AND SCHEDULE 48 CREATE OPPORTUNITIES TO:

- o Commit customers to long-term distribution services
- o Unbundle and rebundle services and products
- o Deliver benefits of rates lower than otherwise to all customers
- o Gain support for legislative changes necessary to deliver benefits from lower PURPA contract costs

STRATEGIC PRESENTATION
Grow Our Retail Distribution Business

PROTECT THE DISTRIBUTION BUSINESS

- o Special Contracts:
 - ARCO
 - Georgia Pacific
 - Bellingham Cold Storage

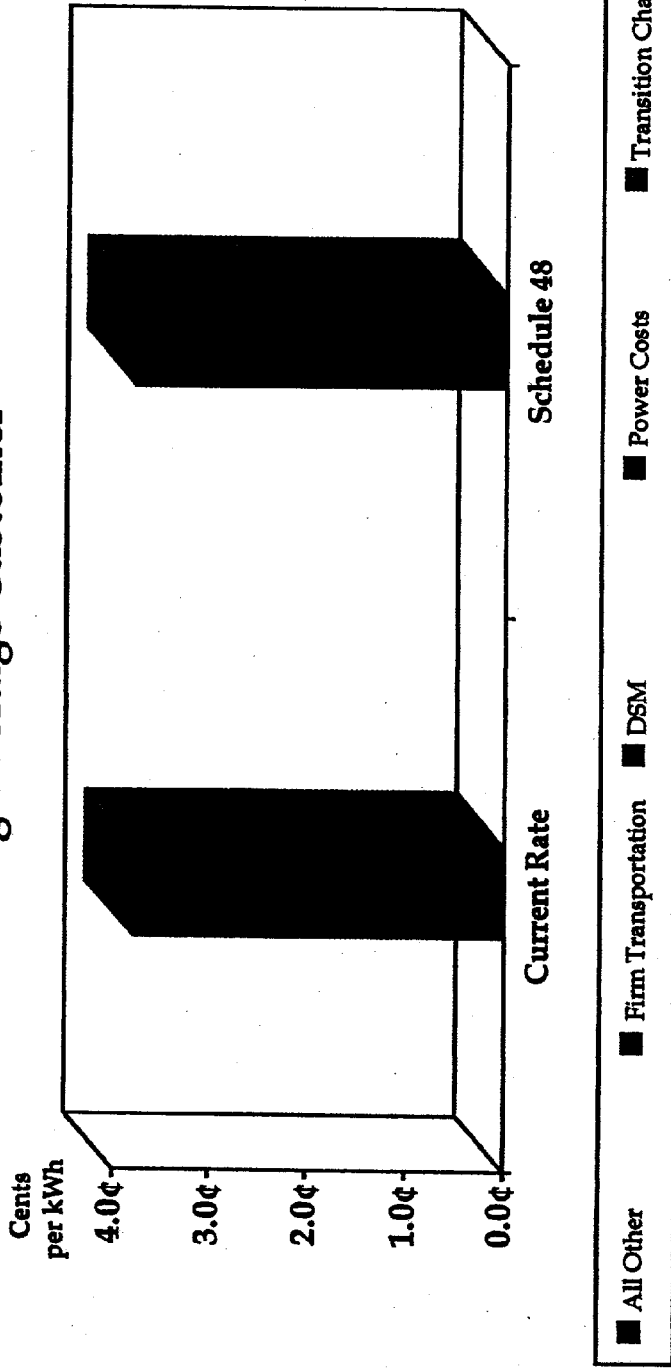
STRATEGIC PRESENTATION
Grow Our Retail Distribution Business

SCHEDULE 48: OPTIONAL LARGE POWER SALES RATE

- o Filed with the WUTC on May 24, 1996
- o Contingent upon approval of the merger
- o Participating customers become "non-core" customers
- o Transition to market rate for commodity by 2000
- o Transportation customers for a 10-year period
- o Open access for all customers:
 - Development of necessary legislation
 - Form collaborative group within 180 days of merger
 - File 11 months before the end of rate stability period

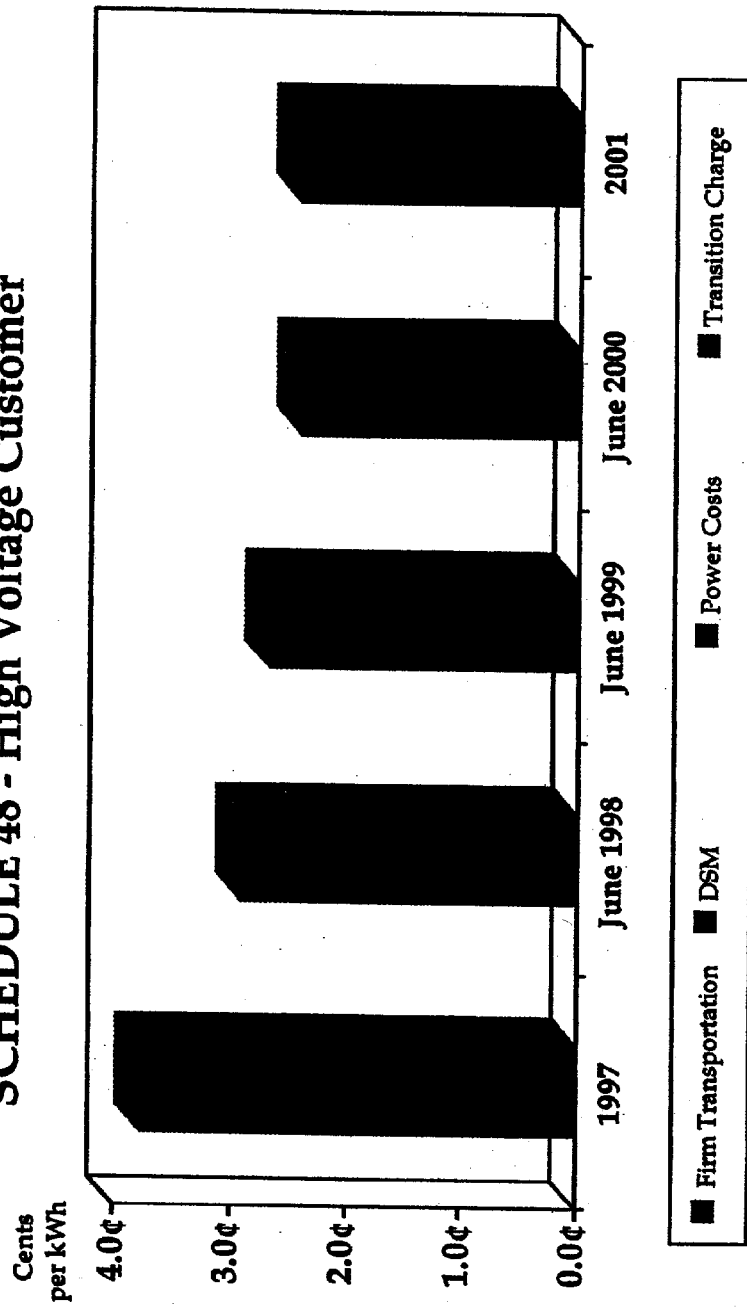
STRATEGIC PRESENTATION
Grow Our Retail Distribution Business

RATE COMPARISON
High Voltage Customer



STRATEGIC PRESENTATION
Grow Our Retail Distribution Business

SCHEDULE 48 - High Voltage Customer



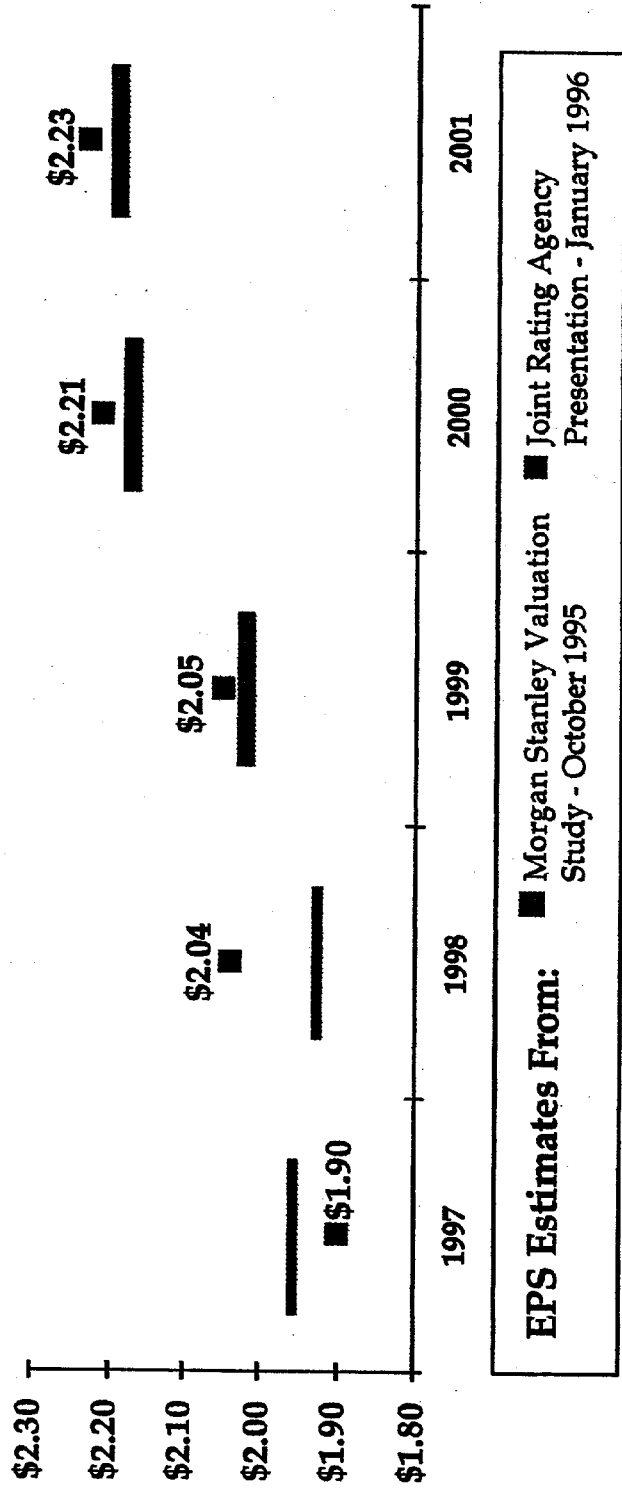
STRATEGIC PRESENTATION
Grow Our Retail Distribution Business

PURSUE OPPORTUNITIES:

- o Bulk Power: (Commodity & Ancillary Services)
 - Intel
 - Tosco
 - Broken Hill Properties
- o Retail Services:
 - ConnexT
 - Energy Services:
 - Energy Management
 - Engineering
 - Maintenance / Construction
- Sumas
- Snohomish County PUD
- Lighting
- Asset Monetization

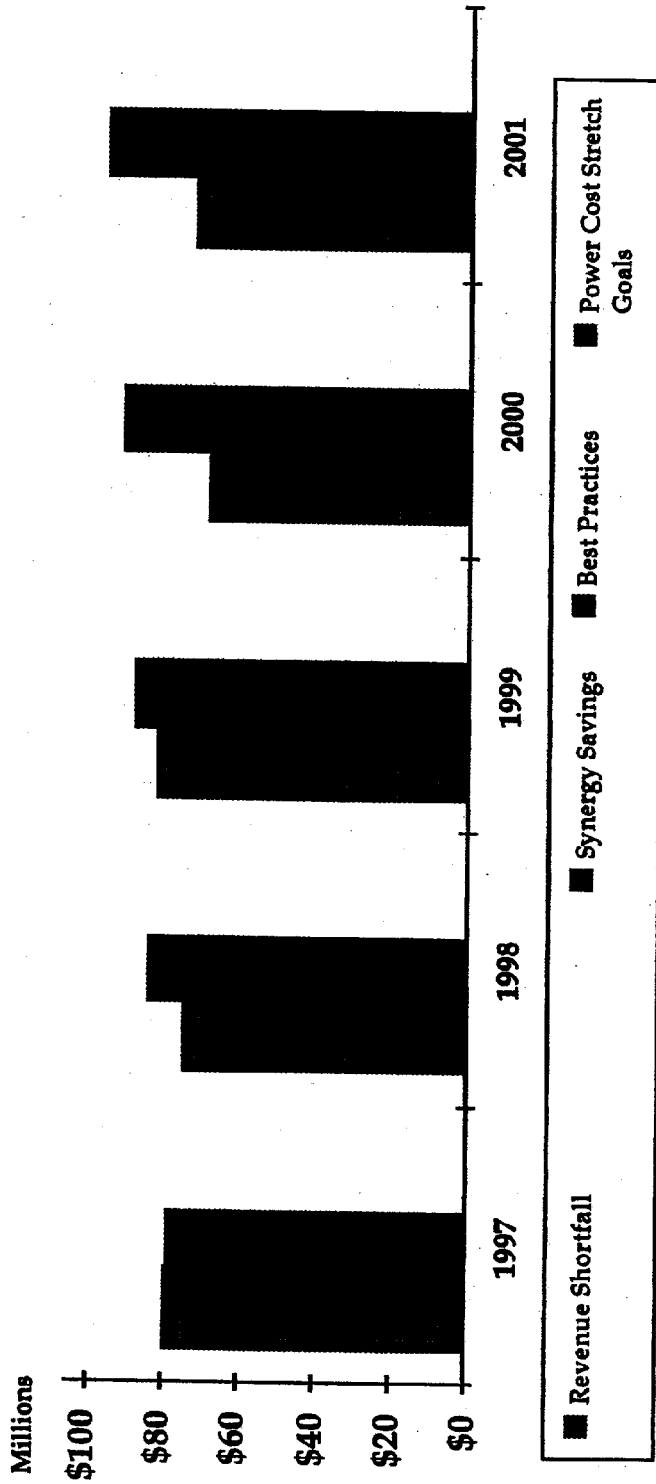
STRATEGIC PRESENTATION
Puget Sound Energy: Financial Impact

PUGET SOUND ENERGY
Earnings Per Share Comparisons



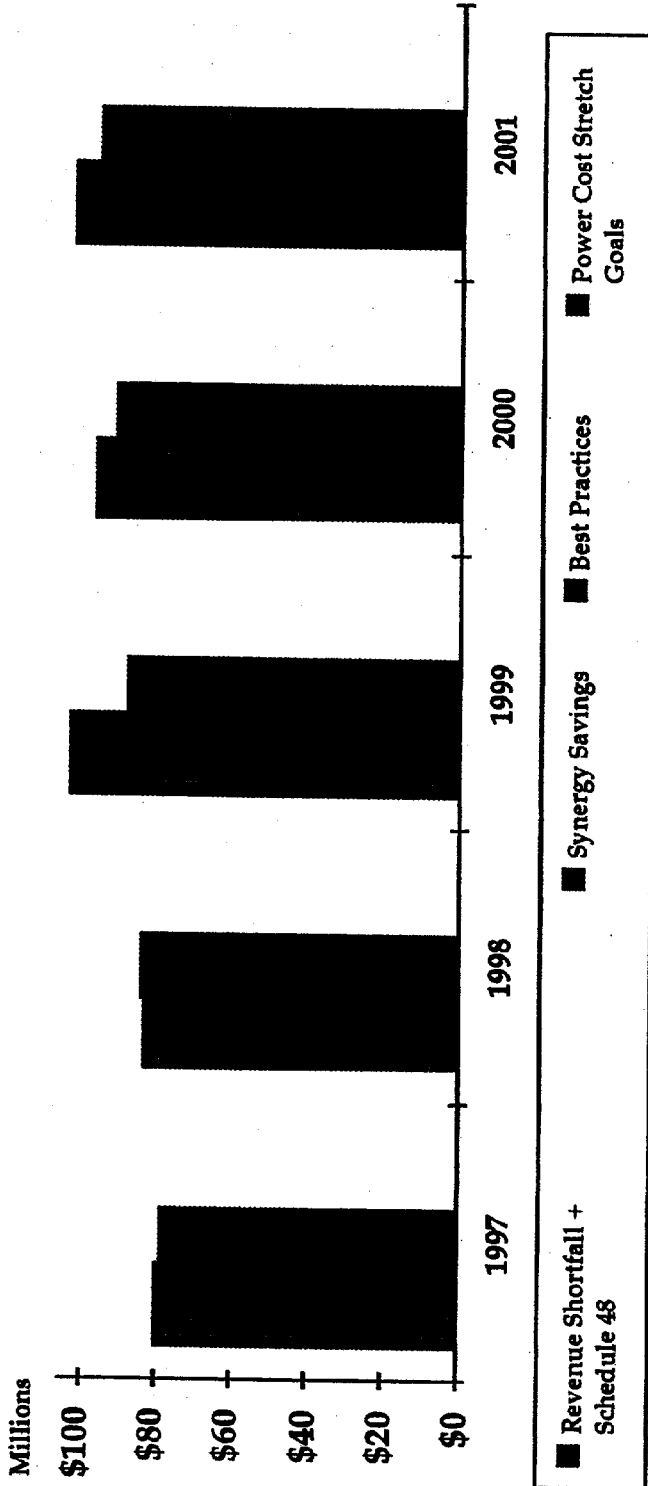
STRATEGIC PRESENTATION
Puget Sound Energy: Financial Impact

PUGET SOUND ENERGY
Revenue Shortfall & Savings Goals



STRATEGIC PRESENTATION
Puget Sound Energy: Financial Impact

PUGET SOUND ENERGY
Revenue Shortfall & Savings Goals



STRATEGIC PRESENTATION
Streamline Bulk Power Operations

PURCHASED POWER CONTRACTS - STATUS REPORT

<u>Supplier</u>	<u>Capacity</u>	<u>Term</u>	<u>Status</u>
Encogen Northwest LP	160 MW	15 Years	Litigation
March Point Units I & II	140 MW	20 Years	Litigation
Tenaska Partners	245 MW	17 Years	Negotiation
Montana Power Co.	94 MW	20 Years	Mediation

*Handout at
12/8/97 Board
meeting during
Tenaska agenda
item matter*

Agenda
PSE Board of Directors
Tenaska Restructuring Presentation
Monday, December 8, 1997

Background - Bill Gaines

PSE's Exposure to NUG Contract Costs

The Tenaska Project and Power Supply Contract

Tenaska Negotiated Restructuring

Deal Structure - Steve McKeon

Cash Buyout of Tenaska's Gas Supply Contracts

PSE Becomes Gas Supplier at Market Index Price

Power Contract Amended to Reflect New Gas Pricing

Tax Indemnity

Economics of New Gas and Power Supply Arrangements - Bill Gaines

Expected Cost Savings

Gas Price Forecast and Supply Strategy

Regulatory Treatment - Ron Davis

WUTC Accounting Order

Income Statement Effects

Summary of Tenaska Restructuring Arrangements

Tenaska Transaction

For an up-front payment of \$215 million (revised from 213.5 million), PSE will buy out and terminate the existing fixed price gas supply contracts of the Tenaska project for the remainder of their terms (approximately 14 years). This buy out will include both the direct supply contract between Tenaska Gas Company (TGC) and the Tenaska project, and TGC's underlying supply contracts.

PSE will become the primary gas supplier to the Tenaska project, and will execute a 14 year gas supply contract at a price linked to the daily index price of gas at the U.S./Canadian border near Sumas, WA.

The existing power purchase agreement between PSE and Tenaska will be amended to restructure and reduce the price paid by PSE for power, reflecting the difference between the existing fixed price gas supply contracts and the new indexed price of gas supplied to Tenaska by PSE.

In the event that Tenaska does not receive the anticipated capital gains tax treatment on the sale of its gas supply contracts to PSE, PSE will indemnify Tenaska for one-half of any increased tax liability due to ordinary income treatment, up to a limit of \$30 million.

PSE will provide interim credit support for the buyout of TGC's underlying gas supply contracts until the final closing of the PSE/Tenaska transaction. PSE will provide the necessary consents to Tenaska's lenders, and will not object to a refinance of Tenaska's underlying project debt.

Each of PSE and Tenaska will waive any prior claims for damages under the power purchase agreement.

PSE will have an option to assume the economic interest of any minority partner that wishes to sell its interest in the Tenaska project.

Closing of the transaction is scheduled for January 1, 1998, and is contingent upon

- Approval by the Boards of Directors of PSE and Tenaska
 - Approval of Tenaska's project lenders
 - A regulatory order from the WUTC that is acceptable to PSE
-

Regulatory Treatment

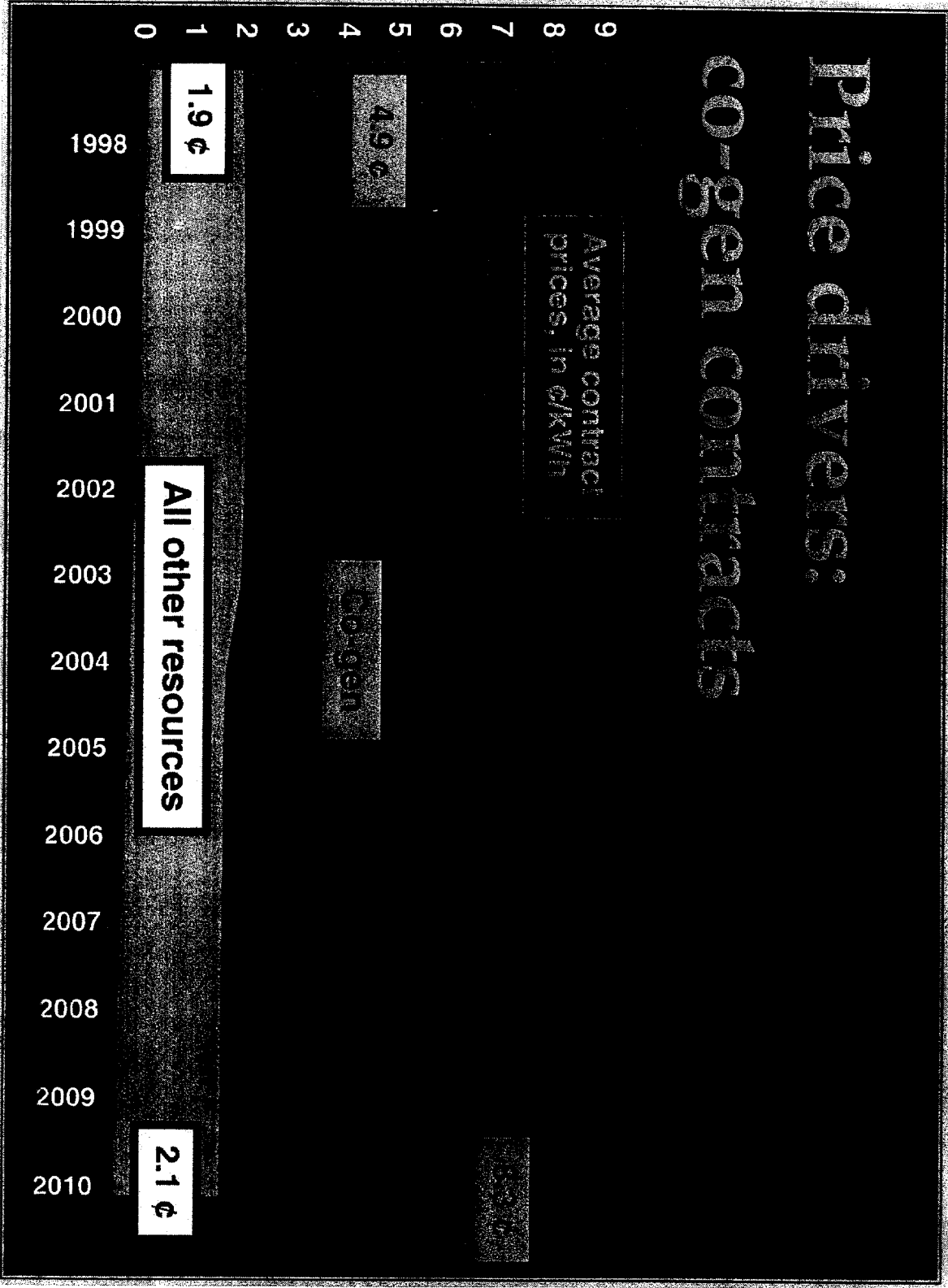
Based on current estimates of gas supply costs and financing costs, the anticipated before tax savings from the Tenaska restructure (gas cost savings net of buyout costs) are approximately \$395 million over the remaining 14 year life of the contracts. PSE has petitioned the WUTC for an accounting order which would, for income statement purposes, apportion the estimated net savings, year by year, pro-rata to the payments that PSE would make under the present power purchase agreement. The accounting order also requests that PSE be allowed to recover any tax indemnity payments.

Attachments

Attached are current drafts of the following agreements related to the Tenaska transaction:

- Letter of Intent
 - Asset Purchase Agreement
 - Gas Supply Agreement (50,000 MMBtu per day)
 - Amendment to Power Purchase Agreement
 - Tax Indemnity Agreement
-

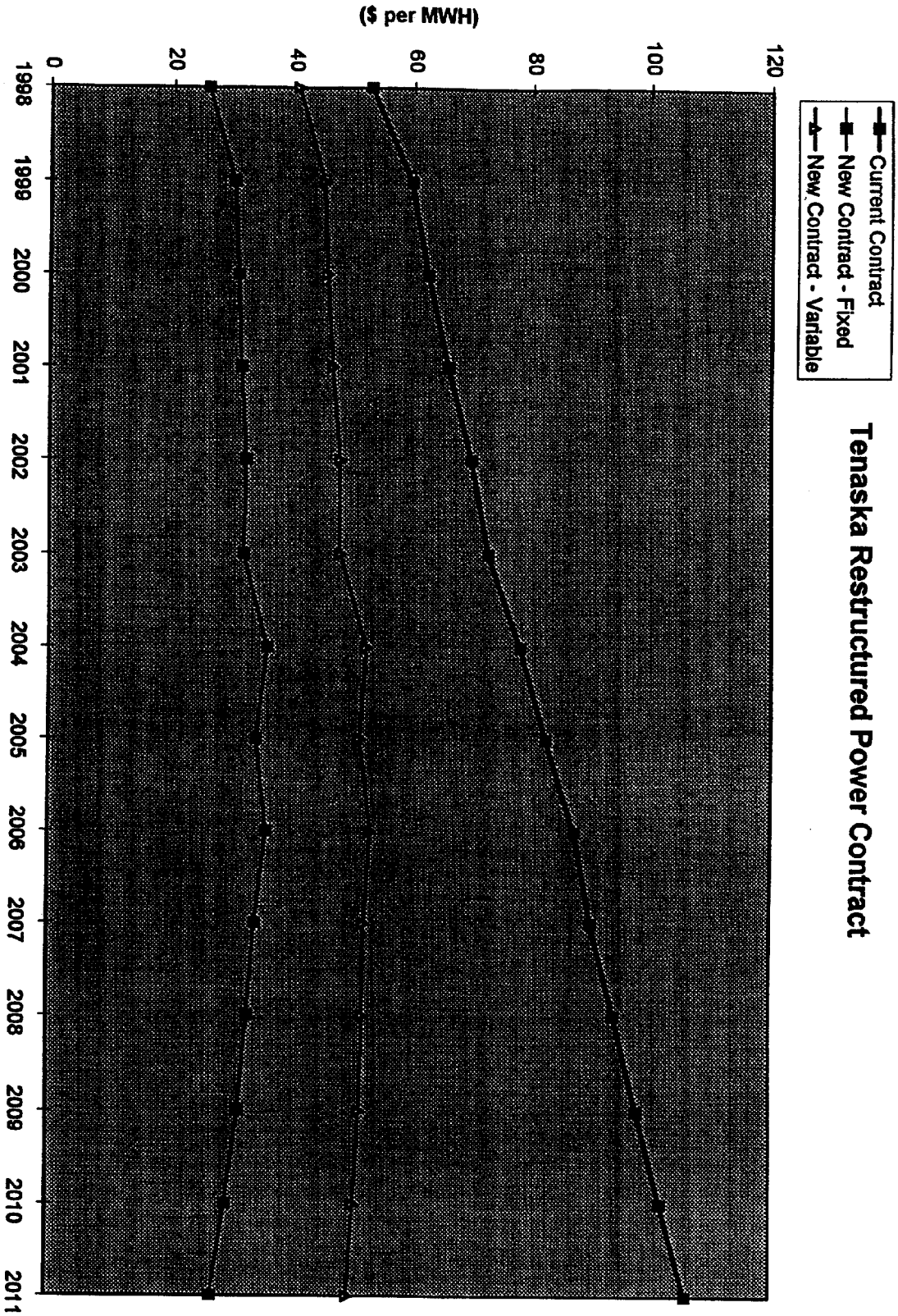
Price drivers: CO-gen contracts



NON-UTILITY COGENERATION PROJECTS

<u>PROJECT</u>	ABOVE MARKET NPV <u>(\$ Thousands)</u>
Encogen	(\$ 321,685)
March Point 1	(\$ 161,477)
March Point 2	(\$ 138,630)
Sumas	(\$ 294,449)
Tenaska	<u>(\$ 677,204)</u>
	(\$1,583,445)

Chart2



Adjusted for
Burn Rate,
Amended Price and
15 Year Tax Amortization

Calculation of Proposed Rebundled Power Costs

EXHIBIT B
Revision 2

	1998	1999	2000	2010	2011	Total	
	(dollars in thousands)						
	(not shown)						
Current Power Contract Costs							
1	Estimated Generation (MWH) (245MW, 98%LF, 11mos/yr)	1,928,003	1,928,003	1,928,003	1,928,003	26,992,042	
2	Current Power Contract Rate (\$/MWH)	\$52.8	\$59.6	\$62.5	\$102.1	\$106.3	
3	Current Power Contract Payments (\$x1000)	\$101,799	\$114,909	\$120,500	\$196,849	\$204,947	\$2,165,533
Gas Cost Savings							
4	Gas Price (\$/MMBtu)	\$3.11	\$3.37	\$3.66	\$8.28	\$8.98	
5	Repl Gas Price (\$/MMBtu) (Forward Market Quotes as of 9/23/97)	\$1.73	\$1.71	\$1.73	\$2.47	\$2.61	
6	Gas Price Difference (\$/MMBtu)	\$1.38	\$1.66	\$1.93	\$5.81	\$6.37	
7	Annual Gas Burn (MMBtu) (Btu/kwh Heat Rate)	16,064,121	16,133,529	15,936,873	16,222,217	16,291,625	225,576,351
8	Gas Cost Savings (\$x1000)	\$22,168	\$26,812	\$30,737	\$94,216	\$103,801	\$801,512
Rebundling Prorata Power Cost Recovery							
9	Current Power Contract Payments (\$x1000)	\$ 101,799	\$114,909	\$120,500	\$196,849	\$204,947	\$ 2,165,533
10	Gas Cost Savings (\$x1000)	(22,168)	(26,812)	(30,737)	(94,216)	(103,801)	(801,512)
11	New Power Costs	79,630	88,097	89,763	102,633	101,145	1,364,021
12	Federal Tax on New Power Costs	(27,871)	(30,834)	(31,417)	(35,922)	(35,401)	(477,407)
13	Gas Supply Contract Buyout Cost	215,000	-	-	-	-	215,000
14	Federal Tax on Buyout Costs	(5,017)	(5,017)	(5,017)	(5,017)	(10,033)	(75,250)
15	Interest Net of Tax	11,389	11,457	11,547	3,717	1,349	124,696
16	Net Power Costs to be Recovered (deferred charges)	273,132	63,704	64,877	65,412	57,060	1,151,059
17	Power Cost Recovery Based on % of Original Power Contract	(54,110)	(61,078)	(64,050)	(104,632)	(108,937)	(1,151,059)
18	Cumulative Unrecovered Deferred Charge	219,022	221,648	222,475	51,877	0	0
19	Before Tax Recovery Rates	83,246	93,967	98,539	160,973	167,595	1,770,861
20	Savings	18,553	20,942	21,961	35,876	37,352	394,672
21	Net Savings	12,059	13,613	14,275	23,319	24,279	256,537
22	Current Power Contract Rate (\$/MWH)	\$52.80	\$59.60	\$62.50	\$102.10	\$106.30	
23	Future Power Bundled Rate (\$/MWH)	\$43.18	\$48.74	\$51.11	\$83.49	\$86.93	
24	Savings	\$9.62	\$10.86	\$11.39	\$18.61	\$19.37	
25	Savings as a Percent of Power Costs	18.23%	18.23%	18.23%	18.23%	18.23%	18.23%

Adjusted for
 Bum Rate
 Amended Price and
 15 Year Tax Amortization

Calculation of Proposed Rebundled Power Costs
 With Amortization Based on net Gas Cost Savings

EXHIBIT H
 Revision 2

2001 to

2009

Income Statement Associated with Tenaska Accounting Order

	1998	1999	2000 (not shown)	2010	2011	Total
Operating Expense						
1 Gas Cost Savings	\$ (22,168)	\$ (26,812)	\$ (30,737)	\$ (94,216)	\$ (103,801)	\$ (801,512)
2						
3 Amortization	1,836	3,633	5,138	35,302	40,271	243,592
4 Federal Income Tax						
5 FTT on Amortization of Purchase Price	(5,017)	(5,017)	(5,017)	(5,017)	(10,033)	(75,250)
6 FTT on Interest Expense	(6,128)	(6,157)	(6,195)	(1,622)	(564)	(64,181)
7 FTT on Gas Cost Savings	7,759	9,384	10,758	32,976	36,331	280,529
8 Total Operating Expense	(23,718)	(24,968)	(26,053)	(32,577)	(37,797)	(416,822)
9 Operating Income (Loss)	23,718	24,968	26,053	32,577	37,797	416,822
10 Other Income Net	5,690	5,717	5,752	-	-	28,592
11 Income Before Interest	29,408	30,685	31,805	32,577	37,797	445,414
12 Interest	17,508	17,592	17,700	4,634	1,611	183,375
13 Net Savings	11,900	13,094	14,106	27,943	36,187	262,039
14 Gross Savings	\$ 18,307	\$ 20,144	\$ 21,701	\$ 42,989	\$ 55,672	\$ 403,137
Earnings Per Share	\$ 0.14	\$ 0.15	\$ 0.16			

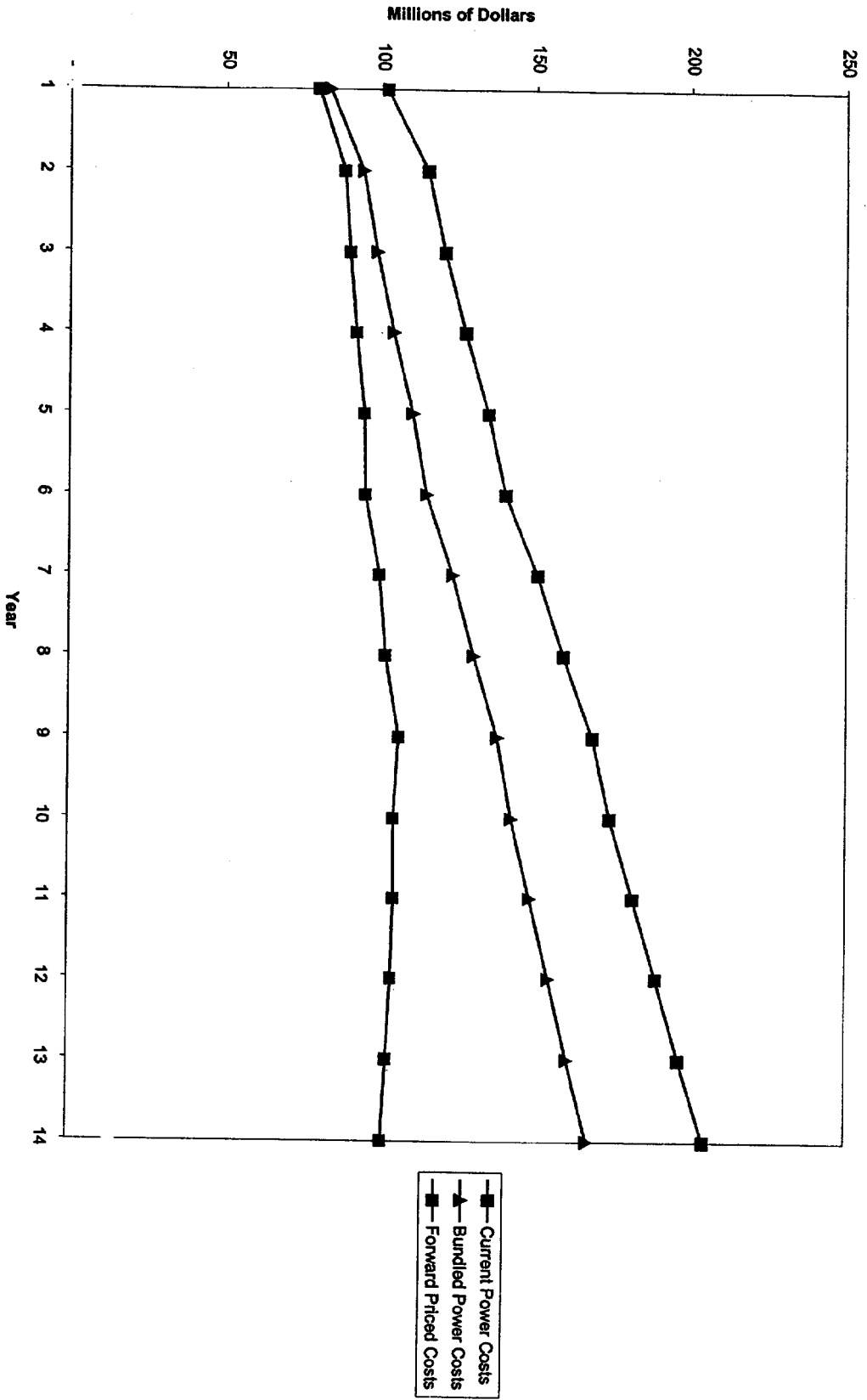
Regulatory Assets

15 Gas Supply Contract Buyout Cost	\$ 215,000	\$ -	\$ -	\$ -	\$ -	\$ 215,000
16 Capitalized Interest Net	5,690	5,717	5,752	-	-	28,592
17 Amortization	(1,836)	(3,633)	(5,138)	(35,302)	(40,271)	(243,592)
18 Total Cumulative Regulatory Assets	\$ 218,854	\$ 220,938	\$ 221,552	\$ 40,271	\$ (0)	\$ (0)

PUGET SOUND ENERGY

Tenaska Rebundled Power Costs

EXHIBIT F
Revision 1



Puget Sound Energy, Inc.

Minute Excerpt from the December 8, 1997 Board of Directors' meeting

APPROVAL OF PURCHASE OF CERTAIN OF THE ASSETS OF TENASKA GAS CO. AND APPROVAL OF OTHER AGREEMENTS RELATED TO THE TENASKA WASHINGTON PARTNERS, L.P. COGENERATION FACILITY LOCATED IN WHATCOM COUNTY, WASHINGTON.

Mr. Sonstelie then asked Mr. Weaver, Mr. Gaines, Mr. McKeon and Mr. Davis to review the proposed agreements in connection with the purchase of certain assets of the Tenaska Gas Co. and other agreements related to the Tenaska Cogeneration Facility with the Board which had been furnished in advance of the meeting to the Board and are filed with the minutes of this meeting. Mr. Gaines reviewed the background behind the proposed transactions and the anticipated future benefits with the Board. Mr. McKeon reviewed the general terms of the transactions and Mr. Davis reviewed regulatory issues in connection with the transactions. Copies of materials furnished the Board in advance and during the meeting are filed with the minutes of this meeting. After full discussion, it was unanimously

Approval of Asset Purchase Agreement and Escrow Agreement

RESOLVED - that this Board of Directors hereby adopts and approves the terms and provisions of the Asset Purchase Agreement (the "Asset Purchase Agreement") between this corporation and Tenaska Gas Co., a Nebraska corporation ("Tenaska"), providing for the purchase by this corporation of certain contract rights and obligations relating to arrangements for natural gas supply to the Tenaska Washington Partners, L.P. ("Tenaska Washington") cogeneration facility located in WHATCOM County, Washington (the "Project") and the Escrow Agreement among this corporation, Tenaska and The Chase Manhattan Bank, as escrow agent, in connection therewith, each in substantially the form of the drafts presented to and reviewed by this Board of Directors (together, the "Purchase Documents"), and the officers of this corporation are, and each of them hereby is, authorized and empowered in the name and on behalf of this corporation to execute and deliver the Purchase Documents, together with such modifications or changes thereto as any of such officers shall approve, the execution of such Purchase Documents on behalf of this corporation to be conclusive evidence of such approval and the approval and ratification by this Board of Directors of the modifications or changes so made, and to take any and all actions as may

be necessary or appropriate to effectuate the Purchase Documents and the transactions contemplated thereby.

Approval of Gas Supply Agreements

RESOLVED - that this Board of Directors hereby adopts and approves the terms and provisions of the Gas Supply Agreement between this corporation and Tenaska Washington providing for the sale of up to approximately 43,000 MMBtu of natural gas per day to the Project, in substantially the form of the draft presented to and reviewed by this Board of Directors (the "Temporary Gas Supply Agreement"), and the officers of this corporation are, and each of them hereby is, authorized and empowered in the name and on behalf of this corporation to execute and deliver such Temporary Gas Supply Agreement, together with such modifications or changes thereto as any of such officers shall approve, the execution of such Temporary Gas Supply Agreement on behalf of this corporation to be conclusive evidence of such approval and the approval and ratification by this Board of Directors of the modifications or changes so made, and to take any and all actions as may be necessary or appropriate to effectuate such Temporary Gas Supply Agreement and the transactions contemplated thereby.

RESOLVED - that this Board of Directors hereby adopts and approves the terms and provisions of the Gas Supply Agreement between this corporation and Tenaska Washington providing for the sale of up to approximately 50,000 MMBtu of natural gas per day to the Project and for the termination of the Temporary Gas Supply Agreement, in substantially the form of the draft presented to and reviewed by this Board of Directors, and the officers of this corporation are, and each of them hereby is, authorized and empowered in the name and on behalf of this corporation to execute and deliver such Gas Supply Agreement, together with such modifications or changes thereto as any of such officers shall approve, the execution of such Gas Supply Agreement on behalf of this corporation to be conclusive evidence of such approval and the approval and ratification by this Board of Directors of the modifications or changes so made, and to take any and all actions as may be necessary or appropriate to effectuate such Gas Supply Agreement and the transactions contemplated thereby.

Approval of Amendment to Power Purchase Agreement

RESOLVED - that this Board of Directors hereby adopts and approves the terms and provisions of the Amendment No. 2 to Agreement for Firm Power Purchase between this corporation and Tenaska Washington (the "Amendment") providing for, among other things, a reduction in the purchase price paid by this corporation for the electrical output delivered by Tenaska Washington from the Project, in substantially the form of the draft presented to and reviewed by this Board of Directors,

and the officers of this corporation are, and each of them hereby is, authorized and empowered in the name and on behalf of this corporation to execute and deliver the Amendment, together with such modifications or changes thereto as any of such officers shall approve, the execution of such Amendment on behalf of this corporation to be conclusive evidence of such approval and the approval and ratification by this Board of Directors of the modifications or changes so made, and to take any and all actions as may be necessary or appropriate to effectuate the Amendment and the transactions contemplated thereby.

Approval of Tax Indemnity Agreement

RESOLVED - that this Board of Directors hereby adopts and approves the terms and provisions of the Tax Indemnity Agreement between this corporation and Tenaska, in substantially the form of the draft presented to and reviewed by this Board of Directors, and the officers of this corporation are, and each of them hereby is, authorized and empowered in the name and on behalf of this corporation to execute and deliver the Tax Indemnity Agreement, together with such modifications or changes thereto as any of such officers shall approve, the execution of such Tax Indemnity Agreement on behalf of this corporation to be conclusive evidence of such approval and the approval and ratification by this Board of Directors of the modifications or changes so made, and to take any and all actions as may be necessary or appropriate to effectuate the Tax Indemnity Agreement and the transactions contemplated thereby.

General Authority

RESOLVED - that each of this corporation's officers is hereby authorized to take all such steps and do all such acts and things as they or any one or more of them shall deem necessary or advisable to carry out the intent of each of the foregoing resolutions as approved by this Board of Directors, including, but not limited to, the making of any and all payments, the execution of any necessary or advisable instruments, certificates, affidavits, or such other agreements or documents in connection therewith as contemplated thereby (including, without limitation, the agreement between this corporation and Tenaska Washington pursuant to Section 7.1(d) of the Asset Purchase Agreement), the signing or endorsement of any checks, the posting of any bonds, and the payment of any fees in such connection, and from time to time to take any and all action, to make, execute, verify and file all applications, certificates, documents, or other instruments and to do any and all acts and things which any one or more of them shall deem necessary, advisable or appropriate in order to carry out the intent and purpose of any and all of the foregoing resolutions.

**COPIES OF MATERIALS REVIEWED BY
MR. MCKEON DURING A SEPTEMBER 21, 1999
PUGET SOUND ENERGY BOARD MEETING**



PURCHASE OF ENCOGEN PROJECT

- PSE is currently obligated to purchase power under a PURPA contract with the Encogen cogeneration project through mid-2008 at above-market fixed prices that increase annually from 56 mills in 2000 to 69.5 mills in 2008.
 - The project owners have agreed to sell the project to PSE for a purchase price of \$55 million for their equity interests and the assumption or guarantee by PSE of \$108 million of existing project debt.
 - The purchase price is lower than several other interested buyers had offered, because the owners recognize that a sale to PSE would eliminate pending litigation between us and that PSE has some ability to make a sale to a third party difficult.
 - PSE will seek an accounting order from the WUTC for the amortization of the total \$163 million purchase price over the remaining 23 year useful life of the plant.
 - Compared to the existing PURPA contract, the purchase is projected to reduce the annual net pre-tax cost of power from the Encogen plant to PSE by amounts ranging from approximately \$16 million in 2000 to \$21.5 million in 2007. (For one year, 2001, the projected savings are only \$11 million, due to \$5 million of scheduled major maintenance.)
 - Under the existing contract, PSE has the option to purchase the plant for \$1.00 in July 2008. Purchasing the plant now will provide significant savings through June 2008 but will result in higher power costs from July 2008 through the end of the plant's useful life. Those costs are estimated to be above market by amounts ranging from one to four mills in the years 2009 through 2012 and below market after 2012. On a net present value basis, the purchase provides significant benefits to customers.
 - PSE seeks Board approval for the purchase of the Encogen project, including authorization of an Interest Purchase Agreement under which PSE will pay \$55 million for the owners' equity interests in the project
-

and assume or guarantee the existing project debt of approximately \$108 million.

- PSE has conducted due diligence on the project, including review of the condition of the generating facilities by both our engineers and by an independent engineering consultant and analysis of potential environmental issues by our internal environmental team.
-



**PUGET
SOUND
ENERGY**

Ex. ____ (WAG-38)
Page 39

James W. Eldredge
Corporate Secretary
and Controller

September 22, 1999

BY U.S. MAIL

BOARD OF DIRECTORS

Douglas P. Beighle
Charles W. Bingham
Phyllis J. Campbell
Donald J. Covey
Robert L. Dryden
John D. Durbin
John W. Ellis
Daniel J. Evans
Tomio Moriguchi
Sally G. Narodick
Richard R. Sonstelie

APPROVAL OF ENCOGEN PURCHASE AGREEMENT

Enclosed are consent resolutions for approval of the Encogen Purchase Agreement. Steve McKeon reviewed these resolutions and the proposed transaction with the Board during the meeting on September 21, 1999. Enclosed you will find his executive summary. Should you have any questions, please call Steve at 425-462-3084.

Please review and sign the attached resolutions. Please fax your signed resolution to me at 425-462-3300 by the end of the day, Wednesday, September 29, 1999 and send by U.S. mail the original signature using the enclosed envelope as soon as reasonable thereafter.

Sincerely,

James W. Eldredge
Corporate Secretary &
Controller

cc: S. A. McKeon
R. L. Hawley

**RESOLUTION APPROVED BY CONSENT OF THE BOARD OF
PUGET SOUND ENERGY ON SEPTEMBER 29, 1999**

The undersigned, being all of the members of the Board of Directors of Puget Sound Energy, Inc., a Washington Corporation, by this instrument in lieu of a meeting, hereby consent to the adoption of the following resolutions, which resolutions will be deemed adopted when all of the members of this Board have signed this Consent or a counterpart of this Consent, and hereby waive any notices required by law with respect thereto:

ACQUISITION OF ENCOGEN NORTHWEST, L.P.

RESOLVED, that the Interest Purchase Agreement (the "Purchase Agreement") among the Company, LP Acquisition Corp. and GP Acquisition Corp., each Washington corporations and wholly owned subsidiaries of the Company (the "Puget Affiliates"), Encogen Northwest, L.P., a Delaware limited partnership ("Encogen"), EDC Northwest Cogeneration, Inc., a Delaware corporation and the sole general partner of Encogen ("NW"), ENSAT Northwest Cogeneration, Inc., a Texas corporation and the sole limited partner of Encogen ("ENSAT") and TXU Development Company, a Texas corporation and indirect 100% owner of NW, regarding the proposed acquisition by the Company through the Puget Affiliates of all of the interests of Encogen owned by NW and ENSAT, in substantially the form presented to this Board of Directors is hereby approved; and it is

FURTHER RESOLVED, that the officers of the Company, or any of them, are hereby authorized to execute and deliver the Purchase Agreement and such other agreements and documents contemplated thereby for and on behalf of the Company and the Puget Affiliates, with such changes therein as the officer or officers executing the same may approve, together with any amendments thereto as such officers may approve, the execution of the Purchase Agreement and such other agreements and documents contemplated thereby, and any amendments thereto, on behalf of the Company to be conclusive evidence of such approval and of the ratification of such changes by this Board of Directors; and it is

FURTHER RESOLVED, that the officers of the Company are hereby authorized and directed to negotiate with the lenders to Encogen in order to either restructure the existing credit arrangements, or to provide for the assumption or guarantee by the Company of the obligations of Encogen, NW and ENSAT, on such terms as the Treasurer and the Chief Financial Officer of the Company shall approve; and it is

FURTHER RESOLVED, that the officers of the Company are hereby authorized and directed to take any and all additional action on behalf of the Company that such officers deem necessary to effect performance of the

Purchase Agreement and such other agreements and documents contemplated thereby, including any amendments thereto.

FORMATION OF PUGET AFFILIATES

RESOLVED FURTHER, that the actions of the officers of the Company, or any of them, in providing for the formation of each of the Puget Affiliates, as referenced in the foregoing resolutions, for the purpose of participating together with the Company to the extent approved by such officers in the transactions contemplated by the Purchase Agreement are hereby acknowledged, ratified and approved; that such officers are hereby authorized and directed to vote the shares of the Puget Affiliates owned by the Company on any and all matters coming before the shareholders of the Puget Affiliates in connection with the proposed transaction, and otherwise take all action and sign any documents such officers deem necessary or desirable with respect to such shares of the Puget Affiliates, including any consents of shareholders made in lieu of meetings of the shareholders, such authority to continue until revoked by resolution of the Board of Directors of the Company; and that such officers are hereby authorized to enter into all agreements and to take all other action and sign any documents such officers deem necessary or desirable with respect to the establishment and business operations of the Puget Affiliates, and that any such action taken prior to this date by such officers is hereby acknowledged, approved and ratified.

GENERAL AUTHORITY

RESOLVED FURTHER, that any and all actions taken by the officers of the Company and the Puget Affiliates, as the case may be, or any of them, as deemed by such officers to be necessary or advisable to effectuate the transactions contemplated by the foregoing resolutions, whether prior to or subsequent to this action by this Board of Directors, are hereby authorized, approved and ratified, and the taking of any and all such actions and the performance of any and all such things in connection with the foregoing shall conclusively establish such officers' authority therefor from the Company and the Puget Affiliates, as the case may be, and the approval and ratification thereof by this Board of Directors.