

ATTACHMENT A

One Page Summary Describing the Proposed Transaction

**Puget Sound Energy
Planned Senior Secured Notes Issuance
RCW 80.08.030 (1), (2) and (3) Compliance Filing**

REDACTED



FINANCING DISCUSSION

APPROVAL TO REFINANCE 9.57% \$25mm BOND September 29, 2011

Request

Management requests approval to issue up to \$50 million of senior secured notes to refinance a 9.57% \$25 million bond. Such notes will be issued under the existing shelf registration statement that became effective on January 25, 2011.

Use of Proceeds

The proceeds of a senior note issue will be used to refinance a 9.57% \$25 million 30-year bond issued by PSE predecessor company Washington Natural Gas ("WNG") in 1990 maturing in 2020.

Considerations

WNG Bond Redemption Provisions: The WNG bonds do not contain a traditional "call" feature but do contain a "make-whole" provision. Under the make-whole provision, the bonds can be redeemed by discounting the remaining payments at the Treasury yield of equivalent maturity plus 25 basis points. Given the current level of interest rates, the price to redeem the bonds would be approximately \$150 (on a \$100 face value), resulting in a premium paid of about \$12.5 million for a total redemption price of approximately \$37.5 million.

Accounting Considerations: When a bond is refinanced prior to its maturity, the redemption costs are amortized over the life of the new replacement issue. As a result, the premium and other redemption costs are not expensed but are deferred and are reflected in the cost rate of the new issue for recovery through rates.

Replacement Note Issue: PSE would issue long-term senior secured notes in an amount not to exceed \$50 million. PSE has been working with RBS who has found an insurance company interested in \$35 to \$50 million of 40-year secured utility notes. PSE would issue the replacement notes using RBS as the sole lead underwriter on the transaction. The longer the life of the replacement issue, the lower the effective yield.

Credit Ratings: PSE's senior secured notes will be rated A- and A3 by S&P and Moody's, respectively, the same rating as on the existing WNG bonds.

Timing: Management plans to issue the replacement PSE notes around on the same day, or shortly after, it issues the \$250 million of PSE 30-year notes. Issuing the new PSE 30-year notes shortly ahead of the replacement 40 to 50-year issue establishes a benchmark for the latter transaction.

Other: The WNG bond is the only debt outstanding under the 27th supplemental gas indenture. When this debt is redeemed, the restrictions contained in that indenture are eliminated.

Financing Plans

The 2011 financing plan did not reflect this opportunistic refinancing.

Indicative Terms & Pricing

Based on recent indications from investment banks, the Company could issue 40-year senior notes at a coupon of approximately % to %.

	<u>30-year</u>	<u>40-year</u>
Treasury rate	<input type="text"/> %	<input type="text"/> %
Credit spread (area)	<input type="text"/> %	<input type="text"/> %
Coupon	<input type="text"/> %	<input type="text"/> %

Economics

Assuming a \$40 million 40-year replacement note issued at a coupon of 5.00% and amortizing the redemption costs over the life of the new issue, the effective rate on the notes is approximately 7.75%. With only nine years remaining on the WNG bonds, the "breakeven" rate on a 30-year note nine years hence is 6.21%, meaning if PSE expects the coupon on a 30-year bond nine years from now to be at or above 6.21% it should proceed with this transaction. Moody's projects the yield on the 30-year Treasury bond in 2020 to be 5.54%. Assuming recent credit spreads of 1.20 to 1.60 basis points, the resulting coupon would be 6.74% to 7.14%.

Requested Action

During the Board meeting on September 29, 2011, management will request approval to issue up to \$50 million of up to 50-year senior secured notes and will request that the Board delegate final pricing authority to the Asset Management Committee.

ATTACHMENT B

Resolutions of the Asset Management Committee Meeting

**Puget Sound Energy
Planned Senior Secured Notes Issuance
RCW 80.08.030 (1), (2) and (3) Compliance Filing**

REDACTED

**PUGET SOUND ENERGY
ASSET MANAGEMENT COMMITTEE – RESOLUTIONS
\$50 Million Senior Secured Notes**

Approval of Redemption and Senior Note Offering (WNG Notes Refinancing)

WHEREAS, on January 12, 2011, the Board of Directors of the Company authorized the issuance and sale, from time to time, by the Company of senior notes (the "Senior Notes"), which may be secured by first mortgage bonds of the Company, having maturities, interest rates and such other terms, including redemption provisions, redemption premiums and sinking fund payments, as specified officers of the Company may determine, subject to the approval of such terms by the Asset Management Committee of the Board (the "Committee"),

WHEREAS, on November 3, 2010, the Board of Directors approved issuances of up to \$500 million in principal aggregate amount of Senior Notes for the calendar year 2011,

WHEREAS, on September 29, 2011, the Board of Directors increased the approved amount of Senior Notes, authorizing up to \$600 million in principal aggregate amount of Senior Notes for the calendar year 2011,

WHEREAS, on September 29, 2011, the Board of Directors of the Company approved the redemption of the Company's 9.57% First Mortgage Bonds due 2020 (the "WNG Bonds") at a redemption price not to exceed \$50 million in the aggregate,

WHEREAS, on September 29, 2011, the Board of Directors of the Company authorized the issuance and sale by the Company of Senior Notes, the proceeds of which are to be used in connection with the redemption of the WNG Bonds (the "Refinance Notes"), on such terms as specified officers of the Company may determine, subject to the approval of such terms by this Committee,

WHEREAS, management now requests approval for an issuance of up to \$50 million in principal aggregate amount of Refinance Notes, and

WHEREAS, this Committee desires to permit the Company to respond quickly to favorable conditions in the capital markets in connection with the proposed issuances of the Refinance Notes,

NOW, THEREFORE, BE IT

RESOLVED, that this Committee, authorizes the pricing, issuance and sale of up to \$50,000,000 in principal amount of the Refinance Notes having a maturity of not more than 40.5 years and bearing a stated coupon of not more than %, and such other terms, including redemption provisions, redemption premiums and sinking fund payments, as the President and Chief Executive Officer, the Controller & Chief Accounting Officer, the Vice President Finance & Treasurer, Assistant Secretary and Assistant Treasurer (collectively, the "Designated Officers"), or any two of them, may determine, provided that the specific terms of the Refinance Notes are determined within a period of time not to extend beyond thirty (30) calendar days from the date of this approval.

RESOLVED, FURTHER, that the Refinance Notes shall be issued under the Indenture of the Company dated as of December 1, 1997 between the Company and U.S. Bank National Association, as trustee, and the Fourth Supplemental Indenture thereto, dated as of May 1, 2003 and authorized by the Board of Directors of the Company on April 16, 2003.

RESOLVED, FURTHER, that the first mortgage bonds of the Company issued to secure the Refinance Notes shall be issued under the First Mortgage of the Company dated as of June 2, 1924 (the "*Electric Mortgage*") between the Company and U.S. Bank National Association, as trustee, and a supplemental indenture thereto, substantially in the form of the Eighty-Fourth Supplemental Indenture to the Electric Mortgage, dated as of September 1, 2006, that may be entered into by the Designated Officers pursuant to authority granted by the Board of Directors of the Company on January 12, 2011.

RESOLVED, FURTHER, that this Committee authorizes the Company to enter into one or more treasury rate hedging agreements with suitable financial counterparties ("Lock Agreements") pursuant to which the Company would contractually hedge the treasury yield component of the anticipated make-whole cost of the WNG Bonds, in an amount of not more than \$25 Million, such interest rate to equal the current yield on Treasury Bills of similar maturity, and having such other terms as the Designated Officers, or any two of them, may determine, provided that the counterparty and other specific terms of the Lock Agreements are determined within a period of time not to exceed ninety (90) calendar days from the date of the adoption of this resolution.

RESOLVED, FURTHER, that the execution and delivery by the Designated Officers, or any of them, of such agreements, documents or instruments, including purchase, underwriting and/or distribution agreements, which the Designated Officers, or any of them, deem to be necessary or advisable in connection with the issuance and sale of the Refinance Notes, in such forms the Designated Officers, or any of them, may deem necessary or advisable is hereby approved.

RESOLVED, FURTHER, that the Designated Officers, or any of them, are hereby authorized to use the proceeds from the sale of the Refinance Notes in the manner described at this meeting and as set forth in the prospectus supplement relating to the offering and sale of the Refinance Notes, under the heading "Use of Proceeds."

General Authority

RESOLVED, FURTHER, that any and all actions taken by the Designated Officers of the Company, or any of them, including the execution and delivery in the name and on behalf of the Company of agreements or other instruments and agreements deemed by such officers to be necessary or advisable to effectuate the transactions contemplated by the foregoing resolutions, whether prior to or subsequent to this action by this Committee, are hereby authorized, approved and ratified, and the taking of any and all such actions and the performance of any and all such things in connection with the foregoing shall conclusively establish such officers' authority therefor from the Company and the approval and ratification thereof by this Committee.