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January 11, 2008

VIA HAND DELIVERY

Carole Washburn, Executive Secretary
Washington Utilities and Transportation Commission
1300 Evergreen Park Drive, SW
Olympia, WA 98504

**Re: Puget Sound Energy, Inc.
Docket Nos. UE-072300 and UG-072301**

Dear Ms. Washburn:

Enclosed for filing are the original and nineteen (19) copies of Puget Holdings LLC and Puget Sound Energy, Inc.'s Response to Motion to Consolidate in the above-captioned dockets.

Very truly yours,

Sheree Strom Carson

SSC:egm
Enclosures
cc: Service List

07771-0063/LEGAL13866481.1

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-072300

Docket No. UG-072301

(consolidated)

**PUGET SOUND ENERGY, INC.'S
RESPONSE TO JOINT MOTION TO
CONSOLIDATE**

INTRODUCTION

I Puget Holdings LLC (“Puget Holdings”) and Puget Sound Energy, Inc. (“PSE”) respectfully submit to the Washington Utilities and Transportation Commission (“WUTC” or “the Commission”) this response opposing the Joint Public Counsel and Staff Motion to Consolidate filed January 4, 2008 (“the Motion”). Public Counsel and Commission Staff (the “Joint Parties”) move to consolidate PSE’s general rate case (“GRC”) and the joint application of Puget Holdings and PSE for an order authorizing the proposed transfer of ownership and control of PSE to Puget Holdings (the “Transaction”). The Commission should deny the Motion because the GRC and Transaction are subject to different legal standards, there is minimal factual overlap between the cases, and consolidation of the Transaction and PSE’s GRC would create confusion, complicate both existing dockets, add administrative burdens, and potentially make settlement in both cases more difficult.

2 Moreover, the Joint Parties' arguments for consolidation would require that the Commission reject its long-standing requirement that an adjustment be "known and measurable" before it can be captured in rates.¹ Many of the anticipated impacts of the Transaction will occur beyond the rate-effective period in the GRC, and are not certain as to timing and amount (*i.e.*, they are not "known and measurable"). The commitments related to renewable energy and efficiency, for example, relate to investments that will not occur during the period relevant to the GRC. In addition to violating the "known and measurable" requirement, the Joint Parties' argument with respect to cost of capital is based on a double-leverage cost of capital theory that the Commission has rejected in the past because such a theory ignores the stand-alone structure of the utility.

MEMORANDUM

A. **The General Rate Case and Transaction Proceedings are Inappropriate Matters for Consolidation Because They Contain Different Legal Standards and Statutory Frameworks**

3 Consolidation can be appropriate where the facts or legal principles are related. *See* WAC 480-07-320. As discussed in more detail below, the relevant facts underlying PSE's GRC and the Transaction have little in common. For example, there is only one witness in common between the 16 witnesses providing testimony in the GRC and three witnesses providing testimony in the Transaction.

¹ *See* WAC 480-07-510(3)(b)(ii).

4 Additionally, the legal standards for the GRC and the Transaction are completely different. In a general rate case, PSE has the burden to demonstrate that the rates it is proposing are just and reasonable.² In a merger application, PSE and Puget Holdings (“Joint Applicants”) must demonstrate that the proposed transaction is consistent with the public interest—or stated another way—that the transaction does not cause harm to the public.³

5 The statutory framework for the two cases also differs. A general rate case is subject to a statutory suspension period.⁴ The Commission is thus required by law to issue a final order in PSE’s GRC by November 2008.⁵ There is not a similar statutory period in a merger application. Consolidating these two dockets with conflicting legal standards and statutory frameworks is not appropriate, and as discussed below, will increase confusion.

B. The Minimal Overlap of Issues Does Not Justify Consolidation

6 Contrary to the Joint Parties argument, there is not a significant overlap of key facts and issues between the Transaction proceeding and the GRC that justify consolidation.

1. The Capital Structure Requested by PSE in the General Rate Case Will Be Unaffected by the Outcome of the Transaction Proceeding

7 The Motion erroneously asserts that “[c]apital structure and cost of capital are key overlapping issues between the two cases.”⁶ But Commission Staff and Public Counsel fail to

² See RCW 80.04.130(4).

³ See WAC 480-143-170 and *In the Matter of the Application of PacifiCorp and Scottish Power plc*, Docket No. UE-981672, Third Supplemental Order at 2, 3 (Mar. 1999).

⁴ See RCW 80.04.130(1).

⁵ See *id.*

⁶ Motion at 3.

support this assertion or demonstrate how capital structure and cost of capital are issues--let alone key issues--in the Transaction proceeding. In fact, neither capital structure nor cost of capital is an issue in the Transaction proceeding which, as discussed above, has a “no harm” standard.

8 The Motion implies that Commission Staff and Public Counsel will pursue “double leverage” adjustments in PSE’s GRC, despite the fact that the Commission has rejected such double leverage arguments in the past.

9 Double leverage adjustments ignore the stand-alone capital structure of the utility. The Commission has consistently established rates on the *actual capital structure of the utility* without regard to the capital structure of the parent company.⁷ For example, in PSE’s last general rate case, the Commission concluded that rates should be set on the “actual” equity ratio, rather than a “hypothetical” equity ratio:

The record does not demonstrate a compelling reason to approve a capital structure that contains more equity than is actually supporting the Company’s operations, and there is no certainty that the Company will actually increase its equity share during the rate year. Consequently, we find an actual rather than hypothetical capital structure should be used in this case.⁸

10 In the current general rate case, PSE is requesting a capital structure with a 45% equity ratio:

⁷ Indeed, the Commission has consistently ignored the capital structure of Puget Energy, which has a capital structure of 100% equity, when establishing rates for PSE.

⁸ *Wash. Utils. Transp. Comm’n v. Puget Sound Energy, Inc.*, Docket Nos. UE-060266 & UG-060267 (consolidated), Order No. 08, ¶78 (Jan. 5, 2007).

The Company's requested capital structure includes a requested 45% equity ratio which reflects; 1) the test year capital structure adjusted for a "known and measurable" sale of common stock, and 2) the average amount of equity expected to be outstanding during the rate year.⁹

11 PSE's actual capital structure during the test year (the twelve months ending September 30, 2007) consisted of 40.84% equity.¹⁰ Such actual capital structure, however, is not representative of PSE's current capital structure or the capital structure that will support utility operations during the rate year (calendar year 2009).

12 The Commission has deviated from the use of an actual capital structure to (i) reflect the actual or likely infusion of capital from a parent company and the general trend of increasing equity capitalization in the utility industry¹¹ and (ii) provide an important incentive to a utility with a weak balance sheet to increase the proportion of equity in its actual capital structure.¹² As discussed below, PSE's requested capital structure with an equity component of 45% reflects the first of these two exceptions.

13 Subsequent to the end of the test year, PSE's parent company, Puget Energy, Inc. ("Puget Energy"), entered into a Stock Purchase Agreement, dated as of October 25, 2007, with nine entities.¹³ On December 3, 2007, after receiving notice of early termination of the required

⁹ Exh. No. ___ (DEG-1T) in Docket Nos. UE-072300 & UG-072301 (consolidated) at 2:7-10.

¹⁰ See *id.* at 2:Table 1.

¹¹ See, e.g., *Wash. Utils. Transp. Comm'n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket No. UE-050684, Order 04 at ¶232 (Apr. 17, 2006) ("In view of these factors, we determine that an appropriate equity share should be higher than the historical equity share to reflect infusion of capital from ScottishPower and the general trend of increasing equity capitalization in the industry.").

¹² See, e.g., *Wash. Utils. Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket Nos. UE-011570 & UG-011571 (consolidated), Twelfth Supplemental Order (June 20, 2002) (adopting settlement stipulation).

¹³ See Exh. No. ___ (DEG-1T) in Docket Nos. UE-072300 & UG-072301 (consolidated) at 5:9 through 8:5; see also Exh. No. ___ (DEG-3) in Docket Nos. UE-072300 & UG-072301 (consolidated).

waiting period under the Hart-Scott-Rodino Act, Puget Energy completed the sale of 12.5 million shares to these nine entities for an aggregate offering price of approximately \$296 million.¹⁴

Puget Energy invested the net proceeds from this sale into PSE to support PSE's ongoing construction program and working capital needs.¹⁵ This stock sale is independent from and not contingent on approval of the proposed Transaction, and the equity infusion associated with such sale will remain with PSE whether or not the Transaction is ultimately consummated.¹⁶

¹⁴ Adjusting for such stock sale and equity infusion, PSE's capital structure (as of September 30, 2007) is as follows:¹⁷

ADJUSTED SEPTEMBER 30, 2007 CAPITAL STRUCTURE

| Capital Component | Reflecting Stock Sale |
|-----------------------------|------------------------------|
| Short-term Debt | 2.00% |
| Long-term Debt | 52.38% |
| Preferred Stock | .03% |
| Common Equity | 45.59% |
| Total Capitalization | 100.0% |

¹⁵ PSE's requested capital structure in the general rate case is substantially similar to the adjusted capital structure depicted above. PSE's requested capital structure contains less

¹⁴ See Form 8-K, filed with the Securities Exchange Commission on December 17, 2007, by Puget Energy and attached hereto as Exhibit A.

¹⁵ See *id.*

¹⁶ See Exh. No. ___ (DEG-1T) in Docket Nos. UE-072300 & UG-072301 (consolidated) at 6:3-8.

¹⁷ See *id.* at 7:Table 3.

equity and long-term debt and more short-term debt than the adjusted actual capital structure depicted above:¹⁸

REQUESTED CAPITAL STRUCTURE

| Capital Structure | Ratio |
|-----------------------------|---------------|
| Short-term Debt | 4.93% |
| Long-term Debt | 50.04% |
| Preferred Stock | .03% |
| Common Equity | 45.00% |
| Total Capitalization | 100.0% |

16 This requested capital structure is the capital structure that is actually supporting PSE's operations and is consistent with the basis on which the Commission generally sets rates. As discussed above, the stock sale and equity infusion is independent from and not contingent on the proposed Transaction. Thus, the capital structure requested by PSE in the GRC will be unaffected by the outcome of the Transaction proceeding.

2. The Consideration of Possible Effects of the Proposed Transaction in PSE's General Rate Case Would Violate the "Known and Measurable" Requirement for Pro Forma Adjustments

17 The Joint Parties assert that potential effects of the Transaction justify consolidation. For example, they assert that the Commission must consider, in PSE's GRC, an

¹⁸ See *id.*

increase in the debt of PSE's parent, Puget Energy, that may or may not occur if the proposed Transaction is consummated:

[t]he Macquarie Group has announced plans to add at least \$1.4 billion of new debt for Puget Energy, which already has a below investment grade bond rating from Moody's. The Commission will need to consider the effect of this increased debt on PSE's capital structure in the Rate Case.¹⁹

18 As discussed above, the Commission has consistently considered only the capital structure of the operating utility for ratemaking purposes. Further, it would be premature for the Commission to consider possible effects, if any, of the proposed Transaction on the GRC because they are not known and measurable. This is evidenced by the Commission's rejection of "double leverage" adjustments in PacifiCorp's 2005 general rate case, which was concurrent with the proceeding considering the sale of PacifiCorp to MidAmerican Energy Holdings Company ("MEHC"):

First, the record is insufficient to support the adjustments Staff and Public Counsel recommend. Both adjustments are based on critical assumptions regarding the final terms of MEHC's acquisition of PacifiCorp and of MEHC's consequent capital structure and balance sheet. Both adjustments make assumptions about the cost of any debt MEHC may issue as part of the acquisition. We understand that the transaction has now been closed, but our record closed well beforehand. We do not know the final terms and consequences of the transaction.²⁰

¹⁹ Motion at 3. PSE notes for the record that the Motion incorrectly states that Puget Energy "already has a below investment grade bond rating from Moody's." *Id.* In fact, Puget Energy does not currently have any debt in its corporate structure. Thus, neither Moody's nor Standard & Poor's has a bond rating for Puget Energy. See Exhibit No. ___ (EMM-1T) in Docket No. U-072375 at 35.

²⁰ *Wash. Utils. Transp. Comm'n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket No. UE-050684, Order 04 at ¶282 (Apr. 17, 2006). Ironically, the Motion points to the very same PacifiCorp proceedings to support its claims that the Commission must consider the proposed effects of the proposed transaction in the concurrent general rate case. Motion at 4. The Motion fails to mention, however, that the Commission entertained such

19 The same holds true for other potential cost savings resulting from the Transaction. To determine the rate treatment of hypothetical cost savings would be a departure from the Commission's long-standing practice of reflecting only adjustments that satisfy the "known and measurable" standard.

3. Transaction Commitments Regarding Customer Service, Energy Efficiency and Low Income Energy Assistance Do Not Necessitate Consolidation

20 The Commission should reject the Joint Parties' attempts to consolidate the Transaction and GRC based on commitments made by PSE and Puget Holdings to maintain and support current standards and goals relating to customer service, energy efficiency and low income assistance. In these Transaction commitments, PSE and Puget Holdings are committing to maintain and enhance PSE's existing goals and direction, despite the proposed change of ownership and control. A commitment to maintain currently required Commission standards and goals after the change in ownership does not create a sufficient link between these Transaction commitments and the general rate case to justify consolidation. And, of course, the transaction will not alter in any way PSE's obligation to comply with Commission standards and regulations.

C. Consolidation Will Increase Administrative Burden, Confuse the Separate Issues and Complicate Potential Settlement Discussions.

21 The Joint Parties argue that consolidation of the GRC and Transaction will increase judicial efficiency and ease administrative burdens. In reality, consolidation will

arguments regarding the potential effects of the merger in the context of the rate case and, as discussed above, rejected them.

increase the administrative burden, confuse the separate issues and unnecessarily burden parties that may be interested in participating in only one of the two proceedings. To illustrate, seventeen parties intervened in the merger of Puget Sound Power & Light Company with Washington Natural Gas,²¹ while only eight parties intervened in PSE's last general rate case.²²

22 To consolidate PSE's GRC and the Transaction proceeding would result in dragging additional parties that have interests only in the Transaction proceeding into a year-long rate case, with numerous witnesses unrelated to the Transaction. To introduce merger intervenors into a general rate case, and vice versa, would naturally impede resolution of individual issues, making settlement of even small issues more difficult and potentially jeopardizing the closing of the merger Transaction.²³

23 The Joint Parties claim that "PSE had the option of postponing the filing of the Rate Case until later in the year."²⁴ PSE had very little choice of when to file its GRC. In his prefiled direct testimony in the GRC, Exhibit No. ___ (EMM-1CT), Eric Markell explains the costs impacting the Company and the anticipated future impacts on the Company due to regulatory lag. PSE simply could not afford to delay filing its GRC.²⁵

²¹ See *In the Matter of the Application of Puget Sound Power & Light Co. and Wash. Nat. Gas Co.*, Docket Nos. UE-951270 & UE-960195 (consolidated), Fourteenth Supplemental Order at 3 (Feb. 5, 1997).

²² See *Wash. Utils. Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket Nos. UE-060266 and UG-060267 (consolidated), Order 02, ¶6 (March 23, 2006)

²³ The closing of the Transaction is subject to each party's approval of any conditions placed on the Transaction. See *In the Matter of the Joint Application of Puget Holdings LLC and Puget Sound Energy, Inc. For an Order Authorizing Proposed Transaction ("Transaction Application")*, Docket No. U-072375, Agreement and Plan of Merger (Attachment A to Joint Application) at 61 (Dec. 17, 2007).

²⁴ Motion at 7.

²⁵ See Exhibit No. ___ (EMM-1CT) in Docket Nos. UE-072300 & UG-072301 (consolidated) at 3:7-12:15; Exhibit No. ___ (EMM-3C) in Docket Nos. UE-072300 & UG-072301 (consolidated) at 10, and Exhibit No. ___ (EMM-5C) in Docket Nos. UE-072300 & UG-072301 (consolidated).

24 It is telling that the Joint Parties could not point to an order in which the Commission consolidated a general rate case with a merger application. The case they cite in support of consolidation involved a motion by the utility to consolidate the reconsideration of a general rate case order with a subsequent application for a rate increase,²⁶ which is a far different scenario than what is proposed in this case.

D. Staff and Public Counsel Have Previously Opposed Consolidation in Similar Situations

25 Significantly, at the prehearing conference in the PacifiCorp's 2005 general rate case, Docket UE-050684, neither Public Counsel nor Staff supported consolidation of the PacifiCorp general rate case with the PacifiCorp/MEHC transaction proceeding. In that case Public Counsel noted the lack of legal and factual issues between the two dockets and that PacifiCorp's transaction docket had a "fairly discreet set of factual and legal issues."²⁷ Counsel for Commission Staff stated that to the extent that issues from the transaction docket overlapped with those in the rate case, they could be resolved in the context of the rate case.²⁸ While PacifiCorp had not yet filed its transaction application at the time of that prehearing conference, PacifiCorp did so the next month, and no party argued for consolidation.²⁹

²⁶ See Motion at 7, citing *WUTC v. PacifiCorp d/b/a Pacific Power and Light*, Docket No. UE-050684, Order 05, ¶6.

²⁷ *Wash. Utils. Transp. Comm'n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket No. UE-050684, Prehearing Conference Transcript (June 6, 2005), Cromwell, TR. 18: 5 – 19: 1.

²⁸ *Id.*, Trotter, TR. 17:15-21.

²⁹ *In the Matter of the Joint Application of MidAmerican Energy Holdings Co. and PacifiCorp d/b/a Pac. Power & Light Co. for an Order Authorizing Proposed Transaction* Docket No. UE-051090, Joint Application (July 15, 2005).

26 While it is true that the Commission decided, immediately prior to the hearing in the 2005 PacifiCorp general rate case, that the issues of company ownership and the pending acquisition were material to determining a fair and just cost of capital, the Commission ultimately rejected the double leverage argument on which this relationship of the merger and general rate case was allegedly based.³⁰ As discussed above, this same double leverage argument that the Commission rejected in the PacifiCorp transaction appears to be the primary grounds upon which the Joint Parties base their case for consolidation.

27 As was the case in the PacifiCorp's transaction, the Transaction application here involves a discreet set of factual and legal issues. The same reasons that Public Counsel argued against consolidation in the PacifiCorp transaction apply here. It is not necessary or beneficial to consolidate the dockets. To the extent that any issues overlap, they can be resolved in the context of PSE's GRC, as was done in the PacifiCorp transaction.

28 In fact, the time frame of the Transaction filing supports separate dockets even more so than during PacifiCorp's transaction. PSE and Puget Holdings LLC have requested that the Commission issue a final order approving the transaction by July 1, 2008.³¹ In the past, the Commission has expeditiously reviewed and ruled on transactions such as this one.³² A final order in the Transaction proceeding in July 2008 would allow enough time for any appropriate

³⁰ See *Wash. Utils. Transp. Comm'n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket No. UE-050684, Order 04, ¶282 (Apr. 17, 2006).

³¹ See *Transaction Application*, ¶4.

³² See *PacifiCorp Transaction*, Docket No. UE-051090, Order 07 (Feb. 22, 2006) (issued seven months after initial filing) and *In the Matter of the Joint Application of MDU Resources Group, Inc. and Cascade Natural Gas Corp. For an Order Authorizing Proposed Transaction*, Docket No. UG-061721, Order 06, ¶1 (June 27, 2007) (issued seven months after initial filing).

and legitimate pro forma adjustments (*i.e.*, for items meeting the “known and measurable” standard) to be reflected in the GRC.³³ If necessary, the Commission could provide for a limited re-opening of the GRC record to accommodate effecting these adjustments.

E. The Motion Contain Numerous Factual Inaccuracies and Misstatements that Require Correcting

29 The Motion contains numerous misstatements regarding the record with respect to the issue of capital structure, which are corrected below.

1. Standard & Poor’s Representatives Have Indicated that the Credit Ratings of Puget Energy—Not PSE—May Be Affected As a Result of the Proposed Transaction

30 First, the following statement from the Motion creates the false impression that the proposed Transaction could result in a reduction of the ratings of PSE:

For example, Mr. Gaines’ testimony provides a report of Standard & Poor’s decision to place the ratings of both the holding company (Puget Energy, Inc.) and the utility subsidiary, PSE, “on CreditWatch with negative implications,” based on the announcement of the sale. The Commission will also have to consider the capital structure issue when determining whether the proposed ring-fencing measures are adequate in the sale docket.³⁴

31 The statement of the Standard & Poor’s representative, however, is clear that it is the rating of *Puget Energy*, not PSE, that could be affected by the Transaction:

³³ In his prefiled direct testimony on behalf of Puget Holdings and PSE, Christopher Leslie stated that cost savings will be reflected in subsequent rate proceedings, as such savings materialize. *See 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, Exhibit No. ___ (CJL-2), at 2. This was not intended to preclude consideration, in the ongoing GRC, of cost savings resulting from the Transaction, once the Transaction is approved and closes, if such cost savings are *known and measurable*.

“The action follows the announcement by Puget Energy that it has agreed sell itself for \$7.4 billion to a consortium of private investors led by Macquarie Infrastructure Partners, an affiliate of Macquarie Bank Ltd.,” said Standard & Poor’s credit analyst Antonio Bettinelli.

“The CreditWatch listing reflects *the possibility that debt ratings for Puget Energy could be lowered dependent on the final outcome of regulatory approval proceedings.*”³⁵

Puget Holdings and PSE have proposed an extensive set of ring-fencing provisions to insulate PSE from the activities of Holdings and its non-regulated subsidiaries.

2. PSE’s Ratemaking Capital Structure Is Not Affected by the Post-Transaction Buy-Down

32 Second, the Motion erroneously implies that PSE’s post-Transaction plan to buy-down short term debt would affect PSE’s ratemaking capital structure:

The interrelation of these cases is further reflected in the buy-down of short term debt in the Sale Case. This buy-down will increase PSE’s equity ratio, which is a fundamental issue in the Rate Case.³⁶

33 Although the Motion correctly notes that the proposed Transaction would increase the equity ratio of PSE’s capital structure, such increase in the equity component has no bearing on the GRC.

34 As discussed above, PSE has requested a capital structure with a 45% equity component--PSE’s actual capital structure as of September 30, 2007, adjusted to reflect the recent stock sale and equity infusion. PSE has not requested a capital structure with a 50.4%

³⁴ *Id.* (footnotes omitted).

³⁵ See Exh. No. ____ (DEG-7) in Docket Nos. UE-072300 & UE-072301 (consolidated).

³⁶ Motion at 4 (footnotes omitted).

equity component--PSE's *pro forma* capital structure at September 30, 2008, assuming that the proposed Transaction is consummated.³⁷ Thus, in the general rate case, PSE has requested a capital structure that contains an equity ratio (45.0%) that is substantially smaller than the equity ratio (50.4%) that PSE projects at September 30, 2008, if the proposed Transaction were approved and consummated. In other words, PSE has excluded this projected increase in the equity component of its capital structure from the general rate case because such projected increase is not a "known and measurable" event that should be considered for ratemaking.

3. The Acquisition Premium Paid by Puget Holdings to Take Puget Energy Private Has No Bearing on PSE's General Rate Case

35 Finally, the Motion erroneously implies that the acquisition premium "casts doubt" on PSE's current rates:

The proposed sale also has implications for the cost of equity in the Rate Case. Macquarie's decision to pay a 25 percent premium above market price for PSE stock casts doubt on the current allowed return on equity.³⁸

36 First, Puget Holdings, which contains a number of member investors and not just Macquarie, is paying a 25 percent premium above market price for Puget Energy stock--not PSE stock. More fundamentally, the acquisition premium is in line with mergers and acquisitions in the utility industry:

Usually, the stockholders of the target utility will not support a merger unless the acquiring company makes it worth their while. *To accomplish that, the acquiring company generally will offer the stockholders a*

³⁷ See Exh. No. ___ (EMM-4) in Docket Nos. UE-072300 & UG-072301 (consolidated) at 1:60-63.

³⁸ Motion at 4 (footnotes omitted).

*premium of 25 percent or more above the market value of their stock, whether in the form of cash or a stock exchange.*³⁹

Given that such acquisition premiums are common in mergers and acquisitions in the utility industry, the premium paid by Puget Holdings to acquire Puget Energy does not cast doubt on the current ROE authorized for PSE.

CONCLUSION

37 Consolidation is not necessary or beneficial. The legal standards applicable to the two cases differ. The alleged factual overlap that the Joint Parties claim is based on a presumed rejection of the “known and measurable” requirement of sound ratemaking practice and a presumed adoption of a flawed theory of double leverage that the Commission has rejected in the past. Moreover, rather than enhancing judicial efficiency, consolidation would complicate the administration of both cases. Accordingly, PSE respectfully requests that the Commission deny Public Counsel’s and Commission Staff’s Joint Motion to Consolidate.

³⁹ Robert P. Knickerbocker Jr. & Florence K.S. Davis, *The Acquisition Premium: A U-Turn in Merger Policy?*, PUBLIC UTILITIES FORTNIGHTLY, May 15, 1999, at 44-45 (emphasis added); see also the Preliminary Proxy Statement filed with the Securities and Exchange Commission by Puget Energy, Inc. at 40-46, available at <http://www.sec.gov/Archives/edgar/data/1085392/000104746907010342/a2181742zprem14a.htm>.

Respectfully submitted this 11 day of January 2008.

PERKINS COIE LLP


By 
Sheree Strom Carson, WSBA #25349
Jason Kuzma, WSBA #31830
Attorneys for Puget Holdings LLC and Puget Sound
Energy, Inc.

EXHIBIT A

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): December 17, 2007

| Commission File Number | Exact name of registrant as specified in its charter, state of incorporation, address of principal executive offices, Telephone | I.R.S. Employer Identification Number |
|---------------------------|---|--|
| 1-16305 | PUGET ENERGY, INC. A Washington Corporation 10885 - N.E. 4th Street, Suite 1200 Bellevue, Washington 98004-5591 (425) 454-6363 | 91-1969407 |

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 7.01 Regulation FD Disclosure

On December 17, 2007, the Company issued the following press release.

Puget Sound Energy and Consortium of North American Infrastructure Investors File Merger Application with Washington Utilities and Transportation Commission After Consortium Invests \$296 million and Puget Energy "Go-Shop" Process Ends

BELLEVUE, Wash. Dec. xx - Puget Sound Energy (PSE), a regulated utility subsidiary of Puget Energy (NYSE: PSD) providing electric and natural gas service to the growing Puget Sound region of western Washington, and a consortium of North American infrastructure investors today filed an application with the Washington Utilities and Transportation Commission (WUTC) to request its approval in connection with the proposed merger of Puget Energy announced on Oct. 26, 2007.

Under the terms of the merger agreement, the consortium will acquire all of the outstanding common shares of Puget Energy for \$30.00 per share in cash, subject to the approval of Puget Energy's shareholders and certain regulatory approvals, including those described below.

"We're taking the necessary steps to move forward with the merger by preparing and filing the requisite applications and materials to receive regulatory approval," said Stephen P. Reynolds, chairman, president and chief executive officer of Puget Energy and Puget Sound Energy. "We've made significant progress in the last few weeks to get us to this milestone of seeking approval from the WUTC."

On Dec. 3, 2007, after receiving notice of early termination of the required waiting period under the Hart-Scott-Rodino Act, Reynolds noted, Puget Energy completed the sale to the consortium of 12.5 million shares for an aggregate offering price of approximately \$296 million. This infusion will fund PSE's ongoing construction program and working capital needs.

Reynolds noted that during the go-shop process, which ended on Dec. 10, 2007, no proposal was received that could reasonably be expected to result in a proposal superior to the definitive merger agreement with the consortium led by Macquarie Infrastructure Partners (MIP), the Canada Pension Plan Investment Board and British Columbia Investment Management Corporation. The consortium also includes Alberta Investment Management, Macquarie-FSS Infrastructure Trust and Macquarie Group Limited.

"The results of the go-shop process have helped to confirm that partnering with the consortium comprised of committed and experienced long-term infrastructure investors will provide the best end result for our shareholders, customers, employees and the communities we serve in Western Washington," said Reynolds.

Under the terms of the merger agreement, Puget Energy had the right to solicit other acquisition proposals through Dec 10, 2007. The Puget Energy board of directors, with the assistance of financial advisor Morgan Stanley & Co. Incorporated, solicited interest from approximately 20 potential purchasers, including U.S. utility companies, non-U.S. utility companies, other energy companies and infrastructure investors. Puget Energy entered into confidentiality agreements with three of these entities and provided confidential information to them regarding Puget Energy and PSE.

Puget Energy and the consortium are continuing their efforts to complete the merger by the second half of 2008. Puget Energy and the consortium plan to submit filings with Federal Energy Regulatory Commission, the Federal Communications Commission, the Federal Trade Commission, and U.S. Department of Justice (under the Hart-Scott-Rodino Act) within the next few months. Puget Energy expects to hold its shareholder vote on the merger on a date to be determined after the Securities and Exchange Commission review of the preliminary proxy statement related to the merger.

About Puget Energy

Puget Energy (NYSE:PSD) is the parent company of Puget Sound Energy (PSE), a regulated utility, providing electric and natural gas service primarily to the growing Puget Sound region of Western Washington. For more information, visit www.PugetEnergy.com.

About Puget Sound Energy

Washington state's oldest and largest energy utility, with a 6,000-square-mile service territory stretching across 11 counties, Puget Sound Energy (PSE) serves more than 1 million electric customers and 725,000 natural gas customers. PSE, a subsidiary of Puget Energy (NYSE: PSD), meets the energy needs of its growing customer base primarily in Western Washington through incremental, cost-effective energy conservation, low-cost procurement of sustainable energy resources, and far-sighted investment in the energy-delivery infrastructure. PSE employees are dedicated to providing great customer service to deliver energy that is safe, reliable, reasonably priced, and environmentally responsible. For more information, visit www.PSE.com.

Forward Looking Statements

Certain statements in this press release regarding the proposed transaction between Puget Energy and the consortium of investors led by MIP constitutes "forward-looking statements" under the federal securities laws. These forward looking statements are subject to a number of substantial risks and uncertainties and may be identified by the words "will," "anticipate," "believe," "expect," "may" or "intend" or similar expressions. Actual results could differ materially from these forward-looking statements. Factors that might cause or contribute to such material differences include, but are not limited to, the ability of Puget Energy to obtain required regulatory and shareholder approvals of the merger, the possibility that the merger will not close or that the closing will be delayed, and other events and factors disclosed previously and from time to time in Puget Energy's filings with the SEC, including Puget Energy's Annual Report on Form 10-K for the year ended December 31, 2006. Puget Energy disclaims any obligation to update any forward-looking statements after the date of this news release.

You should not place undue reliance on any forward-looking statements contained herein. Except as expressly required by the federal securities laws, Puget Energy undertakes no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, changed circumstances or for any other reason.

Additional Information and Where to Find It

In connection with the proposed transaction, Puget Energy will file a proxy statement with the SEC. Before making any voting or investment decision, investors and security holders of Puget Energy are urged to carefully read the entire proxy statement and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information about the proposed transaction. A definitive proxy statement will be sent to the shareholders of Puget Energy in connection with the proposed transaction. Investors and security holders may obtain a free copy of the proxy statement (when available) and other documents filed by Puget Energy at the SEC's website at <http://www.sec.gov>. The proxy statement and such other documents may also be obtained at no cost from Puget Energy by directing the request to Puget Energy, 10885 NE 4th Street, PSE-08, Bellevue, WA 98004, Attention: Sue Gladfelter.

Participants in Solicitation

Puget Energy, its directors, executive officers and other members of its management, employees, and certain other persons may be deemed to be participants in the solicitation of proxies from Puget Energy shareholders in connection with the proposed transaction. Information about the interests of Puget Energy's participants in the solicitation is set forth in Puget Energy's proxy statements and Annual Reports on Form 10-K, previously filed with the SEC, and in the proxy statement relating to the transaction when it becomes available.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PUGET ENERGY, INC.

By: /s/ Jennifer L. O'Connor

**Jennifer L. O'Connor
Senior Vice President, General Counsel, Chief Ethics and
Compliance Officer and Corporate Secretary**

Dated: December 17, 2007

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CERTIFICATE OF SERVICE
DOCKET U-072300 and UG-072301

I hereby certify that I have this day served the foregoing, in accordance with WAC 480-07-150(6)(b), to the following persons via hand-delivery:

| | |
|--|--|
| Robert D. Cedarbaum, Senior Counsel 1400 S. Evergreen Park Dr. S.W. P.O. Box 40128 Olympia, WA 98504-0128 Phone: 360-664-1188 Fax: 360-586-5522 Email: bcedarba@wutc.wa.gov | Simon J. ffitich Public Counsel Section Office of Attorney General 800 Fifth Avenue, Suite 2000 Seattle, WA 98104-3188 Phone: 206-464-7744 Fax: 206-389-2058 Email: simonf@atg.wa.gov |
|--|--|

I hereby certify that I have this day served the foregoing, in accordance with WAC 480-07-150(6)(b), to the following persons via overnight mail:

| | |
|--|---|
| S. Bradley Van Cleve Irion Sanger Davison Van Cleve PC 333 SW Taylor, Ste 400 Portland, OR 97204 Phone: 503-241-7242 Fax: 503-241-8160 Email: bvc@dvclaw.com | Edward A. Finklea Chad Stokes Cable Huston Benedict Haagensen & Lloyd LLP 1001 SW Fifth Avenue, Suite 2000 Portland, OR 97204-1136 Phone: 503-224-3092 Fax: 503-224-3176 Email: efinklea@chbh.com cstokes@chbh.com |
| Ronald L. Roseman Attorney at Law 2011 – 14th Avenue East Seattle, WA 98112 Phone: 206-324-8792 Fax: 206-568-0138 Email: ronaldroseman@comcast.net | Danielle Dixon, Senior Policy Associate NW Energy Coalition 811 1st Avenue, Suite 305 Seattle, WA 98104 Phone: 206-621-0094 Fax: 206-621-0097 Email: danielle@nwenergy.org |

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|---|---|
| <p>Donald W. Schoenbeck Regulatory & Cogeneration Services, Inc. 900 Washington Street, Suite 780 Vancouver, WA 98660 Phone: 360-737-3877 Fax: 360-737-7628 Email: dws@r-c-s-inc.com</p> | <p>Paula E. Pyron Executive Director Northwest Industrial Gas Users 4113 Wolf Berry Court Lake Oswego, OR 97035-1827 Phone: 503-636-2580 Fax: 503-636-0703 Email: ppyron@nwigu.org</p> |
| <p>Robert B. Sheppard 30 Glacier Key Bellevue, WA 98006 Email: rbsheppard@comcast.net</p> | <p>Chuck Eberdt The Energy Project 1322 N. State Street Bellingham, WA 98225 360-255-2169 (Phone) 360-671-2753 (Fax) Email: Chuck_Eberdt@opcco.org</p> |
| <p>Norman Furuta Associate Counsel Department of the Navy 1455 Market Street, Suite 1744 San Francisco, CA. 94103-1399 Phone: 414-503-6994 Fax: 414-503-6688 Email: norman.furuta@navy.mil</p> | <p>Scott Johansen Associate Counsel Department of the Navy 1220 Pacific Highway San Diego, CA. 92132 619-532-4081 (Phone) 619-532-1663 (Fax) Email: scott.johansen@navy.mil</p> |
| <p>Kay Davoodi ACQ – Utilities Rates and Studies Office Naval Facilities Engineering Command – HQ 1322 Patterson Avenue, SE, Building #33 WA Navy Yard, D.C. 20374-5018 Phone: 202-685-3319 Fax: 202-433-7159 Email: khojasteh.davoodi@navy.mil</p> | <p>Ralph Smith Larkin and Associates 15728 Farmington Road Livonia, MI 48154 Phone: 734-522-3420 Fax: 734-522-1410 Email: RSmithLA@gmail.com</p> |
| <p>Maurice Brubaker Brubaker & Associates, Inc. 1215 Fern Ridge Parkway, Suite 208 St. Louis, MO 63141 Phone: 314-275-7007 Fax: 314-275-7036 Email: mbrubaker@consultbai.com</p> | <p>Mike L. Kurtz Kurt L. Boehm Boehm, Kurtz and Lowry 36 East Seventh St., Suite 1510 Cincinnati, OH 45202 Phone: 513-421-2255 Fax: 513-421-2764 Email: MKurtz@bkllawfirm.com Kboehm@bkllawfirm.com</p> |

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Dated at Bellevue, Washington, this 11th day of January, 2008.


Sheree Strom Carson