

EXHIBIT NO. ___(DDW-7)
DOCKET NO. UE-04_____
2004 PSE PCA 2 COMPLIANCE
WITNESS: DURGA D. WAITE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

**For Approval of its 2004 Power Cost Adjustment
Mechanism Report**

Docket No. UE-04_____

**SIXTH EXHIBIT TO PREFILED DIRECT TESTIMONY OF
DURGA D. WAITE (NONCONFIDENTIAL)
ON BEHALF OF PUGET SOUND ENERGY, INC.**

AUGUST 31, 2004

AUGUST 18, 2004

UTILITY

Puget Energy, Inc.

NYSE - PSD

2Q04 Earnings – Lukewarm Outlook

 ANALYST OPINION: **HOLD**

 VALUE RECOMMENDED LIST—APPRECIATION/INCOME: **HOLD/HOLD**
PRIMARY STOCK STATISTICS

FY End	Dec
52-Week Range	\$24-\$21
Market Cap (billion)	\$2.17
TTM Revenue (billion)	\$2.58
Shares Outstanding (million)	99.4
Book Value	\$16.88
Dividend/Yield	\$1.00/4.6%
Est. Sec. EPS Grth Rate	5%

PRICE: \$21.85
PRICE TARGET: \$25
EARNINGS ESTIMATES

Current Quarter

FY03A

FY04E

FY05E

PRIOR

-

-

1.22

1.66

CURRENT

-

\$1.24

\$1.22

\$1.66

P/E

-

17.6x

17.9x

13.2x

KEY POINTS

- PSD reported 2Q04 EPS of (\$0.07) versus a gain of \$0.22 in 2Q03. Earnings reflected a \$0.25 regulatory disallowance on a 20-year contract signed 13 years ago for the Tenaska generating facility natural gas supply.
- Warmer than normal weather decreased demand but was offset by continued good customer growth in its markets.
- Having reached the Power Cost Adjustment cap, excess power costs should not affect earnings until it is up for renewal in mid-2006. Company still has a \$128.8 million rate proposal pending with Washington state regulators which should be decided by 1Q05.
- Maintain HOLD ratings.

SUMMARY AND STOCK OPINION

Following the 2Q04 earnings release and conference call, we continue to remain lukewarm to prospects of any near-term appreciation in Puget Energy's stock price. While the Company has some marginal ability to increase its bottom line through effective cost control, an appreciable upside to earnings would have to come in the form of regulatory relief (which is not expected before 1Q05) or better weather (which continues to get worse in 3Q04 for the utility in our opinion). Getting the Tenaska issue behind the Company is a positive in our view and allows the Company to establish good relationships with regulators going forward.

Our HOLD rating on the stock is underpinned by our confidence in the Company's ability to support its 4.6% dividend. No change to our EPS estimates.

FUNDAMENTALS

Puget Energy reported 2Q04 loss of \$6.8 million (\$0.07 per share) on revenues of 515.9 million. In the previous year's second quarter, the Company reported earnings of \$20.6 million (\$0.22 per share) on revenues of \$524.1 million. Eliminating various one-time items in each quarter and adjusting results for normal weather conditions in both periods, the Company reported "normalized" earnings of \$0.16 at the core regulated utility in 2Q04, flat with the previous year.

(Continued)
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The disappointing result was mostly anticipated and related to an after-tax regulatory disallowance of \$24.5 million (\$0.25 per share) related to a 20-year natural gas contract supplying the Tenaska generating facility, which was entered into by a prior management team more than 13 years ago. (We discussed this ruling in detail in a prior note during 2Q04.) The disallowance taken during the quarter effectively puts the issue of the Tenaska contract behind the Company and allows both the Company and its regulators to engage in more purposeful discussions by eliminating this contentious issue.

The Company also blamed higher than normal temperatures (number of heating degree days was down 23%) and poor hydro conditions which decreased demand and increased excess power costs. The regulatory decision on the Tenaska contract had the result of disallowing some of the expense used to reach cap of the Company Power Cost Adjustment mechanism in 1Q04, thus exposing the Company to some additional excess power costs in 2Q04. Following the 2Q04, we anticipate that the Company will be able to recover 99% of any additional excess power costs through mid-2006.

On the more positive note, the Company continued to see strong growth in customers (3.5% for gas and 2.2% for electric). Recent debt refinancing saved approximately \$0.03 per share in interest expense. PSD subsidiary InfraStrux contributed approximately \$0.03 per share to earnings, flat with 2Q03.

In the short-term, we continue to see a difficult environment for the Company as weather thus far in July and August continue to be much warmer than normal. While summer months are typically low demand months for the Company due to mild temperatures in its service area (which leads to a low installation base of residential air conditioning), the number of heating degree days thus far in 3Q04 (thru Aug 17), is down 56% from normal levels (1971-2000). Additionally, while the PCA mechanism insulates the Company from further excess power costs, hydro conditions continue to be poor. Using a local Seattle reading to provide a general comment, rainfall this year is down approximately 23% from normal levels (1971-2000).

We view Puget Energy shares as generally fairly valued at current levels and our target price for the shares is \$25, or 15x our FY05 earnings estimate. Puget trades at a slight premium to a group of peer companies we assembled that are all combination gas and electric utilizes. The higher forward P/E multiple of 14.7x (consensus estimates) compared to 14.5x for its peers and 14.3x for Dow Utility Average is probably due to Puget's higher yield and favorable growth profile from customer and new generation capacity. While still primarily an investment for yield in the next couple quarters, the possibility of a favorable rate decision in 1Q05 (and the subsequent positive impetus to earnings) provides some opportunity for upside appreciation in the stock.

Peer Comparison:

Ticker	Price	Div. Yield (%)	P/B001	P/S001	PEBITDA	P/E	P/E (est)	
Pinnacle West Capital Corp.	PNW	\$42.11	4.27	1.33	1.34	3.82	15.01	16.64
Xcel Energy Inc.	XEL	\$17.19	4.83	1.31	0.83	3.54	13.01	13.93
Sempra Energy	SRE	\$35.85	2.79	1.99	0.94	4.44	9.94	12.09
Avista Corp.	AVA	\$17.39	2.88	1.11	0.73	3.43	19.11	15.99
PNM Resources Inc.	PNM	\$20.66	3.10	1.14	0.80	4.16	17.52	14.76
MDU Resources Group Inc.	MDU	\$24.65	2.76	1.86	1.12	5.36	14.67	13.58
AVERAGE			3.44	1.46	0.96	4.13	14.88	14.50
Dow Utilities Index	^UTIL	286.13	3.45	1.80	0.99	NA	15.14	14.33
Puget Energy Inc.	PSD	\$21.77	4.59	1.29	0.82	3.57	19.08	14.68

Source: Factset, Bloomberg (8/18/04)

VALUATION

RISKS

Primary risks surrounding the stock include adverse regulatory rate case developments and rising third-party energy prices. While the PCA mechanism should allow the Company to pass most of these costs to the customer, the mechanism must be renewed in 2006, creating more regulatory risk that it will be changed at some point in the future.

Puget Energy, Inc. is one of Washington state's largest utility companies. Through its subsidiary, Puget Sound Energy, it provides electricity to more than 940,000 customers and provides natural gas to more than 600,000 in western Washington. The company owns some fossil-fueled and hydroelectric plants and its InfrastruX Group specializes in energy management and infrastructure construction services. Headquarters: Bellevue, WA

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Other public companies mentioned:

Pinnacle West Capital Corp. (NYSE-PNW-\$42.95, not rated)
Xcel Energy, Inc. (NYSE-XEL-\$17.39, not rated)
Sempra Energy (NYSE-SRE-\$36.02, not rated)
Avista Corp. (NYSE-AVA-\$17.54, HOLD)
PNM Resources, Inc. (NYSE-PNM-\$20.88, not rated)
MDU Resources Group, Inc. (NYSE-MDU-\$24.80, not rated)

S&P 500: 1087.00

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REQUIRED DISCLOSURES

The analyst or a member of the analyst's household has beneficial ownership in the securities of Puget Energy, Inc. in the form of a long position in such securities.

ANALYST CERTIFICATION

By issuing this research report, each Ragen MacKenzie analyst whose name appears on the front page of this research report hereby certifies that: (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in the research report.

PRICE TARGET VALUATION METHODOLOGY AND RISKS

The methods used to determine the price target are generally based on a multiple of earnings, cash flow, revenue and/or historical and relative valuation multiples. Risks that could impede achievement of our price target include, but are not limited to, changes in economic and industry conditions, consumer and business spending patterns, as well as geo-political risks. When a price target is used, please refer to the Valuation and Risks section in the body of the report for additional discussion on the specific valuation methodology and related risk factors as they pertain to this analyst's investment thesis.

RATING SYSTEM

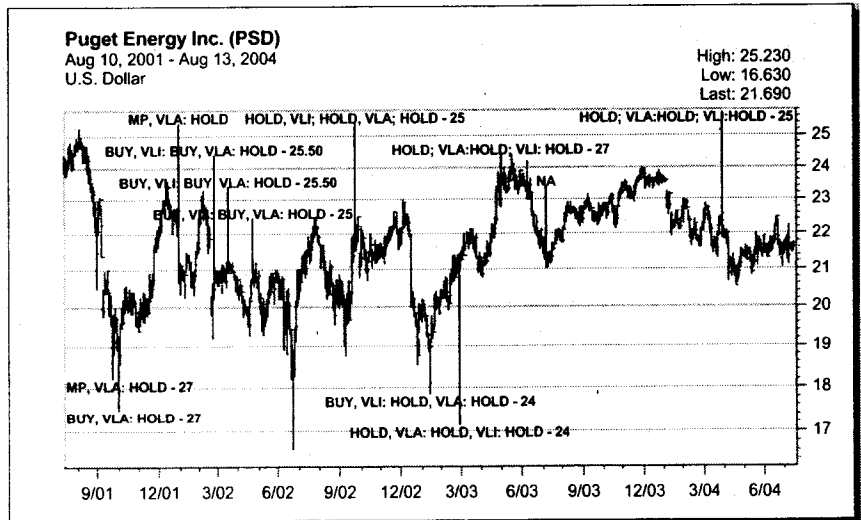
BUY – Immediate purchase is recommended; the stock is expected to outperform the general market over the next 12-18 months.
HOLD – Holding the stock is recommended. The stock has moved out of our preferred buying range, but there is further upside to the share price; or stated objectives at the time of purchase have changed and share appreciation may take another 6-12 months.
SELL – The stock has reached the stated price objective and appreciation has been achieved; or certain company fundamentals have changed which warrant investors selling the stock to avoid price decline.

RATINGS ALLOCATIONS

Rating	% of covered companies with this rating	% for which IB Services have been provided
<i>Analyst Coverage</i>		
BUY	18%	0%
HOLD	78%	13%
SELL	4%	0%
<i>Value Recommended List—Appreciation</i>		
BUY	22%	0%
HOLD	61%	9%
SELL	17%	0%
<i>Value Recommended List—Income</i>		
BUY	33%	0%
HOLD	50%	33%
SELL	17%	0%
<i>Growth Recommended List</i>		
BUY	38%	0%
HOLD	63%	20%
SELL	0%	0%

Updated on 07/02/2004

PRICE HISTORY



The price targets indicated in the chart above may be adjusted for stock splits. Where the price target was originally given as a range, the midpoint of the range has been used. Until July 8, 2002, Ragen MacKenzie used the following system for analyst ratings: Strong Buy (SB), Buy, Market Perform (MP), Underperform, Sell. The current rating system, explained above, has been in effect since July 9, 2002.

OTHER DISCLOSURES

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