

**EXHIBIT NO. \_\_\_(JT-2CT)  
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 REBUTTAL TESTIMONY (CONFIDENTIAL) OF**

**WILLIAM N. HORTON  
ROBINSON K. KUPCHAK  
CHRISTOPHER J. LESLIE  
ERIC M. MARKELL**

**ON BEHALF OF COMMISSION STAFF, PUGET HOLDINGS LLC, AND  
PUGET SOUND ENERGY, INC. SUPPORTING SETTLEMENT STIPULATION**

**REDACTED  
VERSION**

**AUGUST 12, 2008**

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ON BEHALF OF COMMISSION STAFF, PUGET HOLDINGS LLC, AND  
PUGET SOUND ENERGY, INC. SUPPORTING SETTLEMENT STIPULATION**

**CONTENTS**

I.	INTRODUCTION .....	1
II.	THE SETTLEMENT STIPULATION AND THE COMMITMENTS CONTAINED THEREIN ARE IN THE PUBLIC INTEREST AND SHOULD BE ACCEPTED.....	4
A.	The Settlement Stipulation and the Commitments Contained Therein are Expected to Improve PSE’s Credit Rating .....	5
B.	The Settlement Stipulation and the Commitments Contained Therein are Expected to Strengthen PSE’s Capital Structure.....	7
C.	The Settlement Stipulation and the Commitments Contained Therein are Expected to Provide Substantial Rate Credits to PSE’s Customers and Benefit the Economy of the Puget Sound Region.....	18
III.	PUBLIC COUNSEL UNDERSTATES THE SIGNIFICANT BENEFITS PROVIDED BY THE INVESTOR CONSORTIUM AND THE RISKS ASSOCIATED WITH THE “STATUS QUO” .....	19
IV.	STATEMENT OF MR. WILLIAM N. HORTON ON BEHALF OF COMMISSION STAFF .....	23
V.	CONCLUSION.....	24

1                   **PREFILED JOINT REBUTTAL TESTIMONY (CONFIDENTIAL)**  
2                   **ON BEHALF OF COMMISSION STAFF, PUGET HOLDINGS LLC, AND**  
3                   **PUGET SOUND ENERGY, INC. SUPPORTING SETTLEMENT STIPULATION**

4                                   **I.       INTRODUCTION**

5       **Q.       Are you the same William N. Horton who has previously provided testimony**  
6                   **in this proceeding on behalf of Staff of the Washington Utilities and**  
7                   **Transportation Commission?**

8       A.       Yes, I am. I have provided response testimony in this proceeding, Exhibit  
9                   No. \_\_\_(WNH-1THC), on behalf of Staff of the Washington Utilities and  
10                  Transportation Commission (“Commission Staff”) and have participated in the  
11                  filing of joint testimony by the Participating Parties<sup>1</sup> in support of the proposed  
12                  Multiparty Settlement Stipulation (the “Settlement Stipulation”), Exhibit  
13                  No. \_\_\_(JT-1T).

14       **Q.       Are you the same Robinson K. Kupchak who has previously provided**  
15                   **testimony in this proceeding on behalf of Puget Holdings?**

16       A.       Yes, I am. I have provided rebuttal testimony in this proceeding, Exhibit

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<sup>1</sup> The “Participating Parties” are the following signatories to the Settlement Stipulation, dated July 23, 2008: Puget Holdings LLC (“Puget Holdings”); Puget Sound Energy, Inc. (“PSE”); Commission Staff; the Northwest Industrial Gas Users (“NWIGU”); the Industrial Customers of Northwest Utilities (“ICNU”); Northwest Energy Coalition (“NWEC”); The Energy Project; and The Kroger Company, on behalf of its Fred Meyer Stores and Quality Food Centers divisions (“Kroger”). Although each of the Participating Parties supports the Settlement Stipulation and the Commitments contained therein, each of NWIGU, ICNU, NWEC, The Energy Project, and Kroger believes that its interests do not require such party to participate in this joint rebuttal testimony.

1 No. \_\_\_(RKK-1HCT), on behalf of Puget Holdings and have participated in the  
2 filing of joint testimony by the Participating Parties in support of the Settlement  
3 Stipulation, Exhibit No. \_\_\_(JT-1T).

4 **Q. Are you the same Christopher J. Leslie who has previously provided**  
5 **testimony in this proceeding on behalf of Puget Holdings?**

6 A. Yes, I am. I have provided direct testimony, Exhibit No. \_\_\_(CJL-1T), and  
7 rebuttal testimony, Exhibit No. \_\_\_(CJL-8HCT), on behalf of Puget Holdings in  
8 this proceeding and have participated in the filing of joint testimony by the  
9 Participating Parties in support of the Settlement Stipulation, Exhibit No. \_\_\_(JT-  
10 1T).

11 **Q. Are you the same Eric M. Markell who has previously provided testimony in**  
12 **this proceeding on behalf of PSE?**

13 A. Yes, I am. I have provided direct testimony, Exhibit No. \_\_\_(EMM-1T), and  
14 rebuttal testimony, Exhibit No. \_\_\_(EMM-5CT), on behalf of PSE in this  
15 proceeding and have participated in the filing of joint testimony by the  
16 Participating Parties in support of the Settlement Stipulation, Exhibit No. \_\_\_(JT-  
17 1T).

18 **Q. What is the purpose of this joint rebuttal testimony?**

19 A. This joint rebuttal testimony responds to the issues raised in the response  
20 testimony of Public Counsel, Exhibit No. \_\_\_(SGH-11T), with regards to the

1 Settlement Stipulation and, where applicable, corrects certain inaccuracies.

2 **Q. Please summarize this joint rebuttal testimony.**

3 A. Public Counsel argues that the Proposed Transaction represents an “inferior  
4 choice”<sup>2</sup> for PSE, in comparison to having PSE remain part of a publicly-traded  
5 company. This argument is flawed because Public Counsel:

- 6 1. Undervalues the commitments offered in the Settlement  
7 Stipulation and the additional benefits the Investor  
8 Consortium is capable of bringing to PSE;
- 9 2. Overstates the risks associated with the Proposed  
10 Transaction, in particular the incremental debt being raised  
11 at Puget Energy, Inc. (“Puget Energy”) and its potential  
12 impact on PSE and its customers, particularly [REDACTED]  
13 [REDACTED]  
14 [REDACTED];
- 15 3. Misunderstands certain aspects of the Proposed  
16 Transaction, and associates the Proposed Transaction with  
17 information that has no bearing on it; and
- 18 4. Dismisses the testimony provided by the Joint Applicants  
19 detailing the significant challenges facing PSE in obtaining  
20 the necessary capital as a publicly-traded company in a  
21 challenging capital markets environment.

22 A more reasoned, fact-based view finds that the Proposed Transaction represents  
23 a superior choice for PSE going forward, specifically:

- 24 1. The Investor Consortium is providing a \$3.4 billion equity  
25 investment in the business. The members of the Investor  
26 Consortium are very large entities, currently managing a  
27 combined \$499 billion of capital as of March 31, 2008 for  
28 their clients. The Joint Applicants submit that this  
29 demonstrates that the Investor Consortium provides a

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<sup>2</sup> Exh. No. \_\_\_(SGH-11T) at page 3, line 14.

1 superior equity platform for PSE given its future capital  
2 needs.

3 2. Based on its review of the Settlement Stipulation, [REDACTED]  
4 [REDACTED]  
5 [REDACTED] and demonstrates that the  
6 Proposed Transaction will reduce, not increase, PSE's risk,  
7 compared to the status quo.  
8

9 3. Further, [REDACTED]  
10 [REDACTED] demonstrates that the totality  
11 of the commitments relating to dividend restrictions,  
12 minimum equity to capital ratios, governance, ownership  
13 structure and restrictions on the business purpose of Puget  
14 Energy, effectively insulates PSE from the financial  
15 activities of its affiliates.

16 This joint rebuttal testimony therefore seeks to address these concerns, reiterate  
17 the benefits of the Settlement Stipulation and the Proposed Transaction, and  
18 correct a number of inaccuracies in Public Counsel's response testimony.

19 **II. THE SETTLEMENT STIPULATION AND THE**  
20 **COMMITMENTS CONTAINED THEREIN ARE IN THE**  
21 **PUBLIC INTEREST AND SHOULD BE ACCEPTED**

22 **Q. Is the assertion by Public Counsel that the commitments offered in the**  
23 **Settlement Stipulation are "relatively limited measures that may**  
24 **incrementally change the tenor of the transaction but do not change its**  
25 **fundamental nature"**<sup>3</sup> **correct?**

26 A. No. The Settlement Stipulation offers very meaningful commitments that will  
27 result in a stronger utility. Specifically, the commitments are expected to

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<sup>3</sup> Exh. No. \_\_\_(SGH-11T) at page 3, line 20, through page 4, line 2.

1 (i) improve PSE’s credit ratings; (ii) strengthen PSE’s capital structure; and  
2 (iii) provide substantial rate credits to PSE’s customers and benefit the economy  
3 of the Puget Sound region. As a package, the commitments offered in the  
4 Settlement Stipulation are more substantial than the “relatively limited measures”  
5 suggested by Public Counsel.

6 **A. The Settlement Stipulation and the Commitments Contained Therein**  
7 **are Expected to Improve PSE’s Credit Rating**

8 **Q. Is the assertion of Public Counsel that “the bond rating of Puget is in**  
9 **question”<sup>4</sup> correct?**

10 A. No. Contrary to the assertion of Public Counsel, the Joint Applicants expect that  
11 the Proposed Transaction will *improve* the credit quality of PSE (and thus lower  
12 PSE’s debt costs paid by PSE customers) by:

- 13 1. increasing the equity ratio of PSE from 43.7% to 50.4%;
- 14 2. enforcing a minimum 44% equity ratio at PSE, unless a lower ratio  
15 is approved by the Commission for ratemaking; and
- 16 3. establishing a number of ring-fencing measures and dividend  
17 restrictions, including dividend restrictions directly tied to credit  
18 ratings; and
- 19 4. 

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<sup>4</sup> Exh. No. \_\_\_(SGH-11T) at page 7, line 12.

1 Q. [REDACTED]

2 [REDACTED]?

3 A. [REDACTED].

4 Q. [REDACTED]

5 [REDACTED]?

6 A. [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED].

15 [REDACTED]

16 [REDACTED]

17 [REDACTED].

18 Q. [REDACTED]

19 [REDACTED]?

20 A. [REDACTED]

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12

[REDACTED]

**B. The Settlement Stipulation and the Commitments Contained Therein are Expected to Strengthen PSE’s Capital Structure**

**Q. Does the Proposed Transaction add “substantial amounts of debt capital [that] would increase Puget’s financial risk” as claimed by Public Counsel?<sup>5</sup>**

A. No. The Proposed Transaction actually reduces the debt capital of PSE and reduces PSE’s financial risk. Indeed, the Proposed Transaction is projected to strengthen the capital structure of PSE:

	<b>Actual (Sept. 30, 2007)</b>	<b>Forecast Assuming No Consummation of the Proposed Transaction (at Sept. 30, 2008)</b>	<b>Forecast Assuming Consummation of the Proposed Transaction (at Sept. 30, 2008)</b>
Debt including Short-term & Current Maturities	60.4%	56.3%	49.6%
Preferred Stock	0.0%	0.0%	0.0%
Common Equity	39.6%	43.7%	50.4%
Total	100.0%	100.0%	100.0%

<sup>5</sup> Exh. No. \_\_\_(SGH-11T) at page 4, lines 5-6.

1 Exhibit No. \_\_\_(JT-4) at page 1.

2 Public Counsel’s assertion that the Proposed Transaction adds “substantial  
3 amounts of debt capital [that] would increase Puget’s financial risk”<sup>6</sup> is vague and  
4 confusing because it is unclear whether Public Counsel refers to Puget Energy or  
5 PSE. To the extent that Public Counsel’s assertion refers to PSE, the assertion is  
6 clearly incorrect given the strengthened capital structure demonstrated in Exhibit  
7 No. \_\_\_(JT-4). To the extent that Public Counsel’s assertion refers to Puget  
8 Energy, the Proposed Transaction does add debt to the balance sheet of Puget  
9 Energy because Puget Energy currently has no debt. The ring-fencing and other  
10 commitments contained in the Settlement Stipulation, however, protect PSE’s  
11 customers from the potential risks of this increased debt at Puget Energy,  
12 particularly in light of the strengthened capital structure of PSE resulting from the  
13 Proposed Transaction.

14 **Q. How do the Settlement Stipulation and the commitments contained therein**  
15 **strengthen PSE’s capital structure?**

16 A. In Commitment No. 35, the Joint Applicants have committed that (i) PSE will  
17 have a common equity ratio of not less than 50 percent as of the closing of the  
18 Proposed Transaction (or within sixty days thereof); and (ii) at all times  
19 thereafter, PSE will have a common equity ratio of not less than 44 percent,  
20 except to the extent a lower equity ratio is established for ratemaking purposes by

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<sup>6</sup> Exh. No. \_\_\_(SGH-11T) at page 4, lines 5-6.

1 the Commission. Furthermore, Commitment No. 36 would prohibit PSE from  
 2 declaring or making any PSE distribution unless, on the date of such PSE  
 3 distribution, the PSE common equity ratio after giving effect to such PSE  
 4 distribution is not less than 44%, except to the extent a lower equity ratio is  
 5 established for ratemaking purposes by the Commission. As discussed in more  
 6 detail below, these commitments provide protections to customers that do not  
 7 exist under the status quo, as PSE currently has no dividend restrictions or  
 8 minimum equity level. Together these commitments seek to ensure that the  
 9 capital structure of PSE does not deteriorate to the levels experienced in the midst  
 10 of the Western Energy Crisis of 2001.

11 **Q. Do you agree with Public Counsel’s suggestion that the Proposed**  
 12 **Transaction will cause PSE’s financial health to stop improving as a result of**  
 13 **the use of “significant amounts of debt capital”<sup>7</sup> and its bond rating**  
 14 **remaining in question?**

15 A. No. First, PSE’s financial health will be better than recent historical levels, given  
 16 the Commitment to have at least a 44% equity ratio, except to the extent a lower  
 17 equity ratio is established for ratemaking purposes by the Commission  
 18 (Commitment Nos. 35 and 36). Second, as discussed above, [REDACTED]  
 19 [REDACTED]. Third, Public  
 20 Counsel ignores the substantial upfront investment by the Investor Consortium in

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<sup>7</sup> Exh. No. \_\_\_ (SGH-11T) at page 7, lines 8-12.

1 the Proposed Transaction and the substantial reinvestment of PSE cash flow—

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED].

6 **Q. Can the Joint Applicants avoid dividend restrictions by paying “cash**  
7 **distributions that are greater than the operating cash flow of the**  
8 **infrastructure investment to its investment partners” as claimed by Public**  
9 **Counsel?<sup>8</sup>**

10 A. No. The Joint Applicants have committed as part of the Settlement Stipulation to  
11 maintain a minimum equity ratio at PSE of 44%, except to the extent a lower  
12 equity ratio is established for ratemaking purposes by the Commission.  
13 Distributing dividends to the Investor Consortium in excess of PSE’s operating  
14 cash flow would erode the equity base of PSE and result in a diminished equity  
15 ratio—triggering a dividend restriction that would prohibit future dividends until  
16 the equity ratio equals or exceeds 44%. Dividends from Puget Energy to Equico  
17 are further restricted by Commitments Nos. 37 and 40, and, as stated in previous  
18 testimony, there is no intention to issue any third-party debt at a level above Puget  
19 Energy, reinforced by Commitment No. 38, which prohibits Equico from issuing  
20 any debt whatsoever.

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<sup>8</sup> Exh. No. \_\_\_ (SGH-11T) at page 9, lines 15-16.

1 In regards to Commitment No. 40, the only Puget Energy debt covenant that  
2 relates to dividends from PSE to Puget Energy is the Debt Service Coverage Ratio  
3 covenant that requires dividends of 1.20 times interest coverage at that level. The  
4 metric cited by Public Counsel (FFO less Scheduled Base CapEx)<sup>9</sup> does not  
5 measure the cash that flows from PSE to Puget Energy.

6 Finally, the Joint Applicants have previously addressed Public Counsel's  
7 allegations made in regards to the RiskMetrics report.<sup>10</sup>

8 **Q. Is Public Counsel correct to question whether the creation of Equico, and**  
9 **inserting it into the ownership structure makes a “substantive difference**  
10 **with regard to [the] public interest aspects”<sup>11</sup> of the Proposed Transaction?**

11 A. No. As explained in Commitment No. 38, Equico will be a special purpose entity  
12 holding all the common stock of Puget Energy and no debt. As explained in the  
13 rebuttal testimony, the Joint Applicants offered to insert Equico between Puget  
14 Intermediate and Puget Energy to satisfy a ring-fencing recommendation of  
15 ICNU.<sup>12</sup> ICNU proposed that any entity owning Puget Energy stock should be  
16 capitalized with 100 percent equity and should not be able to issue any debt.<sup>13</sup>  
17 Because Equico will hold no securities other than Puget Energy common stock  
18 and have no binding financial obligations, it is “bankruptcy remote.”

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<sup>9</sup> See Exh. No. \_\_\_ (SGH-11T) at page 7, line 20, through page 8, line 1.

<sup>10</sup> See Exh. No. \_\_\_ (CJL-11) at Appendix C

<sup>11</sup> Exh. No. \_\_\_ (SGH-11T) at page 11, line 12.

<sup>12</sup> See Exh. No. \_\_\_ (CJL-8T) at page 28, lines 11-24.

<sup>13</sup> See Exh. No. \_\_\_ (MPG-1T) at page 25, lines 20-23.

1 **Q. How does the creation of Equico further protect PSE and its customers?**

2 A. The insertion of Equico between Puget Intermediate and Puget Energy further  
3 protects PSE and its customers because it provides structural separation between  
4 (i) Puget Energy and PSE and (ii) Puget Holdings, Puget Intermediate, or any  
5 member of the Investor Consortium. This structural separation protects Puget  
6 Energy and PSE from any business or financing risks of the parent companies  
7 above Puget Energy.

8 **Q. Is Public Counsel correct that Commitment No. 36, which requires PSE to**  
9 **maintain a 44 percent equity ratio (except to the extent a lower equity ratio is**  
10 **established for ratemaking purposes by the Commission), does not “help to**  
11 **protect the public interest in this transaction”?**<sup>14</sup>

12 A. No. The Commission regulates PSE’s rates and services based on PSE’s capital  
13 ratios. Commitment No. 36 provides direct benefits to PSE and its customers  
14 because it assures that PSE will be appropriately capitalized over the long term.  
15 Indeed, this Commitment No. 36 provides a significant improvement to the  
16 “status quo,” where external events can rapidly erode PSE’s equity ratio to the  
17 detriment of PSE and its customers.

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<sup>14</sup> Exh. No. \_\_\_\_ (SGH-11T), page 10, line 18, through page 11, line 5.

1 **Q. Does Public Counsel acknowledge an example where the “status quo” caused**  
2 **PSE’s equity ratio to be under significant distress to the detriment of PSE**  
3 **and its customers?**

4 A. Yes. Public Counsel explains in detail how, in response to the Western Energy  
5 Crisis in 2001, PSE’s equity ratio had significantly deteriorated and how the  
6 Commission, PSE and its customers developed a “multi-year ‘equity growth  
7 tracker’ plan” to rebuild PSE’s equity ratio. Public Counsel describes the  
8 financial toll this plan placed on PSE’s customers because the Commission used a  
9 hypothetical capital structure that contained more equity than PSE actually had for  
10 ratemaking purposes. Public Counsel also highlighted the fact that, even under  
11 the plan, it took several years (until 2007) before PSE’s bond rating outlook  
12 became positive.<sup>15</sup>

13 **Q. How would Commitment 36 have worked in that situation?**

14 A. Commitment No. 36 would have protected PSE by requiring that PSE maintain, at  
15 a minimum, a 44 percent equity ratio, or the equity ratio the Commission  
16 determined for ratemaking purposes, whichever was lower. If PSE’s equity ratio  
17 deteriorated below the minimum, the Investor Consortium could satisfy  
18 Commitment No. 36 by limiting dividends from PSE or by providing additional  
19 equity infusions, or a combination of the two.

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<sup>15</sup> See Exh. No. \_\_\_(SGH-1T) at page 5, lines 8-18.

1 **Q. If Commitment 36 had been in place during the Western Energy Crisis of**  
2 **2001, would it have been necessary for the Commission to “rebuild” PSE’s**  
3 **equity ratio?**

4 A. No.

5 **Q. If Commitment 36 had been in place during the Western Energy Crisis of**  
6 **2001, would it have been necessary for the Commission to set higher rates**  
7 **through use of a hypothetical equity ratio greater than PSE actually had, to**  
8 **improve PSE’s equity?**

9 A. No.

10 **Q. What does Public Counsel’s example demonstrate?**

11 A. Public Counsel’s example demonstrates that Commitment No. 36 is a significant  
12 protection to PSE and its customers as well as a benefit, particularly when  
13 compared to the “status quo.”

14 **Q. Is Public Counsel correct to assert that Staff stated in the Joint Testimony**  
15 **that “the dividend restriction commitments avoid the ‘impairment’ of**  
16 **goodwill created by the acquisition?”<sup>16</sup>**

17 A. No. Staff stated the following with respect to goodwill in the Joint Testimony:

18 In addition, as discussed above, Commitment Nos. 36 and 40  
19 effectively address Commission Staff’s concerns with a potential

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<sup>16</sup> Exh. No. \_\_\_(SGH-11T) at page 14, lines 16-18.

1 goodwill impairment charge at Puget Energy by restricting  
2 dividend distributions by PSE to Puget Energy if they would have  
3 a detrimental impact on PSE’s financial condition.<sup>17</sup>

4 This statement does not suggest that there could never be an impairment of  
5 goodwill; instead, it states that the dividend restrictions at PSE mitigate  
6 Commission Staff’s concerns if such impairment were to occur.

7 **Q. Is Public Counsel correct that the Settlement Stipulation and the**  
8 **commitments contained therein will not protect PSE and its ratepayers in the**  
9 **event the goodwill is impaired?<sup>18</sup>**

10 A. Puget Energy—not PSE—will book the goodwill associated with the Proposed  
11 Transaction; therefore, if there is any impairment of the goodwill, it will occur at  
12 Puget Energy—not PSE. Commitment Nos. 24, 35, 36, and 40 protect PSE and  
13 its ratepayers if, in the future, the goodwill on Puget Energy’s books is impaired.

14 **Q. Is a potential impairment of the goodwill at Puget Energy likely to affect**  
15 **PSE’s credit ratings?**

16 A. No. As stated above, Puget Energy—not PSE—will carry the goodwill  
17 associated with the Proposed Transaction on its books. [REDACTED]

18 [REDACTED]

19 [REDACTED] Even if such a write-down of Puget Energy’s goodwill were to occur and  
20 result in PSE’s corporate credit rating falling below investment grade,

<sup>17</sup> Exh. No. \_\_\_(JT-1T) at page 42, lines 12-15.

<sup>18</sup> See Exh. No. \_\_\_(SGH-11T) at page 14, line 19, through page 15, line 5.

1 Commitment No. 24 would protect PSE and its ratepayers from any cost of capital  
2 increase to PSE that resulted from the write-down, and Commitment No. 40  
3 would restrict dividends from PSE to Puget Energy. This Commitment No. 40  
4 also bars Puget Energy from making any dividends whatsoever to the Investor  
5 Consortium, via Equico, without Commission permission, in the scenario where  
6 PSE's corporate credit rating is below investment grade—even if PSE still meets  
7 the financial ratio in subparagraph (a) of Commitment No. 40. If PSE also fails  
8 that financial ratio, PSE pays no dividends whatsoever.

9 The above-described commitments have two effects. First, they provide a strong  
10 incentive for the Investor Consortium to resolve the financial problem, if any, at  
11 Puget Energy. Second, they allow each of Puget Energy's and PSE's financial  
12 ratios to improve during the period in which the level of dividends to the  
13 Consortium is restricted. Finally, Commitment No. 36 assures the Commission  
14 that PSE will have at least a 44 percent equity ratio, except to the extent a lower  
15 equity ratio is established for ratemaking purposes by the Commission.

16 **Q. Do the Settlement Stipulation and the commitments contained therein seek to**  
17 **strengthen Puget Energy's capital structure?**

18 A. Yes. Pursuant to Commitment No. 59, the Joint Applicants commit to reduce the  
19 size of the Puget Energy term facility from \$1.425 billion to \$1.225 billion by  
20 investing an additional \$200 million of equity in Puget Energy.

1 **Q. Should the Commission be concerned that the additional \$200 million of**  
2 **equity reflected in Commitment No. 59 will be “obtained by a loan from**  
3 **Macquarie Capital or some other source,” as Public Counsel offers as a**  
4 **possibility?<sup>19</sup>**

5 A. No. Each of the members of the Investor Consortium entered into a letter  
6 agreement, dated as of August 5, 2008 (the “Side Letter”), whereby each member  
7 of the Investor Consortium agreed to an additional pro rata increase in its  
8 respective capital commitment to reflect Commitment No. 59. *See* Exhibit  
9 No. \_\_\_(JT-5).

10 **Q. When will the additional \$200 million of equity reflected in Commitment**  
11 **No. 59 be contributed to Puget Energy?**

12 A. Puget Energy will receive the additional \$200 million of equity reflected in  
13 Commitment No. 59 at closing of the Proposed Transaction. Upon such closing,  
14 Puget Energy will not draw under the term facility the incremental \$200 million  
15 (the difference between the \$1.425 billion term loan commitment and the \$1.225  
16 billion term loan drawdown); the commitment of the lenders for the incremental  
17 \$200 million will automatically be terminated in accordance with the terms of  
18 such term facility. *See* Exhibit No. \_\_\_(JT-5).

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<sup>19</sup> Exh. No. \_\_\_(SGH-11T) at page 4, line 19.

1 **Q. What will be the consolidated capital structure of Puget Energy (including**  
2 **PSE) at closing of the Proposed Transaction?**

3 A. At closing of the Proposed Transaction, the Joint Applicants project that the  
4 consolidated capital structure of Puget Energy will have 55.7% debt and  
5 44.3% equity. *See* Exhibit No. \_\_\_(JT-5) at page 2.

6 **C. The Settlement Stipulation and the Commitments Contained Therein**  
7 **are Expected to Provide Substantial Rate Credits to PSE’s Customers**  
8 **and Benefit the Economy of the Puget Sound Region**

9 **Q. Is Public Counsel correct that the rate credits offered in the Settlement**  
10 **Stipulation “can only be characterized as a modest proposal”?<sup>20</sup>**

11 A. No. The rate credits offered in Commitment No. 34 exceed, in both quantity and  
12 duration, any non-offsettable rate credits previously offered in any precedent  
13 transaction before this Commission involving an electric or natural gas utility.  
14 These rate credits will provide the economy of the Puget Sound region with a  
15 sizable economic stimulus over the course of the next decade and demonstrate the  
16 long-term commitment of the Investor Consortium to the region.

17 **Q. Do you agree with Public Counsel’s suggestion that the Investor Consortium**  
18 **cannot supply capital more cost-effectively than the public capital markets?**

19 A. No. Unlike virtually every other transaction approved by the Commission,

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<sup>20</sup> Exh. No. \_\_\_(SGH-11T) at page 3, lines 15-16.

1 \$88 million of the \$100 million of rate credits offered are not offsettable by any  
2 cost savings. These rate credits effectively equate to a reduction in the return on  
3 equity that PSE will be able to achieve for the decade following closing of the  
4 Proposed Transaction, which in turn will help to mitigate the impact on PSE's  
5 customers of the significant investment required to upgrade PSE's utility  
6 infrastructure over that period.

7 **III. PUBLIC COUNSEL UNDERSTATES THE SIGNIFICANT**  
8 **BENEFITS PROVIDED BY THE INVESTOR CONSORTIUM AND**  
9 **THE RISKS ASSOCIATED WITH THE "STATUS QUO"**

10 **Q. Does Public Counsel accurately reflect the commitments and benefits offered**  
11 **by the Settlement Stipulation and the Proposed Transaction?**

12 A. No. Public Counsel bases its argument upon a faulty premise--that the "status  
13 quo" is an alternative superior to the Proposed Transaction. Public Counsel,  
14 however, then describes the dire state of the capital markets, where "bank  
15 closings, very high commodity prices, nascent inflation, and a national and world  
16 economic environment that can only be described as poor, combine to paint a  
17 picture that calls for caution."<sup>21</sup> The Joint Applicants do not dispute Public  
18 Counsel's assertions that these are challenging times, particularly for a company  
19 facing a large capital shortfall in an uncertain environment. Indeed, Mr.  
20 Markell,<sup>22</sup> Ms. Campbell,<sup>23</sup> and Mr. Pettit<sup>24</sup> have each supplied extensive

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<sup>21</sup> Exh. No. \_\_\_ (SGH-11T) at page 17, lines 15-18.

<sup>22</sup> See Exh. No. \_\_\_ (EMM-1T) and Exh. No. \_\_\_ (EMM-5CT).

1 testimony on the challenges PSE would face in this environment as a standalone  
2 entity.

3 Public Counsel, however, fails to recognize the benefits brought by an Investor  
4 Consortium that manages a vast and rapidly growing pool of capital. The  
5 Investor Consortium's combined assets under management were \$499 billion as  
6 of March 31, 2008, and it has demonstrated a track record of success in securing  
7 financing even during the current financial crisis—with Macquarie alone raising  
8 \$71 billion of debt financing since July 2007.

9 Public Counsel further fails to recognize that, as an example of such access to  
10 capital, the Investor Consortium (i) has already invested \$296 million of equity in  
11 PSE, (ii) has committed to invest \$3.4 billion in the Proposed Transaction, and  
12 (iii) has raised \$3.6 billion of committed debt facilities to fund the Proposed  
13 Transaction and PSE's ongoing capital expenditure and working capital needs for  
14 the next five years. Every dollar of this capital was committed after the onset of  
15 the current credit crisis, with the most recent addition being a commitment by the  
16 Investor Consortium in July 2008 to invest another \$200 million of equity into  
17 Puget Energy in response to concerns raised in this proceeding.

18 These are among the several reasons why the Joint Applicants believe that the  
19 members of the Investor Consortium are exactly the type of long term, deep-  
20 pocketed and resourceful investors a company with a large capital plan would

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<sup>23</sup> See Exh.No. \_\_\_\_ (PJC-1CT).

<sup>24</sup> See Exh. No. \_\_\_\_ (JP-1CT).

1 hope for in a time of financial crisis, especially given that nothing in the  
2 transaction limits the ability of Puget Holdings to access listed equity markets if  
3 desired, as evidenced by Commitment No. 35 to the Settlement Stipulation.

4 **Q. Public Counsel questions the value of Puget Holdings’ ability to seek**  
5 **common equity in the public markets after the completion of the Proposed**  
6 **Transaction.<sup>25</sup> Please expand upon this ability and its relation to the “status**  
7 **quo”.**

8 A. Commitment No. 35 in the Settlement Stipulation is intended to make clear that  
9 the Proposed Transaction combines access to new deep-pocketed long-term  
10 investors with continued access to the public equity markets—thereby providing  
11 more avenues to securing capital than available under the “status quo”.

12 Further, the Investor Consortium’s \$3.4 billion of capital that it will invest at  
13 financial close strongly aligns the interests of PSE’s customers and the Investor  
14 Consortium—ensuring that it will be imperative to both to ensure the long-term  
15 financial health of PSE. Put simply, the magnitude of the investment in PSE  
16 provides an enormous and undeniable incentive for the Investor Consortium to  
17 support PSE in any and all future challenges that the utility may face.

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<sup>25</sup> See Exh. No. \_\_\_ (SGH-11T) at page 13, line 13, through page 14, line 15.

1 **Q. Is Public Counsel correct that Commitment No. 27, which addresses access to**  
2 **the books and records of Puget Holdings and other affiliates, a “step**  
3 **backward from the ‘status quo’”?**<sup>26</sup>

4 A. No. In fact, Commitment No. 27 represents a “step forward” and not a “step  
5 backward” from current requirements. For example, Commitment No. 27(a)  
6 requires the Joint Applicants to maintain an audit trail for all corporate, affiliate or  
7 subsidiary transactions with PSE, or that result in costs allocable to PSE.  
8 Commitment No. 27(b) assures that the corporate structure will not be used as a  
9 basis to oppose access to books and records. Commitment No. 27(c) ensures that  
10 the Proposed Transaction will not limit the Commission’s access to records under  
11 RCW 80.04.070 (general) or RCW 80.16.030 (affiliated interests). Finally,  
12 Commitment No. 27(d) provides that Puget Holdings and PSE will each agree to  
13 provide information provided by and to credit rating agencies. In sum,  
14 subparts (a) through (c) of Commitment No. 27 confirm the “status quo” with  
15 respect to transparency, and subpart (d) of Commitment No. 27 provides a new  
16 requirement with respect to transparency.

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<sup>26</sup> Exh. No. \_\_\_(SGH-11T) at page 12, line 11, through page 13, line 2.



1 greater than the “status quo.” Consequently, it is my opinion that the Settlement  
2 Stipulation satisfies the Commission’s “no harm to the public interest” standard.

3 **V. CONCLUSION**

4 **Q. Is the Proposed Transaction, as modified by the Settlement Stipulation and**  
5 **the commitments contained therein, in the public interest?**

6 A. Yes. The Proposed Transaction, as modified by the Settlement Stipulation and  
7 the commitments contained therein, is in the public interest and is expected to  
8 result in each of the following:

9 (i) a healthy utility with a strong balance sheet supported by deep-  
10 pocketed long-term committed investors;

11 (ii) ;  
12  
13  
14

15 (iii) substantial quantifiable and qualitative benefits to PSE’s customers  
16 that do not exist absent the Proposed Transaction, such as  
17 \$100 million in rate credits, which will help to mitigate the impact  
18 of necessary future infrastructure investments on customers;

19 (iv) increases in funding for low income programs, such as  
20 commitments to increase bill assistance benefits for qualifying  
21 low-income customers and increase the budgeted funding of low-  
22 income energy efficiency programs;

23 (v) improved environmental programs, including commitments in the  
24 areas of energy efficiency, renewable energy resources,  
25 greenhouse gas emissions, and low-income energy services; and

26 (vi) a \$5 million contribution to the Puget Sound Energy Foundation.

1 In summary, particularly when compared to the “status quo”, the Proposed  
2 Transaction reduces financial risk—[REDACTED]—while  
3 providing substantial quantitative and qualitative benefits to the customer base  
4 and the region that PSE would not otherwise obtain as a standalone, publicly  
5 traded, company.

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

7 **A. Yes.**