

**EXHIBIT NO. \_\_\_(JT-1T)  
DOCKET NO. U-072375  
2007 MERGER PROCEEDING  
WITNESS: JOINT TESTIMONY**

**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**

**PREFILED JOINT TESTIMONY OF**

**MICHAEL B. EARLY  
CHARLES EBERDT  
NANCY E. HIRSH  
WILLIAM N. HORTON  
ROBINSON K. KUPCHAK  
CHRISTOPHER J. LESLIE  
ERIC M. MARKELL  
PAULA E. PYRON**

**SUPPORTING SETTLEMENT STIPULATION**

**JULY 29, 2008**

**PREFILED JOINT TESTIMONY  
SUPPORTING SETTLEMENT STIPULATION**

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**PREFILED JOINT TESTIMONY  
SUPPORTING SETTLEMENT STIPULATION**

**I. INTRODUCTION**

**Q. Please state your names, titles, and who you represent in this matter.**

A. My name is Michael B. Early. I provide this testimony on behalf of the Industrial Customers of Northwest Utilities (“ICNU”). I am Executive Director of ICNU. Please see Exhibit No. \_\_\_(MBE-1T), filed on July 28, 2008, which includes my education and relevant experience.

A. My name is Charles Eberdt. I provide this testimony on behalf of The Energy Project. I am Director for The Energy Project, which is a non-profit organization that represents low-income customers and Community Action Agencies in energy matters before the WUTC and other state agencies. The Energy Project is concerned about rate increases or other changes with PSE that may affect the affordability of energy to those customers who are on fixed or low income. Please see Exhibit No. \_\_\_(CE-1), filed concurrently with this joint testimony, for an exhibit describing my education and relevant experience.

A. My name is Nancy E. Hirsh. I provide this testimony on behalf of the NW Energy Coalition (“NWEC”). I am Policy Director for NWEC. Please see Exhibit No. \_\_\_(NEH-1T) at pages 1-2 , filed June 18, 2008, for a summary of my education and relevant experience.

1 A. My name is Mr. William N. Horton. I provide this testimony on behalf of the  
2 Staff of the Washington Utilities and Transportation Commission  
3 (“Commission Staff”). I am a Principal with Finance Scholars Group, and  
4 Commission Staff has retained me to analyze the proposed acquisition of Puget  
5 Energy Inc. (“Puget Energy”) and its subsidiary, PSE, by Puget Holdings (the  
6 “Proposed Transaction”). Please see Exhibit No. \_\_\_\_ (WNH-2), filed on June 18,  
7 2008, for an exhibit describing my education and relevant experience.

8 A. My name is Mr. Robinson K. Kupchak. I provide this testimony on behalf of  
9 Puget Holdings. I am employed by Macquarie Capital (USA) Inc, as a Managing  
10 Director within the Infrastructure and Utilities Group. Macquarie Capital (USA)  
11 advised Puget Holdings with respect to the financial aspects of the Proposed  
12 Transaction and arranged the financing. Please see Exhibit No. \_\_\_\_ (RKK-2),  
13 filed on July 2, 2008, for an exhibit describing my education and relevant  
14 experience.

15 A. My name is Mr. Christopher J. Leslie. I provide this testimony on behalf of Puget  
16 Holdings. I am employed by Macquarie Holdings (USA) Inc, as an Executive  
17 Director of the Macquarie Group of Companies (“Macquarie Group”). I also hold  
18 the office of Chief Executive Officer of Macquarie Infrastructure Partners, which  
19 is a Macquarie Group managed fund and lead investor in the Investor  
20 Consortium.<sup>1</sup> I am a manager of Puget Holdings and will serve on the Puget

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<sup>1</sup> The term “Investor Consortium” refers to the six entities that, together, hold all ownership interests of Puget Holdings: Macquarie Infrastructure Partners (31.8% ownership interest); Canada Pension Plan Investment Board (28.1% ownership interest); Macquarie Capital Group Ltd (15.9% ownership interest); British Columbia Investment Management Corporation (14.1% ownership interest);

1 Holdings Board of Managers after closing of the Proposed Transaction. Please  
2 see Exhibit No. \_\_\_(CJL-2), filed on December 17, 2007, for an exhibit  
3 describing my education and relevant experience.

4 A. My name is Mr. Eric M. Markell. I provide this testimony on behalf of Puget  
5 Sound Energy, Inc. (“PSE”). I am Executive Vice President and Chief Financial  
6 Officer of PSE. Please see Exhibit No. \_\_\_(EMM-2), filed on December 17,  
7 2007, for an exhibit describing my education and relevant experience.

8 A. My name is Ms. Paula E. Pyron. I provide this testimony on behalf of the  
9 Northwest Industrial Gas Users (“NWIGU”). I am Executive Director for  
10 NWIGU. Please see Exhibit No. \_\_\_(PEP-1), filed concurrently with this joint  
11 testimony, for an exhibit describing my education and relevant experience.

12 **Q. Are you sponsoring joint testimony in support of the Settlement Stipulation,**  
13 **dated July 22, 2008, and filed with this Commission on July 23, 2008 (the**  
14 **“Settlement Stipulation”)?**

15 A. Yes. This joint testimony recommends that the Commission approve the  
16 Settlement Stipulation that was executed by Puget Holdings, PSE, Commission  
17 Staff, NWIGU, ICNU, NWECA, The Energy Project, and Kroger (referred to  
18 hereinafter jointly as the “Participating Parties” and individually as a  
19 “Participating Party”). The Settlement Stipulation is the culmination of a  
20 significant expenditure of time and effort by the Participating Parties. The

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Alberta Investment Management (6.3% ownership interest); and Macquarie-FSS Infrastructure Trust (3.7% ownership interest). Please note that the ownership interests add to 99.9% due to rounding.

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1 Settlement Stipulation is supported by sound analysis and sufficient evidence,  
2 including the testimony and exhibits of the Participating Parties. Approval of the  
3 Settlement Stipulation is consistent with the public interest.

4 **Q. Do all parties to the proceeding join in support of the Settlement Stipulation,**  
5 **dated July 22, 2008, and filed with this Commission on July 23, 2008?**

6 A. No. The Settlement Stipulation addresses all the contested issues in the  
7 proceeding, and is a multiparty settlement under WAC 480-07-730(3), (i.e., an  
8 agreement of some, but not all, parties that would resolve all issues in this  
9 proceeding). The Participating Parties expect that the Public Counsel Section of  
10 the Washington State Attorney General's Office ("Public Counsel") will be the  
11 sole party to this proceeding opposing the Settlement Stipulation. Neither the  
12 Cogeneration Coalition of Washington nor the Federal Executive Agencies has  
13 entered testimony or exhibits in this proceeding, and each party has indicated that  
14 it will not oppose the Settlement Stipulation.

15 **Q. Please summarize the joint testimony of the Participating Parties.**

16 A. Prior to executing the Settlement Stipulation, the Participating Parties spent  
17 several days discussing details of the Proposed Transaction and concerns that  
18 various parties had expressed regarding the Proposed Transaction. In response to  
19 these concerns, the Participating Parties worked together to craft additional  
20 commitments and to revise existing commitments in order to provide additional  
21 assurances to the parties, PSE's customers and the Commission that the Proposed

1 Transaction is consistent with the public interest and will not cause harm. As  
2 discussed in more detail below, these commitments include:

- 3 • Contribution of an additional equity investment of  
4 \$200 million in the Proposed Transaction by the Investor  
5 Consortium to reduce the level of debt;
- 6 • Agreement by the Investor Consortium to place further  
7 restrictions on when PSE and Puget Energy can make  
8 dividend distributions, to ensure that the financial integrity  
9 of PSE is maintained;
- 10 • Confirmation that additional capital can be made available  
11 to PSE from sources other than the Investor Consortium, if  
12 a need arises, including from the public markets;
- 13 • Agreement that PSE's corporate headquarters will remain  
14 in PSE's service territory.

15 As discussed in more detail below, the Joint Applicants have now made a total of  
16 63 commitments relating to numerous aspects PSE's business including low  
17 income assistance, rate credits, energy conservation, renewable energy, and the  
18 financial integrity of PSE. In sum, these commitments have resulted in a  
19 determination by all the Participating Parties that the Proposed Transaction is  
20 consistent with the public interest.

## 21 **II. THE SCOPE OF THE UNDERLYING DISPUTE**

22 **Q. Please describe the filing that gave rise to this proceeding.**

23 A. Puget Holdings and PSE (together, the "Joint Applicants") commenced this  
24 proceeding on December 17, 2007, by filing a Joint Application for a  
25 Commission order authorizing the proposed transfer of ownership and control of



1 Puget Energy and its wholly owned subsidiary, PSE, to Puget Holdings (the  
2 “Proposed Transaction”). Approval of the Joint Application would make PSE an  
3 indirect wholly owned subsidiary of Puget Holdings.

4 The Joint Application was filed under RCW 80.12.020 and WAC 480-143-170.  
5 On December 17, 2007, Joint Applicants also submitted direct testimony and  
6 exhibits in support of their Joint Application. In that testimony, the Joint  
7 Applicants asserted that (i) PSE faced significant capital requirements for the  
8 foreseeable future to fund infrastructure improvements and new sources of energy  
9 (including renewable sources of energy), (ii) PSE’s significant external financing  
10 requirements pose significant challenges should Puget Energy continue as a  
11 publicly listed entity, (iii) the Proposed Transaction provides PSE with access to  
12 external capital by affiliating PSE with a group of long term investors  
13 experienced with utility investments and capable of providing that capital, and  
14 (iv) PSE would continue to be a locally managed utility fully responsive to the  
15 needs of its service territory. In addition, that testimony explained numerous  
16 commitments that the Joint Applicants stated would be beneficial to customers  
17 and support the public interest.

18 **Q. Did the non-Joint Applicant Participating Parties investigate the Joint**  
19 **Application and the supporting testimony and exhibits?**

20 A. Yes. The Participating Parties issued numerous data requests and engaged in  
21 conferences with Puget Holdings and PSE staff knowledgeable about various  
22 aspects of the filing.

1 **Q. Did the non-Joint Applicant Participating Parties file responsive testimony**  
2 **addressing issues with respect to the Joint Application?**

3 A. Yes. On June 18, 2008, Commission Staff, ICNU, NWECC, and The Energy  
4 Project each filed responsive testimony and exhibits that address issues with  
5 respect to the Joint Application. NWIGU did not file responsive testimony or  
6 exhibits but did file a letter, dated June 18, 2008, supporting the views expressed  
7 in the responsive testimony and exhibits filed by ICNU. Kroger did not file any  
8 responsive testimony or exhibits in this proceeding.

9 **Q. What issues with respect to the Joint Application did Commission Staff**  
10 **raise?**

11 A. The increased risks identified in Commission Staff's response testimony and  
12 exhibits centered primarily upon the degree of financial risk (leverage) the new  
13 owners planned to incur at Puget Energy that both directly and indirectly would  
14 impact PSE.

15 Commission Staff explained that this increase in financial leverage put PSE at an  
16 increased level of risk compared to the status quo, due to several different  
17 factors, including:

- 18 (i) Whereas under the status quo, PSE can access the public  
19 equity markets through equity offerings by Puget Energy,  
20 the Proposed Transaction would limit Puget Energy's  
21 access to funds provided through the credit facilities  
22 arranged in connection with the Proposed Transaction and  
23 to direct offerings limited to the members of the Investor  
24 Consortium.

- 1 (ii) The debt financing proposed by the Investor Consortium  
2 was short term in nature (five years) and the need to  
3 regularly refinance that debt posed a risk that was not  
4 present under the status quo.
- 5 (iii) The additional leverage at the Puget Energy level would  
6 adversely affect the bond ratings of PSE, thereby raising  
7 PSE's cost of debt capital and potentially adversely  
8 affecting PSE's ability to raise debt capital.
- 9 (iv) The additional debt at the Puget Energy level, plus the need  
10 to provide a return on the equity investment of the Investor  
11 Consortium would increase the dividend obligation of PSE  
12 relative to the status quo.
- 13 (v) There is a risk that the additional goodwill recorded at the  
14 Puget Energy level could be impaired, thereby creating a  
15 need to infuse equity to avoid a default on Puget Energy's  
16 credit facilities.

17 Commission Staff's responsive case concluded that the risks of the Proposed  
18 Transaction to PSE were greater than the risks to PSE from the status quo.  
19 Commission Staff also proposed some actions that might be taken by the Investor  
20 Consortium to mitigate the increased risks to PSE but concluded that the  
21 increased risks to PSE could not be mitigated fully to adequately protect  
22 customers from the increased financial risks of the Proposed Transaction.

23 **Q. What issues with respect to the Joint Application did ICNU raise?**

24 A. ICNU submitted testimony proposing modifications to the Joint Application to  
25 better protect ratepayers and make it consistent with the public interest. ICNU  
26 recommended that the Investor Consortium increase the amount of equity capital  
27 used to purchase Puget Energy's stock and decrease the amount of debt capital.  
28 ICNU also recommended improvements to the ring fencing provisions and other

1 commitments, some of which included restricted dividend payments, affiliate  
2 abuse protections, and protections for PSE's direct access program.

3 **Q. What issues with respect to the Joint Application did The Energy Project**  
4 **raise?**

5 A. The Energy Project sought to ensure that the new owners (Puget Holdings) would  
6 maintain and expand PSE's current low-income rate assistance and energy  
7 efficiency programs. With greater funding, more low-income customers may  
8 obtain rate assistance and utilize energy efficiency programs that help with  
9 affordability of the rising cost of energy.

10 **Q. What issues with respect to the Joint Application did NVEC raise?**

11 A. As part of the Joint Application, Puget Holdings had made certain commitments  
12 in the areas of energy efficiency, renewable energy resources, greenhouse gas  
13 emissions, and low-income energy services. In its responsive testimony, NVEC  
14 asserted that these commitments were deficient due to their lack of specificity,  
15 measurability, and accountability. NVEC also asserted that it was unclear what  
16 position Puget Holdings and its investors would take on clean and affordable  
17 energy issues, or the management style that would be adopted regarding these  
18 issues. In NVEC's opinion, these deficiencies and lack of clarity created  
19 uncertainties for the Proposed Transaction.

1 **Q. Did the Joint Applicants file rebuttal testimony addressing the issues raised**  
2 **in the responsive testimony of the other Participating Parties?**

3 A. Yes. On July 2, 2008, each of the Joint Applicants filed rebuttal testimony and  
4 exhibits that address issues raised in the responsive testimony and exhibits of each  
5 of Commission Staff, ICNU, NWECC, The Energy Project, and Public Counsel.

6 The rebuttal testimony of the Joint Applicants contained several new  
7 commitments including \$100 million in rate credits over ten years and additional  
8 voluntary SEC reporting requirements to provide additional transparency.

9 **Q. Were the Participating Parties able to resolve their issues?**

10 A. Yes. Throughout the proceeding, the Participating Parties engaged in numerous  
11 settlement discussions and, through the Settlement Stipulation, have resolved  
12 their issues in connection with the Joint Application.

13 **III. THE SCOPE OF THE SETTLEMENT STIPULATION AND**  
14 **ITS PRINCIPAL ASPECTS**

15 **Q. Please describe the scope of the Settlement Stipulation and its principal**  
16 **aspects.**

17 A. The Settlement Stipulation is a full settlement of all issues presented in this  
18 proceeding and has been executed by the Participating Parties. Appendix A to the  
19 Settlement Stipulation contains 63 commitments applicable to the Joint  
20 Applicants.

1 **Q. Please describe the principal aspects of the Settlement Stipulation.**

2 A. Generally, the proposed Settlement Stipulation includes commitments by  
3 Applicants in the following areas:

- 4 • Capital Requirement and Access to Capital Commitments
- 5 • Financial Integrity Commitments
- 6 • Regulatory and Ring-Fencing Commitments
- 7 • Staffing, Management, and Governance Commitments
- 8 • Local Presence Commitments
- 9 • Rate Commitments
- 10 • Quality of Service Commitments
- 11 • Low-Income Assistance Commitments
- 12 • Environmental, Renewable Energy, and Energy Efficiency  
13 Commitments

14 A. **Capital Requirement Commitments**

15 **Q. What do the commitments provide with respect to capital requirements?**

16 A. The Joint Applicants have provided several significant commitments with respect  
17 to capital requirements and access to capital

18 First, Puget Holdings acknowledges PSE's need for significant amounts of capital  
19 to invest in its energy supply and delivery infrastructure and commits that  
20 meeting these capital requirements will be considered a high priority by the  
21 boards of Puget Holdings and PSE. *See* Commitment No. 2.

1 Second, Puget Holdings has already secured, and will provide at closing of the  
2 Proposed Transaction, committed credit facilities for PSE and Puget Energy,  
3 including \$1.4 billion of facilities with a five-year term to support PSE's capital  
4 expenditure program as set forth in the summary of PSE's multi-year Business  
5 Plan, dated October 19, 2007. *See* Commitment No. 3.

6 Third, in Commitment No. 10, the Joint Applicants have committed that PSE will  
7 maintain separate debt and preferred stock, if any. PSE will maintain its own  
8 corporate and debt credit rating, as well as ratings for long-term debt and  
9 preferred stock.

10 Fourth, Commitment No. 34 represents that (i) Puget Holdings is not prohibited  
11 from issuing new equity to third parties and (ii) the Joint Applicants will not  
12 amend the LLC Agreement or other transaction documents to prohibit Puget  
13 Holdings from issuing new equity to third parties (including public markets).  
14 Additionally, in Commitment No. 34, the Joint Applicants commit that the  
15 transaction documents permit PSE to issue certain hybrid securities to third  
16 parties (including public markets) and Puget Holdings. If Puget Holdings makes a  
17 new equity issuance for the purpose of (i) contributing the proceeds thereof  
18 (through its relevant subsidiaries) to Puget Energy or PSE, or (ii) applying the  
19 proceeds thereof toward the purchase from PSE of hybrid securities that are  
20 permitted to be issued under the transaction documents, the proceeds of any such  
21 new equity issuances by Puget Holdings shall be used for such purpose. In  
22 Commitment No. 56, the Joint Applicants commit that Puget Energy shall not

1 own or operate any businesses other than PSE. The Joint Applicants commit in  
2 Commitment No. 34 to provide an annual certificate of an officer of Puget  
3 Holdings certifying that neither Puget Holdings nor PSE is prohibited from  
4 undertaking the transactions described in such Commitment No. 34.

5 Fifth, pursuant to Commitment No. 57, the Joint Applicants have affirmed the  
6 objective to refinance the term loan of Puget Energy using medium-term and/or  
7 long-term financing. The Joint Applicants have committed to develop a plan to  
8 achieve this objective and maintain records of their efforts to achieve such  
9 objective. This plan will be available to the Commission and other interested  
10 parties, upon request and subject to the protective order in this Docket No. U-  
11 072375.

12 Sixth, the Joint Applicants have committed in Commitment No. 58 that the  
13 current and any future capital expenditure credit facilities will by their terms limit  
14 the use of such funds only for financing PSE capital expenditures. Quarterly  
15 officer certificates under each of the credit facilities of Puget Energy and PSE will  
16 be made available to the Commission and other interested parties, upon request  
17 and subject to the protective order in this Docket No. U-072375.



1 **B. Financial Integrity Commitments**

2 **Q. Have the Joint Applicants increased their proposed equity investment in the**  
3 **Proposed Transaction so that the level of debt is reduced?**

4 A. Yes. In Commitment No. 59, the Joint Applicants commit to reduce the amount of  
5 the Puget Energy term loan at closing to \$1.225 billion from \$1.425 billion as  
6 originally proposed by investing an additional \$200 million of equity in  
7 Puget Energy.

8 **Q. Have the Joint Applicants made any commitments to revise the corporate**  
9 **structure of the Puget Holdings group to provide further assurance that the**  
10 **financial integrity of Puget Energy and PSE will be maintained?**

11 A. Yes. The Joint Applicants committed, in Commitment No. 38, to amend the  
12 corporate organizational structure by inserting a new entity (tentatively identified  
13 as “Equico”) in the organizational structure between Puget Intermediate and  
14 Puget Energy. In summary, following closing of the Proposed Transaction, all of  
15 the common stock of Puget Energy will be owned by “Equico,” which will be a  
16 new Washington limited liability company. “Equico” will be a wholly-owned  
17 subsidiary of Puget Intermediate. “Equico” is expected to be established as a  
18 bankruptcy-remote special purpose entity, and shall not have any debt.  
19 *See Appendix B to Settlement Stipulation for the projected post-acquisition*  
20 *organizational chart of the Puget Holdings group of companies.*

1 As stated earlier, in Commitment No. 56, the Joint Applicants commit that  
2 Puget Energy shall not operate or own any business other than PSE.

3 **Q. Have the Joint Applicants made any commitments to maintain the capital**  
4 **structure of PSE?**

5 A. Yes. In Commitment No. 35, the Joint Applicants have committed that as of the  
6 closing of the Proposed Transaction (or within sixty (60) days thereof), PSE will  
7 have a common equity ratio of not less than 50 percent. Joint Applicants further  
8 commit that at all times thereafter, PSE will have a common equity ratio of not  
9 less than 44 percent, except to the extent a lower equity ratio is established for  
10 ratemaking purposes by the Commission. Furthermore, Commitment No. 36  
11 would prohibit PSE from declaring or making any PSE distribution unless, on the  
12 date of such PSE distribution, the PSE common equity ratio after giving effect to  
13 such PSE distribution is not less than 44%, except to the extent a lower equity  
14 ratio is established for ratemaking purposes by the Commission.

15 **Q. Have the Joint Applicants made any commitments that would restrict the**  
16 **ability of Puget Energy or PSE to declare dividends under certain**  
17 **circumstances?**

18 A. Yes. The Joint Applicants have made numerous commitments that would restrict  
19 the ability of Puget Energy or PSE to declare dividends under certain  
20 circumstances. As discussed above, Commitment No. 36 would prohibit PSE  
21 from declaring or making any PSE distribution unless, on the date of such PSE

1 distribution, the PSE common equity ratio after giving effect to such PSE  
2 distribution is not less than 44%, except to the extent a lower equity ratio is  
3 established for ratemaking purposes by the Commission.

4 In Commitment No. 40, the Joint Applicants have further committed that PSE  
5 shall not declare or make any distribution, unless, on the date of such distribution,  
6 either:

- 7 (a) The ratio of PSE Earnings Before Interest, Taxes,  
8 Depreciation and Amortization (“EBITDA”) to PSE  
9 interest expense for the most recently ended four fiscal  
10 quarter period prior to such date is equal or greater than  
11 3.00 to 1.00; or
- 12 (b) PSE’s corporate credit/issuer rating is at least BBB- (or its  
13 then equivalent) with Standard & Poor’s Ratings Group  
14 (“S&P”) and Baa3 (or its then equivalent) with Moody’s  
15 Investors Service, Inc. (“Moody’s”).

16 However, if PSE satisfies part (a) above but its corporate credit/issuer rating is  
17 downgraded to a level below BBB- (or its then equivalent) with S&P or Baa3  
18 (or its then equivalent) with Moody’s, then PSE shall provide notice to the  
19 Commission of such downgrade within two business days of PSE’s receipt of  
20 notice of such downgrade. Following such downgrade, distributions by PSE to  
21 Puget Energy shall be limited to an amount sufficient (i) to service debt at Puget  
22 Energy, and (ii) to satisfy financial covenants in the credit facilities of Puget  
23 Energy, and distributions by Puget Energy to Equico shall cease.

24 If PSE seeks to make any distribution to Puget Energy greater than such amount  
25 and Puget Energy seeks to make any distribution to Equico whatsoever, PSE and

1 Puget Energy shall within forty-five calendar days of such downgrade (or earlier  
2 if PSE anticipates that such a downgrade may be forthcoming) file a petition with  
3 the Commission to show cause why (i) PSE should be permitted to make any  
4 distribution to Puget Energy in excess of such amount and (ii) Puget Energy  
5 should be permitted to make any distribution to Equico.

6 It is the expectation of the Joint Parties that the Commission within sixty (60)  
7 days after PSE's and Puget Energy's filing of such petition will issue an order  
8 granting or denying such petition. In considering such petition, due consideration  
9 shall be given to the financial performance and credit rating of PSE and to  
10 whether PSE has, and is expected to achieve, financial metrics that fall within the  
11 ranges used by S&P and Moody's for investment grade-rated utility companies  
12 and any changes in such ranges since the date of closing of the Proposed  
13 Transaction; provided that nothing in this commitment shall prohibit the parties  
14 from advancing any arguments regarding factors the Commission should  
15 consider.

16 If PSE's corporate credit/issuer rating is subsequently upgraded to BBB- (or its  
17 then equivalent) or above with S&P or Baa3 (or its then equivalent) or above with  
18 Moody's, then PSE shall provide notice to the Commission of such upgrade  
19 within two business days of PSE's receipt of notice of such upgrade, and neither  
20 PSE nor Puget Energy shall be subject to any dividend restriction pursuant to  
21 Commitment No. 40 as of the date PSE provides such notice to the Commission.

1 Finally, the Joint Applicants have committed in Commitment No. 37 that  
2 Puget Energy may not declare or make a PE distribution, unless on the date of  
3 such PE distribution, the ratio of consolidated EBITDA to consolidated interest  
4 expense for the most recently ended four fiscal quarter period prior to such date is  
5 equal or greater than 2.00 to 1.00.

6 **Q. Have the Joint Applicants made any commitments with respect to ratings**  
7 **agencies?**

8 A. Yes. The Joint Applicants have committed in Commitment No. 39 that each of  
9 Puget Energy and PSE will continue to be rated by both S&P and Moody's.  
10 Additionally, the Joint Applicants have committed to use best efforts to obtain  
11 and maintain from S&P confirmation of separation between the respective  
12 corporate credit rating for each of Puget Energy and PSE within the ninety (90)  
13 days following the closing of the Proposed Transaction. If the Joint Applicants  
14 are unable to obtain or maintain ratings separation, the Joint Applicants will make  
15 a filing with the Commission explaining the basis for their failure to obtain or  
16 maintain such separation, and parties will have an opportunity to participate and  
17 propose additional commitments.

18 **C. Regulatory and Ring-Fencing Commitments**

19 **Q. What do the commitments provide with respect to ring-fencing?**

20 A. The Joint Applicants have made commitments with respect to regulation and ring-  
21 fencing of the utility. As stated above, the Joint Applicants have committed in

1 Commitment No. 9 that PSE will (i) maintain separate books and records;  
2 (ii) agree to prohibitions against loans or pledges of utility assets to Puget Energy  
3 or Puget Holdings without Commission approval; and (iii) generally hold PSE  
4 customers harmless from any business and financial risk exposures associated  
5 with Puget Energy, Puget Holdings and its other affiliates. Pursuant to  
6 Commitment No. 10, PSE will maintain separate debt and preferred stock, if any.  
7 PSE will maintain its own corporate and debt credit rating, as well as ratings for  
8 long-term debt and preferred stock.

9 In Commitment No. 16, the Joint Applicants commit that at least one director of  
10 PSE will be an Independent Director who is not a member, stockholder, director  
11 (except as such Independent Director of PSE), officer, or employee of Puget  
12 Holdings or its affiliates. The organizational documents for PSE will not permit  
13 PSE, without the unanimous consent of all its directors, including the Independent  
14 Director, to consent to the institution of bankruptcy proceedings or the inclusion  
15 of PSE in bankruptcy proceedings.

16 Within ninety (90) days of the Proposed Transaction closing, PSE and Puget  
17 Holdings will file a non-consolidation opinion with the Commission which  
18 concludes, subject to customary assumptions and exceptions, that the ring fencing  
19 provisions are sufficient that a bankruptcy court would not order the substantive  
20 consolidation of the assets and liabilities of PSE with those of Puget Energy or its  
21 affiliates or subsidiaries. *See* Commitment No. 8. If the ring-fencing provisions  
22 are insufficient to obtain a non-consolidation opinion, Puget Holdings and PSE

1 have committed to promptly:

- 2 (i) notify the Commission of this inability to obtain a non-  
3 consolidation opinion.
- 4 (ii) propose and implement, upon Commission approval, such  
5 additional ring-fencing provisions around PSE as are  
6 sufficient to obtain a non-consolidation opinion subject to  
7 customary assumptions and exceptions.

8 *See* Commitment No. 25.

9 **Q. Have the Joint Applicants committed to provide access to books and**  
10 **records?**

11 A. Yes. The Joint Applicants have made commitments to provide access to books  
12 and records. Pursuant to Commitment No. 19, Puget Holdings and PSE will make  
13 reasonable commitments, consistent with recent Commission merger orders, to  
14 provide (i) access to PSE's books and records, (ii) access to financial information  
15 and filings, (iii) audit rights with respect to the documents supporting any costs  
16 that may be allocable to PSE, and (iv) access to PSE's board minutes, audit  
17 reports, and information provided to credit rating agencies pertaining to PSE.

18 Additionally, the Joint Applicants have committed that PSE and Puget Holdings  
19 will maintain the necessary books and records so as to provide an audit trail for  
20 all corporate, affiliate, or subsidiary transactions with PSE, or that result in costs  
21 that may be allocable to PSE. *See* Commitment No 27(a). PSE will provide  
22 Commission Staff and Public Counsel access to books and records (including  
23 those of Puget Holdings or any affiliate or subsidiary companies) required to be  
24 accessed to verify or examine transactions with PSE, or that result in costs that

1 may be allocable to PSE. *See* Commitment No 27(b). The Proposed Transaction  
2 will not result in reduced access to the necessary books and records that relate to  
3 transactions with PSE, or that result in costs that may be allocable to PSE, and the  
4 Proposed Transaction and resulting corporate structure will not be used by PSE as  
5 a basis to oppose requests for such books and records made by the Commission or  
6 by Commission Staff or Public Counsel. *See id.*

7 Furthermore, the Joint Applicants have committed that nothing in the  
8 Proposed Transaction will limit or affect the Commission's rights with respect to  
9 inspection of accounts, books, papers and documents of PSE pursuant to RCW  
10 80.04.070 or RCW 80.16.030. Nothing in the Proposed Transaction will limit or  
11 affect the Commission's rights with respect to inspection of accounts, books,  
12 papers and documents of Puget Holdings pursuant to RCW 80.16.030; provided,  
13 that such right to inspection shall be limited to those accounts, books, papers and  
14 documents of Puget Holdings that pertain to transactions affecting PSE's  
15 regulated utility operations. *See* Commitment No 27(c).

16 Finally, the Joint Applicants have committed that Puget Holdings and PSE will  
17 provide the Commission with access to written information provided by and to  
18 credit rating agencies that pertains to PSE. Puget Holdings and each of its  
19 members will also provide the Commission with access to written information  
20 provided by and to credit rating agencies that pertains to Puget Holdings'  
21 subsidiaries to the extent such information may potentially affect PSE.

22 *See* Commitment No 27(d).



1 **Q. Have the Joint Applicants made commitments that would hold PSE**  
2 **customers harmless from Puget Energy, Puget Holdings and its other**  
3 **affiliates?**

4 A. Yes. The Joint Applicants have made numerous commitments that would hold  
5 PSE customers harmless from Puget Energy, Puget Holdings and its other  
6 affiliates. Pursuant to Commitment No. 9, the Joint Applicants have committed to  
7 (i) maintain separate books and records; (ii) agree to prohibitions against loans or  
8 pledges of utility assets to Puget Energy or Puget Holdings without Commission  
9 approval; and (iii) generally hold PSE customers harmless from any business and  
10 financial risk exposures associated with Puget Energy, Puget Holdings and its  
11 other affiliates. In Commitment No. 20, the Joint Applicants have committed that  
12 (i) PSE will file cost allocation methodologies used to allocate Puget Energy or  
13 Puget Holdings-related costs to PSE; (ii) PSE will propose methods and standards  
14 for treatment of affiliate transactions; and (iii) there will be no cross-subsidization  
15 by PSE customers of unregulated activities.

16 The Joint Applicants have further committed that PSE's customers will be held  
17 harmless from the liabilities of any non-regulated activity of PSE or  
18 Puget Holdings. *See* Commitment No. 26(a). In any proceeding before the  
19 Commission involving rates of PSE, the fair rate of return for PSE will be  
20 determined without regard to any adverse consequences that are demonstrated to  
21 be attributable to the non-regulated activities. Any new nonregulated subsidiary  
22 will be established as a subsidiary of either Puget Holdings or Puget Intermediate

1 Holdings Inc., rather than as a subsidiary of PSE. Measures providing for  
2 separate financial and accounting treatment will be established for each non-  
3 regulated activity. *See id.*

4 **Q. Have the Joint Applicants made commitments to advise the Commission of**  
5 **any acquisition of an affiliate of PSE?**

6 A. Yes. Puget Holdings and PSE will notify the Commission subsequent to  
7 Puget Holdings' board approval and as soon as practicable following any public  
8 announcement of: (1) any acquisition of a regulated or unregulated business  
9 representing five percent or more of the capitalization of Puget Holdings; or  
10 (2) the change in effective control or acquisition of any material part of PSE by  
11 any other firm, whether by merger, combination, transfer of stock or assets.  
12 *See* Commitment No. 26(b).

13 **Q. Have the Joint Applicants made commitments to advise the Commission of**  
14 **any corporate reorganization that affects PSE?**

15 A. Yes. If and when any subsidiary of PSE becomes a subsidiary of Puget Holdings,  
16 Puget Intermediate Holdings Inc., or Puget Energy, PSE will so advise the  
17 Commission within thirty (30) days and will submit to the Commission a written  
18 document setting forth PSE's proposed corporate and affiliate cost allocation  
19 methodologies. *See* Commitment No. 28(a) PSE will notify the Commission of  
20 any change in corporate structure that affects PSE's corporate and affiliate cost  
21 allocation methodologies. PSE will propose revisions to such cost allocation

1 methodologies to accommodate such changes. *See* Commitment No. 28(b).

2 **D. Staffing, Management, and Governance Commitments**

3 **Q. What do the commitments provide with respect to staffing and management?**

4 A. The Joint Applicants have made numerous commitments with respect to staffing  
5 and management. Specifically, the Joint Applicants have committed to

- 6 (i) honor PSE's labor contracts (Commitment No. 12);  
7 (ii) maintain PSE's pension funding policy in accordance with  
8 sound actuarial practice (Commitment No. 13);  
9 (iii) maintain PSE staffing and presence in the communities in  
10 which PSE operates at levels sufficient to maintain the  
11 provision of safe and reliable service and cost-effective  
12 operations (Commitment No. 14); and  
13 (iv) seek to retain all current senior management of PSE;  
14 provided, however, that this Commitment No. 15 shall not  
15 limit the ability of PSE to determine its organizational  
16 structure and select and retain personnel best able to meet  
17 PSE's need over time (Commitment No. 15).

18 **Q. What do the commitments provide with respect to the composition of the**  
19 **board of directors of Puget Energy and PSE?**

20 A. In Commitment No. 16, the Joint Applicants have committed that (i) at least one  
21 director of PSE will be an Independent Director who is not a member,  
22 stockholder, director (except as such Independent Director of PSE), officer, or  
23 employee of Puget Holdings or its affiliates and (ii) the organizational documents  
24 for PSE will not permit PSE, without the unanimous consent of all its directors  
25 including the Independent Director, to consent to the institution of bankruptcy

1 proceedings or the inclusion of PSE in bankruptcy proceedings.

2 Additionally, the board of directors of PSE will include at least three directors  
3 who are residents of the region, one of whom shall be the chief executive officer  
4 of PSE, and the boards of directors of Puget Energy and Puget Holdings will  
5 include at least two directors who are residents of the region, one of whom shall  
6 be the chief executive officer of PSE. *See* Commitment No. 41.

7 **Q. Have the Joint Applicants made commitments that PSE will continue to**  
8 **abide by certain governance practices applicable to publicly-traded**  
9 **companies?**

10 A. Yes. In Commitment No. 43, the Joint Applicants have committed that PSE will,  
11 to the extent practical, comply with the rules applicable to a registrant under the  
12 rules of the New York Stock Exchange. The Joint Applicants have also  
13 committed pursuant to Commitment No. 44 that Puget Energy and PSE will  
14 continue to make the same SEC financial reporting requirements after closing of  
15 the Proposed Transaction with respect to disclosure requirements pursuant to  
16 Securities Exchange Act sections 13(a) and 15(d) and disclosure requirements  
17 pursuant to PSE's indenture covenants. Furthermore, the Joint Applicants have  
18 committed that each of Puget Energy and PSE will adhere to numerous  
19 requirements of the Sarbanes-Oxley Act. *See* Commitment No. 45. Finally, PSE  
20 will continue to meet all the applicable FERC reporting requirements with respect  
21 to annual reports (FERC Form 1) and quarterly reports (FERC Form 3) after  
22 closing of the Proposed Transaction. *See* Commitment No. 46.

1 **E. Local Presence Commitments**

2 **Q. What do the commitments provide with respect to local presence?**

3 A. In Commitment No. 17, the Joint Applicants commit that PSE and Puget Energy  
4 corporate headquarters will remain in PSE's service territory. Similarly, as  
5 discussed above, Commitment No. 41 provides that (i) the board of directors of  
6 PSE will include at least three directors who are residents of the region, one of  
7 whom shall be the chief executive officer of PSE, and (ii) the boards of directors  
8 of Puget Energy and Puget Holdings will include at least two directors who are  
9 residents of the region, one of whom shall be the chief executive officer of PSE.  
10 Together, Commitment No. 17 and Commitment No. 41 reflect the importance of  
11 retaining management within PSE's service territory and community  
12 representation on the boards of directors to be responsive to local concerns.

13 In Commitment No. 18, PSE and Puget Sound Energy Foundation committed to  
14 maintain PSE's existing level of corporate contributions and community support  
15 in the State of Washington (as identified by PSE for such region in its budget for  
16 2007) for a period five years after closing of the Proposed Transaction. This  
17 Commitment No. 18 makes clear that PSE will continue its role as an active,  
18 responsible corporate citizen in the communities it serves in the future. In  
19 addition, the commitment of Puget Holdings to make a one-time contribution of  
20 \$5 million to the Puget Sound Energy Foundation represents a benefit of the  
21 Proposed Transaction for those organizations receiving assistance from the  
22 Foundation.

1 **F. Rate Commitments**

2 **Q. What do the commitments provide with respect to rates?**

3 A. Commitment No. 11 provides a benefit to PSE's customers because it provides a  
4 mechanism for customers to realize any savings that result from the Proposed  
5 Transaction. Commitment No. 21 provides that the Joint Applicants will not seek  
6 recovery of the acquisition premium in PSE's rates. Furthermore, the  
7 Joint Applicants have committed in Commitment No. 21 that they will not request  
8 recovery of legal and financial advisory fees associated with the Proposed  
9 Transaction in PSE's rates. In Commitment No. 24, the Joint Applicants have  
10 committed not to advocate for a higher cost of debt or equity capital as compared  
11 to what PSE's cost of debt or equity capital would have been absent  
12 Puget Holdings' ownership.

13 **Q. How does the Settlement Stipulation address the issue of rate credits?**

14 A. In Commitment No. 34, the Joint Applicants have committed to provide rate  
15 credits of \$100 million (\$10 million per year for a 10-year period) commencing at  
16 the closing of the Proposed Transaction. These rate credits will be allocated  
17 between PSE's gas and electric operations on an annual basis based upon the  
18 traditional Federal Energy Regulatory Commission four-factor allocation  
19 methodology. For natural gas customers, these credits will be returned on an  
20 equal percent of margin basis to all natural gas customers. For electric customers,  
21 these credits will be returned on an equal percent of margin basis to all electric

1 customers.

2 **Q. Please describe the rate credits that the Joint Applicants have agreed to**  
3 **provide in Commitment No. 34(a).**

4 A. In Commitment No. 34(a), the Joint Applicants have committed to provide an  
5 annual \$8.8 million rate credit that is not offsettable and reflects the  
6 Investor Consortium's willingness to accept what, in effect, is a reduction in its  
7 returns for ten years. Based on the Investor Consortium's projections of the first  
8 ten years post closing of the Proposed Transaction, the magnitude of this credit  
9 has the effect of an average reduction in pre-tax return on equity (ROE) of  
10 24 basis points per year (\$8.8 million divided by an average rate base of  
11 approximately \$8 billion multiplied by an average equity ratio of  
12 approximately 47%) for the first ten years. This credit will be provided regardless  
13 of the actual ROE approved by the Commission during that ten-year period.

14 **Q. Please describe the rate credits that the Joint Applicants have agreed to**  
15 **provide in Commitment No. 34(b).**

16 A. In Commitment No. 34(b), the Joint Applicants have committed to provide rate  
17 credits that confirm a previous commitment to flow through to customers in  
18 future rate proceedings the \$1.2 million of savings that are expected to materialize  
19 from de-listing Puget Energy from the New York Stock Exchange. Commitment  
20 No. 34(b) commits to provide those benefits immediately, through an annual rate  
21 credit of \$1.2 million. This portion of the rate credit will be offsettable; to the

1 extent PSE can demonstrate in any subsequent rate proceeding that these savings  
2 are reflected in the underlying cost of service, this portion of the rate credit would  
3 cease to be provided separately to customers.

4 **Q. Have the Joint Applicants made any other commitments with respect to rate**  
5 **issues?**

6 A. Yes. The Joint Applicants have also made the following four commitments with  
7 respect to rate issues:

8 60. The Joint Applicants commit that they will not make any  
9 proposals to materially change or affect industrial service  
10 under rate Schedule 449, including any change to the  
11 methodology that is used for calculating rates for Schedule  
12 449 customers during the five-year period commencing as  
13 of the date of the closing of the Proposed Transaction.

14 61. The Joint Applicants agree that PSE will propose and  
15 support in its next general rate case rates for Schedule 40  
16 based on the current calculated rate methodology. Under  
17 the calculated rate methodology, Schedule 40 rates are  
18 equal to the high voltage (Schedule 49) charges (adjusted  
19 for power factor and losses) for power supply and  
20 transmission, plus the actual costs of all the PSE  
21 distribution facilities used to provide delivery services to  
22 the Schedule 40 customers.

23 62. PSE has no current plans to make any proposals regarding  
24 decoupling for natural gas customers in the State of  
25 Washington for the two-year period following the date of  
26 closing of the Proposed Transaction. The Joint Applicants  
27 agree that PSE will not make any proposals regarding  
28 decoupling for gas industrial customers during the two-year  
29 period commencing as of the date of closing of the  
30 Proposed Transaction.

31 63. PSE has no current plans to make any proposals regarding  
32 decoupling for electric customers in the State of  
33 Washington for the two-year period following the date of  
34 closing of the Proposed Transaction. The Joint Applicants



1 agree that PSE will not make any proposals regarding  
2 decoupling for electric industrial customers during the two-  
3 year period commencing as of the date of closing of the  
4 Proposed Transaction.

5 **G. Quality of Service Commitments**

6 **Q. What do the commitments provide with respect to quality of service?**

7 A. In Commitment No. 1, the Joint Applicants committed to continue the Service  
8 Quality Indices (“SQIs”) currently in place for PSE, as such SQIs may be  
9 amended or modified. PSE will continue to report to the Commission on its  
10 progress in meeting the SQI benchmarks and will continue to be subject to  
11 penalties if the benchmarks are not met.

12 **H. Low-Income Assistance Commitments**

13 **Q. What do the commitments provide with respect to low-income assistance?**

14 A. The Joint Applicants have committed to significant and meaningful commitments  
15 with respect to low-income assistance.

16 In Commitment No. 22, the Joint Applicants have committed to maintain existing  
17 low-income programs or as such programs may be modified in any future  
18 proceeding. In addition, the Joint Applicants have committed to increase the  
19 budgeted funding of low-income energy efficiency programs in future years at a  
20 level commensurate with increases in funding for energy efficiency programs for  
21 other residential customers through the CRAG process. The Joint Applicants

1 have committed in Commitment No. 23 to continue to work with low-income  
2 agencies to address issues of low-income customers.

3 Specifically, the Joint Applicants have agreed in Commitment No. 42 to PSE's  
4 proposal to increase bill assistance benefits for qualifying low-income customers  
5 by making the appropriate tariff filings in the on-going general rate case,  
6 Docket Nos. UE-072300 & UG-072301. Such proposal would increase the total  
7 aggregate funding cap for its low income customer bill assistance program to  
8 approximately \$15 million per year from approximately \$10.25 million per year.  
9 Commitment No. 42(a). Such Commitment No. 42 further provides that benefit  
10 funds not distributed to qualifying customers in any single program year would be  
11 able to be carried over to provide supplemental benefit funding to be available in  
12 the next program year. *See* Commitment No. 42(b). Finally, Commitment No. 42  
13 affirms PSE's proposal for clarification of the program accounting rules to define  
14 the program caps to include benefits and administrative costs. Amounts to be set  
15 in rates would include a gross-up over and above the program caps sufficient to  
16 cover PSE's revenue sensitive items.

17 **I. Environmental, Renewable Energy, and Energy Efficiency**  
18 **Commitments**

19 **Q. What do the commitments provide with respect to environmental, renewable**  
20 **energy, and energy efficiency issues?**

21 A. The Joint Applicants have provided extensive commitments with respect to  
22 environmental, renewable energy, and energy efficiency issues. The Joint

1 Applicants have recommitted to PSE's goal to acquire renewable resources, to the  
2 extent such resources are reasonably commercially available and determined to be  
3 necessary to meet load and cost-effective pursuant to PSE's established IRP and  
4 resource evaluation and acquisition processes, that will enable PSE to meet its  
5 internal objective of serving 10% of load with renewable energy resources by  
6 2013 provided that nothing in such commitment would prohibit PSE from  
7 retaining or selling renewable energy credits associated with such resources that  
8 are surplus to PSE's needs to meet Washington Renewable Portfolio Standards  
9 targets. *See* Commitment No. 49.

10 Additionally, the Joint Applicants have committed to support each of the  
11 following:

- 12 (i) PSE's Green Power Program (*see* Commitment No. 50);
- 13 (ii) PSE's net metering programs (*see* Commitment No. 51);
- 14 (iii) PSE's participation in national and regional forums  
15 regarding transmission issues, pricing policies, siting  
16 requirements, and interconnection and integration policies  
17 (*see* Commitment No. 52); and
- 18 (iv) PSE's annual greenhouse gas emissions inventory reports,  
19 including an inventory of total emissions from each of the  
20 sources listed in Table 2-1 of PSE's 2006 Greenhouse Gas  
21 Inventory Report (*see* Commitment No. 53).

22 Additionally, PSE has committed to file a carbon-offset program for PSE's  
23 natural gas customers with the Commission within two years of closing of the  
24 Proposed Transaction. This pilot program would allow PSE's customers to offset  
25 the greenhouse gas emissions associated with their natural gas use. Customers'  
26 participation in the program will be voluntary. *See* Commitment No. 54.

1 Finally, each of the Joint Applicants agrees that PSE will (a) consider the final  
2 recommendations of the Oregon Public Utility Commission in Docket UM 1302  
3 within the context of the IRP; and (b) report to the Commission and the parties to  
4 this proceeding the results of PSE's assessment of the final recommendations of  
5 the Oregon Public Utility Commission in Docket UM 1302 and their applicability  
6 to PSE's IRP process within twelve months of the close of the Proposed  
7 Transaction. *See* Commitment No. 55.

8 **IV. THE SETTLEMENT STIPULATION SATISFIES THE**  
9 **PARTICIPATING PARTIES' INTERESTS AND**  
10 **IS CONSISTENT WITH THE PUBLIC INTEREST**

11 **A. Statement of the Joint Applicants**

12 **Q. Will the Proposed Transaction serve the interests of PSE's customers?**

13 A. Yes. The Proposed Transaction serves the interests of PSE's customers for  
14 several reasons. First, it provides PSE access to the large amounts of capital  
15 needed to allow the utility to replace aging energy delivery system infrastructure  
16 in order to maintain reliable electric and gas distribution systems and acquire new  
17 electric generating resources needed to meet the growth in the region. The  
18 individual members of the Investor Consortium are experienced, long term  
19 holders of infrastructure investments with significant assets under management.  
20 These investors, as members of Puget Holdings, have committed to invest  
21 \$3.4 billion in the Proposed Transaction, and have arranged sufficient capital to  
22 support the five-year capital program proposed by PSE management, thereby

1 eliminating the external financing risk posed by continued public ownership of  
2 PSE. With an aggregate of \$499 billion assets under management, the Investor  
3 Consortium is capable of investing additional capital to benefit PSE and its  
4 customers. In particular, the pension plan assets that comprise a significant  
5 percentage of the Consortium's aggregate assets under management, are projected  
6 to continue growing over the upcoming years. For example, CPPIB, the second  
7 largest single-investor in Puget Holdings, with a 28.1% interest, has seen its  
8 assets under management grow from \$C81 billion in 2005 to \$C123 billion in  
9 2008, and projects its assets under management to reach C\$311 billion in 2019,  
10 based on recent actuarial reports. The investors are actively seeking opportunities  
11 to invest significant funds in stable, long-term infrastructure investments and, as  
12 evidenced by their \$3.4 billion commitment to this transaction, their investment  
13 objective matches well with PSE's capital infrastructure needs over the next  
14 several years. If the opportunity presents itself, the investors are able to  
15 contribute significant additional equity towards prudent investments in PSE that  
16 are consistent with the growth of the business and that receive reasonable  
17 regulatory treatment.

18 Second, and related to the above, the Joint Applicants have committed to maintain  
19 a capital structure at PSE that consists of at least 44 percent equity in the future.  
20 This commitment, along with the commitment to limit the payment of dividends  
21 if PSE and Puget Energy do not meet certain financial metrics, provides  
22 additional assurance to PSE's customers that PSE will be provided with new  
23 equity or retain earnings in order to maintain PSE's financial integrity. This is an

1 assurance that customers do not have under the status quo.

2 Third, Puget Holdings has made commitments that will ensure that PSE remains a  
3 locally managed utility responsive to the needs of the region it serves. The boards  
4 of Puget Holdings, Puget Energy and PSE will include substantial local  
5 representation. The Joint Applicants will honor existing labor contracts and will  
6 seek to retain existing management. Continuity of management will ensure  
7 continued commitment to service. In this regard, the Investor Consortium has  
8 agreed to continue the SQIs currently in place for PSE, as such SQIs may be  
9 amended or modified. Following the Proposed Transaction, customers can expect  
10 that the high level of service and dependability for which PSE is known will  
11 continue.

12 Fourth, the Investor Consortium has committed to provide rate credits of  
13 \$100 million (\$10 million per year for a 10-year period) commencing at the  
14 closing of the Proposed Transaction.

15 **Q. Does the Proposed Transaction harm PSE's customers or the public**  
16 **generally?**

17 A. No, to the contrary, the Proposed Transaction, as amended by the Settlement  
18 Stipulation and the numerous commitments contained therein, provides  
19 significant benefits to PSE's customers, as discussed above. Additionally, the  
20 Joint Applicants have made numerous commitments that insulate PSE and its  
21 customers from the financial activities of its affiliates.

1 **Q. Please describe why the Investor Consortium is well suited to fulfill PSE's**  
2 **capital needs in the future?**

3 A. The members of the Investor Consortium have already invested, and have  
4 committed to invest, significant capital in PSE. As discussed above, the long-  
5 term investment goals of the members of the Investor Consortium fit well with  
6 PSE's need for significant capital investment over the foreseeable future.  
7 Furthermore, each member of the Investor Consortium understands its  
8 responsibility to PSE and the region as an owner of the utility, and no member of  
9 the Investor Consortium takes that responsibility lightly. As evidenced by the  
10 \$3.4 billion of their own capital that the members of Puget Holdings are investing  
11 in the Proposed Transaction, the investors have an enormous and undeniable  
12 incentive to take the actions necessary to ensure PSE's financial health and  
13 integrity going forward. That incentive, combined with the extensive  
14 commitments, provide further assurances to customers and the Commission that  
15 the Investor Consortium will, in fact, do what is right to make certain that PSE is  
16 financially strong and able to meet the energy needs of its customers in the future.  
17 The Joint Applicants have entered in to these commitments contained in the  
18 Settlement Stipulation to provide assurance and memorialize the fact that each  
19 member of the Investor Consortium is committed to be a responsible corporate  
20 steward.

1 **Q. Why does the Settlement Stipulation satisfy the interests of the Joint**  
2 **Applicants?**

3 A. Appendix A to the Settlement Stipulation includes 63 commitments that address  
4 issues of importance to PSE’s customers. Among these are new commitments to  
5 address the issues identified by the other parties to the proceeding in responsive  
6 testimony and exhibits and in the settlement discussions. The Settlement  
7 Stipulation also includes commitments that reflect Puget Holdings’ willingness  
8 and ability to deploy capital to meet PSE’s significant infrastructure needs,  
9 including increased investment in generation, transmission, distribution,  
10 renewable energy, and energy efficiency.

11 The Joint Applicants believe that the Settlement Stipulation includes the finding  
12 that the Proposed Transaction meets the public interest standard under WAC 480-  
13 143-170 for Commission approval. For all of the above reasons, each of the  
14 Joint Applicants submit that this “public interest” finding is well-supported in the  
15 record, and that the Settlement Stipulation should be accepted by the Commission  
16 as the basis for granting approval of the Proposed Transaction.

17 **B. Statement of Commission Staff**

18 **Q. Do the commitments contained in the Settlement Stipulation address the**  
19 **risks previously identified by Commission Staff?**

20 A. Yes. The financial and other related commitments in the Settlement Stipulation  
21 are sufficient to protect customers from the higher financial risks Commission



1 Staff identified related to the new ownership structure than exist in the status quo.

2 **Q. Please explain how the commitments address financial leverage at the closing**  
3 **of the Proposed Transaction.**

4 A. With respect to the amount of financial leverage at closing of the Proposed  
5 Transaction, Commitment No. 59 requires the Investor Consortium to increase the  
6 amount of equity investment in the purchase of Puget Energy by \$200 million,  
7 thereby reducing the debt leverage in the acquisition. This decrease in leverage in  
8 the capital structure at Puget Energy will be received positively by both credit  
9 ratings agencies examining Puget Energy's creditworthiness and by the  
10 consortium of banks providing debt facilities to Puget Energy and PSE.

11 **Q. Please explain how the Settlement addresses Staff's concern about PSE's**  
12 **ability to access capital in the future.**

13 A. Commitment No. 35, as described above, clarifies Puget Holdings' ability to  
14 access public markets in addition to the Investor Consortium to fund investments  
15 in Puget Energy and PSE. In addition, it clarifies PSE's ability to issue securities  
16 directly to Puget Holdings and the public markets. This Commitment No. 35  
17 addresses the concern of Commission Staff that Puget Energy and the Investor  
18 Consortium might not be able to or might choose not to fund additional capital  
19 requirements at PSE.

1 **Q. Please explain how the commitments address the concern relating to the**  
2 **refinancing risk in five years.**

3 A. Commitment No. 57 commits the Investor Consortium to mitigate refinancing  
4 risk by developing a plan to refinance the term loan using medium-term and/or  
5 long-term financing and then documenting their efforts to achieve this objective.  
6 Although this apparently was the Investor Consortium's objective all along, such  
7 plan was not clearly described in any of the documents reviewed by Commission  
8 Staff. Importantly, the plan will be made available to the Commission and other  
9 interested parties so that they can monitor such efforts.

10 **Q. Please explain how the commitments address the concern about the ratings**  
11 **impact of Puget Energy on PSE due to effects of the Proposed Transaction.**

12 A. The combination of Commitment Nos. 8 and 25 relating to ring-fencing  
13 provisions and a non-consolidation opinion and Commitment No. 39 relating to  
14 ratings separation address concerns of Commission Staff.  
15 Commitments Nos. 8 and 25 are important to ratings at PSE because the ring-  
16 fencing provisions that are tied to a non-consolidation opinion are important to  
17 achieve a separate credit rating for Puget Energy and for PSE in the event of  
18 problems at either entity. In addition, if the non-consolidation opinion cannot be  
19 achieved with the current ring-fencing provisions, the Commission will have a  
20 hand in approving additional ring-fencing provisions necessary to receive a non-  
21 consolidation opinion.

1 Commitment No. 39 requires the Joint Applicants to make best efforts to obtain a  
2 rating separation between PSE, the operating utility, and Puget Energy, the  
3 holding company. This Commitment No. 39 also requires the Joint Applicants to  
4 report on their efforts to obtain the separation and propose additional  
5 commitments if the objective is not met. Although there are no guarantees that a  
6 rating separation can be achieved, Commitment No. 39 ensures that the Joint  
7 Applicants will use its best efforts to obtain ratings separation to protect PSE. If,  
8 however, it cannot be achieved, the Commission will have the opportunity to  
9 participate and propose additional commitments by the Joint Applicants.

10 **Q. Please explain how the commitments address the concern about the financial**  
11 **impact on PSE of the Investor Consortium's dividend requirements.**

12 A. The Settlement Stipulation provides a comprehensive set of commitments  
13 designed to protect PSE from any adverse impacts of the new dividend  
14 requirements on PSE. These are Commitment Nos. 36, 37 and 40.

15 Commitment Nos. 36 and 40 are designed to protect PSE from financial difficulty  
16 and will restrict dividends from PSE and Puget Energy during financial stress.

17 Commitment No. 37 limits Puget Energy's ability to make dividend distributions  
18 to Equico, and ultimately to Puget Holdings, if Puget Energy does not meet an  
19 EBITDA to consolidated interest expense ratio, thereby maintaining cash at  
20 Puget Energy.

1 **Q. Please explain how Commitment Nos. 36, 37 and 40 work to protect PSE.**

2 A. Commitment Nos. 36 and 40 specifically address dividend distributions from PSE  
3 to Puget Energy.

4 Commitment No. 36 prohibits distributions of dividends if PSE's equity ratio  
5 would drop below 44% as a result of any such distribution. This Commitment  
6 No. 36, in effect, compels the Joint Applicants to be sure that Puget Energy is  
7 capable of making further equity investments in PSE to allow dividend  
8 distributions from PSE to Puget Energy. If Puget Energy cannot make further  
9 equity investments in PSE for any reason, this provision ensures that PSE will  
10 maintain the equity ratio committed to by the Joint Applicants through the  
11 retention of earnings at PSE.

12 Commitment No. 40 further creates limits on dividend distributions from PSE to  
13 Puget Energy by adding criteria for controlling dividend distributions. There are  
14 no limits on dividends if a ratio of EBITDA to interest expense at PSE is 3 to 1  
15 and PSE's investment grade credit ratings are maintained. However, if PSE loses  
16 its investment grade credit rating, but PSE still meets the first criterion, the  
17 dividends are restricted in amount, and the Commission will become involved in  
18 any decisions for additional dividend distributions. If PSE fails to meet both  
19 criteria, PSE is prohibited from distributing any dividends whatsoever.

20 Commitment No. 37 works to protect PSE because it places a restriction on  
21 Puget Energy's ability to make distributions if its EBITDA to consolidated

1 interest expense ratio falls below 2 to 1. This has the effect of conserving cash at  
2 Puget Energy for interest and debt payments rather than for dividend distributions  
3 to Equico, and ultimately the Investor Consortium. The effect is to improve the  
4 financial condition of Puget Energy, if necessary, thereby mitigating the need for  
5 PSE to make dividend distributions to Puget Energy.

6 **Q. Please explain how the commitments address the concern about the financial**  
7 **impact on PSE due to the goodwill on Puget Energy's books as a result of the**  
8 **transaction.**

9 A. With respect to the potential impairment of goodwill on Puget Energy's books,  
10 Commitment No. 35 effectively addresses this issue by clarifying PSE's ability to  
11 raise financing directly if Puget Energy cannot do so.

12 In addition, as discussed above, Commitment Nos. 36 and 40 effectively address  
13 Commission Staff's concerns with a potential goodwill impairment charge at  
14 Puget Energy by restricting dividend distributions by PSE to Puget Energy if they  
15 would have a detrimental impact on PSE's financial condition.

16 **Q. Based on your review of the commitments in the Settlement Stipulation, what**  
17 **is your conclusion?**

18 A. Commission Staff concludes that the commitments in the Settlement Stipulation  
19 are sufficient to protect customers from the increased financial risks related to the  
20 new ownership structure previously identified by Commission Staff. Commission  
21 Staff therefore supports the Settlement Stipulation and recommends that the

1 Commission approve the Proposed Transaction subject to those commitments.

2 **C. Statement of ICNU**

3 **Q. Why does the Settlement Stipulation satisfy the interests of ICNU?**

4 A. As a total package, the Settlement Stipulation and commitments address the  
5 concerns raised by ICNU in this proceeding. Compared to the original filing,  
6 customers will benefit from additional ring fencing provisions, rate credit, and  
7 equity infusions. In addition, the protections for Schedule 449 and Schedule 40,  
8 as discussed in Mr. Early's separate testimony are critically important for ICNU's  
9 members.

10 **D. Statement of NWIGU**

11 **Q. Why does the Settlement Stipulation satisfy the interests of NWIGU?**

12 A. WAC 480-143-170 provides that the Commission will deny an application if it  
13 determines that "the proposed transaction is not consistent with the public  
14 interest." NWIGU supports the Settlement Stipulation in conjunction with the  
15 commitments as set forth in Appendix A as in the public interest and urges the  
16 Commission to approve the Proposed Transaction only upon these collective  
17 conditions. From NWIGU's perspective, the end result of the Proposed  
18 Transaction, in conjunction with the Settlement Stipulation and its commitments,  
19 now creates a new structure with ownership parameters for PSE that are  
20 accomplished without harm to PSE's customers. In particular, PSE's customers

1 are protected from financial harm through the ring-fencing provisions, insertion of  
2 a new bankruptcy-remote, special purpose entity without debt serving as an  
3 intermediate holding company in the corporate structure (“Equico”), access to  
4 records, continuation of separate credit ratings and financial disclosures, the  
5 infusion of substantial additional capital into the Proposed Transaction by the  
6 Joint Applicants, credit facilities dedicated to support PSE’s capital expenditure  
7 program, dividend restrictions and other measures that have been designed to  
8 protect customers.

9 Numerous commitments protect PSE and its customers by ring-fencing PSE in the  
10 event of financial stress of Puget Holdings. Within 90 days of the Proposed  
11 Transaction closing, PSE and Puget Holdings will file a non-consolidation  
12 opinion with the Commission which concludes that the ring-fencing provisions  
13 are sufficient such that a bankruptcy court would not order the substantive  
14 consolidation of the assets and liabilities of PSE with those of Puget Energy or its  
15 affiliates or subsidiaries. Further provisions limit PSE’s ability to make dividends  
16 under key circumstances to protect PSE’s financial health, and thereby protect the  
17 interests of PSE’s ratepayers. For example, pursuant to Commitment No. 36, PSE  
18 shall not be allowed to make any distribution unless the PSE common equity ratio  
19 after the distribution is not less than 44 percent, unless a lower equity ratio is  
20 established for ratemaking purposes by the Commission.

21 NWIGU’s interests are also satisfied through rate credits and other ratemaking  
22 limitations that benefit natural gas customers. PSE’s customers will benefit from

1 \$100 million in rate credits (\$10 million per year for a 10-year period)  
2 commencing at the closing of the Proposed Transaction. The rate credits will be  
3 allocated fairly between PSE's gas and electric operations on an annual basis  
4 based upon the traditional Federal Energy Regulatory Commission four-factor  
5 allocation methodology. For natural gas customers, these credits are  
6 appropriately returned on an equal percent of margin basis to all natural gas  
7 customers. In addition pursuant to Commitment No. 62, PSE will not make any  
8 proposals regarding decoupling for gas industrial customers for two years. From  
9 NWIGU's perspective, decoupling for gas industrial customers is not appropriate  
10 as most natural gas industrial load is through transportation service customers  
11 with variations in industrial throughput deriving from a host of economic factors  
12 for which NWIGU does not believe any utility should be made whole through  
13 decoupling. In addition to this appropriate limitation on PSE's rate design for the  
14 next two years, the Settlement Stipulation and commitments permanently  
15 preclude any recovery by Joint Applicants of the acquisition premium in PSE's  
16 rates and preclude PSE's customers from bearing the legal and financial advisory  
17 costs of the Proposed Transaction.

18 Finally in addition to addressing customers' financial and rate concerns,  
19 NWIGU's procedural concerns are met through the terms of the Settlement  
20 Stipulation and commitments with appropriate and fair provision for access to  
21 information pertaining to the fulfillment of the commitments in the future.



1 **E. Statement of The Energy Project**

2 **Q. Why does the Settlement Stipulation satisfy the interests of The Energy**  
3 **Project?**

4 A. The low-income rate assistance program (HELP) has worked well under PSE but  
5 has been limited in the number of low-income customers that can receive  
6 assistance. The historical practice of linking increased HELP funding to the  
7 percentage increase in rates approved in a general rate case does not address the  
8 problem of expanding the number of low-income customers who could obtain  
9 assistance from HELP. This indexing of funds to an increase in approved rates  
10 keeps the program at the status quo. The commitments in this docket as well as  
11 PSE's current rate case proposals make an effort to allow more low-income  
12 customers to participate in HELP as energy become more expensive.

13 PSE also provides funding for home weatherization measures for low-income gas  
14 and electric heat customers. Funds are used for single family, multifamily and  
15 mobile home residences. Without funding for this program, most low-income  
16 customers could not afford to weatherize their residences. However, the overall  
17 budget has not increased in over five years. In Commitment No. 22, the Joint  
18 Applicants commit to increase the budget funding for this program in future years  
19 at a level commensurate with increases for other residential customers.

20 The Energy Project believes these are positive steps today, and the agreements to  
21 continue with program enhancements in the future will mitigate the increasing

1 cost of energy for some low-income customers.

2 **F. Statement of NWEC**

3 **Q. Why does the Settlement Stipulation satisfy the interests of NWEC?**

4 A. In addition to the commitments that the Joint Applicants presented as part of their  
5 original filing, the Settlement Stipulation contains several new commitments in  
6 the areas of energy efficiency, renewable energy resources, greenhouse gas  
7 emissions, and low-income energy services (Commitment Nos. 22, 42, 47-55).  
8 The new commitments are more detailed and issue-specific, and affirm that  
9 Puget Holdings and its investors are willing to fully support PSE's clean energy  
10 programs and low-income energy services. On the whole, therefore, NWEC  
11 believes that the Settlement Stipulation represents a satisfactory resolution of  
12 clean and affordable energy issues for purposes of this proceeding.

13 In particular, NWEC believes that the new commitments evidence a substantial  
14 level of support for PSE's ongoing efforts to acquire renewable energy resources.  
15 In Commitment No. 49, for example, Puget Holdings agrees that PSE will acquire  
16 renewable energy resources (if certain conditions are satisfied) that will enable  
17 PSE to meet not just its obligations under Washington law and the state's  
18 Renewable Portfolio Standard, but also PSE's internal objective of serving 10%  
19 of load with renewable energy resources by 2013. To NWEC, this is a positive  
20 outcome of the Settlement Stipulation, and one that will help PSE to remain a  
21 leader in the regional utility industry in the areas of clean and affordable energy

1 issues.

2 **G. Statement of the Joint Parties**

3 **Q. Why is the Settlement Stipulation consistent with the public interest?**

4 A. The Settlement Stipulation is consistent with the public interest because it  
5 includes a comprehensive set of commitments that emphasize critical public  
6 service obligations, such as customer service, safety, system reliability, and  
7 diversity in resource mix, including renewable generation, and use of energy  
8 efficiency. At the same time, the Settlement Stipulation includes basic safeguards  
9 intended to protect PSE's customers from any financial distress experienced by  
10 other companies within the Puget Holdings' company structure. The Settlement  
11 Stipulation provides for rate credits, which will provide some financial security to  
12 offset potential risks associated with the Proposed Transaction. Finally, the  
13 Settlement Stipulation protects the Commission's ability to regulate in the public  
14 interest and set rates that are just, fair, reasonable and sufficient by guaranteeing  
15 full access to all relevant information and by confirming that approval of the  
16 Settlement Stipulation does not in any respect determine the prudence or  
17 reasonableness of any investment, expenditure or action undertaken the Joint  
18 Applicants under these commitments.

19 For these reasons, the Participating Parties recommend that the Commission  
20 accept the Settlement Stipulation and approve the Proposed Transaction.

**V. CONCLUSION**

1

2

**Q. Does this conclude your joint testimony?**

3

**A. Yes.**