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	No. U-072375 RESPONSE OF PUGET HOLDINGS LLC AND PUGET SOUND ENERGY, INC. IN OPPOSITION TO PUBLIC COUNSEL MOTION TO REOPEN THE RECORD

1. Pursuant to WAC 480-07-375(d)(4), Puget Holdings LLC ("Puget Holdings") and Puget Sound Energy, Inc. ("PSE") (collectively the "Joint Applicants"), by and through undersigned counsel, hereby submit this response in opposition to the Motion to Reopen the Record filed by the Public Counsel Section of the Washington State Attorney General's Office ("Public Counsel") in the above-referenced docket on September 16, 2008. As stated in detail below, Public Counsel has failed to meet the threshold showing under WAC 480-07-830 that the materials that Public Counsel seeks to enter into the record are essential to the outcome of this proceeding. Moreover, each of the Joint Applicants objects to these news reports on the grounds that they are unnecessary, irrelevant and cumulative/duplicative to evidence in the record.

2. As discussed in more detail below, under the ownership of Puget Holdings, PSE and its customers are far ***less*** vulnerable to the current turmoil in the financial markets discussed in Public Counsel's "new" evidence. Under the "status quo" suggested by Public

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Counsel as the alternative to the Proposed Transaction, PSE would be required to attempt to raise capital in these volatile markets. The new evidence, to the extent it is relevant at all, demonstrates the ***benefits*** of the Proposed Transaction inasmuch as under the new ownership structure, PSE would be spared from having to venture into these treacherous capital markets to raise the funding necessary to fulfill its public service obligations. For the reasons set forth below, the Washington Utilities and Transportation Commission (the "Commission") should deny Public Counsel's Motion to Reopen the Record.

3. In the alternative, if the Commission reopens the record and permits Public Counsel to supplement the record with the additional evidence submitted by Public Counsel, the Joint Applicants should be permitted to respond to the new evidence by supplementing the record. The Joint Applicants are submitting with this opposition the following additional evidence that should be included in the record to respond to Public Counsel's new evidence, if the Commission reopens the record:

Exhibit A – Response, dated September 17, 2008, filed by Macquarie Group Limited with the Australian Securities Exchange to the newspaper article entitled *Macquarie in the Spotlight Amid $5bn Refinancing Fears* in the edition of September 17, 2008, of The Australian.

Exhibit B – Report, dated September 18, 2008, in which Moody's Investor Services reaffirmed (i) the A2/Prime-1 issuer and debt ratings of Macquarie Group Limited and Macquarie International Finance, and (ii) the A1/Prime-1 deposit and debt ratings at Macquarie Bank Limited.

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Exhibit C –Report, dated September 17, 2008, in which Standard & Poor's reaffirmed its ratings for the Macquarie group of companies: 'A' long-term and 'A-1' short-term issuer credit ratings on Macquarie Bank Limited, and 'A-' long-term and 'A-2' short-term issuer credit ratings on Macquarie Group Limited, Macquarie Financial Holdings Limited, and Macquarie International Finance Limited.

Exhibit D – Release, dated September 17, 2008, filed by Macquarie Group Limited with the Australian Securities Exchange discussing the reaffirmation of Standard & Poor's ratings for the Macquarie group of companies.

The inclusion of the above-referenced documents into the record to respond to Public Counsel's new evidence (if the Commission reopens the record) is consistent with both (i) the Commission's Notice Shortening Deadline to Respond to Public Counsel's Motion to Reopen the Record, dated September 17, 2008, which provides that "[a]ny party wishing to respond should include any additional information it wishes to propose as a supplement to the existing record," and (ii) WAC 480-07-830, which provides that if the Commission allows reopening of the record for new evidence, "[t]he commission will give all parties an opportunity to respond to any evidence received after the record is closed."

I. BACKGROUND

4. On September 16, 2008, Public Counsel filed with the Commission a Motion to Reopen the Record. In that Motion, Public Counsel attempts to have the Commission enter the following eleven news articles into the record as "evidence essential to the Commission's decision that was unavailable at the time of the hearing":[1]

[1] Motion to Reopen the Record at ¶1.

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(i) Carrick Mollenkamp *et al.*, *Crisis on Wall Street as Lehman Totters, Merrill is Sold, AIG Seeks to Raise Cash*, The Wall Street Journal, Sept. 15, 2008;

(ii) Susanne Craig *et al.*, *AIG, Lehman Shock Hits World Markets*, The Wall Street Journal, Sept. 16, 2008;

(iii) Press Release, Lehman Brothers Holdings Inc., As Previously Announced, Lehman Brothers Holdings Inc. Filed Chapter 11; No Other U.S. Subsidiary or Affiliate, Including Its Broker-Dealer and Investment Management Subsidiaries, Was Included in the Filing (Sept. 15, 2008);

(iv) Lynn Thomasson, *U.S. Stocks Decline as Lehman Bankruptcy Deepens Market Turmoil*, Bloomberg, Sept. 15, 2008;

(v) Matthew Karnitschnig *et al.*, *Bank of America to Buy Merrill*, The Wall Street Journal, Sept. 15, 2008;

(vi) David S. Hilzenrath & Zachary A. Goldfarb, *N.Y. Will Let AIG Borrow $20 Billion from Its Own Subsidiaries*, Sept. 15, 2008;

(vii) Matthew Karnitschnig *et al.*, *AIG Faces Cash Crisis as Stock Dives 61%*, Sept. 16, 2008;

(viii) Yahoo! Finance, Macquarie Infrastructure Company LLC, http://finance.yahoo.com/q?s=MIC (last visited Sept. 16, 2008);

(ix) Martin Collins & John Durie, *Macquarie Bank Views Wall Street Roadkill*, The Australian, Sept. 16, 2008;

(x) Adele Ferguson, *Macquarie in the Spotlight Amid $5bn Refinancing Fears*, The Australian, Sept. 17, 2008; and

(xi) Press Release, U.S. Department of the Treasury, Statement by Secretary Henry M. Paulson, Jr. on Treasury and Federal Housing Finance Agency Action to Protect Financial Markets and Taxpayers (Sept. 15, 2008).

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Public Counsel asserts that these additional eleven news articles provide evidence regarding the "health and stability of financial markets".[2] Additionally, Public Counsel suggests that "the Commission may wish to exercise its discretion to reopen the record on its own motion under WAC 480-07-030 as appropriate to include additional relevant information" related to "the fluid and uncertain state of the financial markets".[3]

II. ARGUMENT

A. Public Counsel's Motion to Reopen the Record Fails to Meet the Threshold Standard of WAC 480-07-830.

5. The Commission may reopen the record in contested proceedings to allow the receipt of written evidence if the following standard is met: (i) the evidence is essential to a decision; and (ii) the evidence was not unavailable at the time of hearing; and (iii) the evidence was not reasonably discoverable with due diligence at the time of hearing; or (iv) for any other good and sufficient cause. WAC 480-07-830; *see also Wash. Utils. & Transp. Comm'n v. Iliad Water Serv., Inc.*, Docket UW-060343, Order 04 (Jan. 10, 2007) (denying a motion to reopen the record because the proffered evidence—the reputation and credibility of an engineer employed by the applicant—was not determinative of any issue in the decision). Public Counsel's Motion to Reopen the Record fails to meet this threshold standard of WAC 480-07-830.

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[2] Motion to Reopen the Record at ¶3.
[3] Motion to Reopen the Record at fn.2.

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1. Additional Evidence Regarding the Health and Stability of Financial Markets Is Not Essential to a Decision by the Commission in this Proceeding

6. The additional eleven news reports regarding the health and stability of financial markets are not essential to the Commission's decision to approve the Multiparty Settlement of the Proposed Transaction (the "Settlement"). In reviewing the Settlement, the Commission must determine whether a proposed settlement "meets all pertinent legal and policy standards." WAC 480-07-740. Specifically, the Commission may approve settlements

> when doing so is lawful, when the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the Commission.

WAC 480-07-750(1). The Commission has described this standard as "a three-part inquiry":

> (1) We ask whether any aspect of the proposal is contrary to law; (2) We ask whether any aspect of the proposal offends public policy; and (3) We ask if the evidence supports the proposed elements of the Settlement Agreement as a reasonable resolution of the issue(s) at hand.

Wash. Utils. & Transportation Comm'n v. PacifiCorp d/b/a Pac. Power & Light Co., Docket UE-032065, Order 06 at 26, ¶ 59 (Oct. 2004).

7. Public Counsel provides no rationale in its Motion to Reopen the Record that demonstrates how the additional eleven news articles are determinative of any issue in the Commission's consideration of the Settlement. Nothing in the additional eleven news

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articles suggests that (i) the Settlement is contrary to law, (ii) the Settlement offends public policy, or (iii) the evidence supports the proposed elements of the Settlement Agreement as a reasonable resolution of the issues at hand.

8. WAC 480-143-170 establishes the standard by which the Commission reviews applications filed pursuant to Chapter 80.12 RCW. The rule states that:

> If, upon examination of any application and accompanying exhibits, or upon a hearing concerning the same, the commission finds that the proposed transaction is not consistent with the public interest, it shall deny the application.

WAC 480-143-170. The Commission has found that this standard does not require a showing of positive benefits to the public in order to approve the Proposed Transaction:

> The standard in our rule does not require the Applicants to show that customers, or the public generally, will be made better off if the transaction is approved and goes forward. In our view, Applicants' initial burden is satisfied if they at least demonstrate no harm to the public interest.
>
> …
>
> Generally, then, we need consider only whether Applicants are qualified to take over management of a jurisdictional public utility in Washington.

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

9. Public Counsel provides no rationale in its Motion to Reopen the Record that demonstrates how the additional eleven news articles are determinative of any issue in the Commission's consideration of the Proposed Transaction. Nothing in the additional eleven

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news articles suggests that (i) the Proposed Transaction poses any harm to the public interest or (ii) the Joint Applicants are not qualified to take over management of a jurisdictional public utility in Washington.

2. Additional Evidence Regarding the Health and Stability of Financial Markets Was Available at the Time of Hearing

10. Evidence regarding the health and stability of financial markets was available at the time of hearing. Indeed, Public Counsel has already entered the following eleven news reports regarding the fluid and uncertain state of the financial markets as cross-examination exhibits for Ronald H. Schmidt, witness for Commission Staff, at hearing:

(i) Exhibit 195 – Justin Lahart *et al.*, *World Economy Shows New Strain*, The Wall Street Journal, Aug. 15, 2008;

(ii) Exhibit 196 – Kelly Evans, *Economists Expect 2008's Second Half To Be Worse Than First*, The Wall Street Journal, Aug. 11, 2008;

(iii) Exhibit 197 – Tom Lauricella, *Signs Say Economic Recovery Isn't Here*, The Wall Street Journal, Aug. 11, 2008;

(iv) Exhibit 198 –*Year After Subprime Crash, Risks Remain Elevated, Says IMF*, International Monetary Fund Survey Magazine, July 28, 2008;

(v) Exhibit 199 – Peter A. McKay, *Fannie, Freddie Drag Down Stocks*, The Wall Street Journal, Aug. 18, 2008;

(vi) Exhibit 200 – *End of Illusions*, The Economist, July 17, 2008;

(vii) Exhibit 235 – *Twin Twisters*, The Economist, July 17, 2008;

(viii) Exhibit 236 – Mark Maremont, *Mortgage-Market Trouble Reaches Big Credit Unions*, The Wall Street Journal, Aug. 11, 2008;

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(ix) <u>Exhibit 237</u> – Susanne Craig, *Merrill Aims to Raise Billions More*, The Wall Street Journal, July 29, 2008;

(x) <u>Exhibit 238</u> – *Fear of Failure*, The Economist, July 17, 2008; and

(xi) <u>Exhibit 239</u> – Laura Santini, *Shaking Up the 'Macquarie Model'*, The Wall Street Journal, Aug. 22, 2008.

Many of these eleven exhibits already in the record relate to the U.S. real estate market and the associated complex financial securities that are at the root of the liquidity crisis.

11. Each of the Joint Applicants acknowledges that global and domestic financial markets are in the midst of a severe crunch. Indeed, the Joint Applicants have stated as much in their testimony. For example, Mr. Christopher J. Leslie stated as follows in his rebuttal testimony:

> Since the onset of the subprime mortgage crisis in August 2007, global credit markets have been experiencing severe interruptions. Mergers and acquisitions have declined to nearly a standstill during that time for lack of financing. In contrast, the members of the Investor Consortium have been able to announce and complete the financing of a number of transactions and refinancings in spite of the credit crisis. For example, Macquarie in particular has raised over $71 billion of debt since July 2007.

(Leslie, Exh. 038HCT at 13:19 – 14:2.) As is evident from the statement quoted from Mr. Leslie's rebuttal testimony, the financial turmoil has been developing for over a year. Indeed, the financial turmoil has preceded the announcement of the Proposed Transaction and has been ongoing throughout this proceeding. No new evidence is necessary to demonstrate uncertain financial markets, particularly given that the fact that the existence of current turmoil in the financial markets is neither an issue at dispute in this proceeding nor

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determinative of any issue in the Commission's consideration of the Settlement or Proposed Transaction.

3. Additional Evidence Regarding the Health and Stability of Financial Markets Was Reasonably Discoverable with Due Diligence at the Time of Hearing

12. As stated above, Public Counsel has already entered eleven news reports into the record in this proceeding, which demonstrates that abundant evidence regarding the health and stability of financial markets was reasonably discoverable with due diligence at the time of hearing. The additional eleven news reports that Public Counsel now seeks to enter into the record are variations of the same theme regarding the collapse of the U.S. real estate market and related liquidity crisis. Indeed, Public Counsel admits that the eleven news reports "do not introduce a new issue."[4]

4. Public Counsel Does Not Offer Any Other Good and Sufficient Cause for Additional Evidence Regarding the Health and Stability of Financial Markets

13. Finally, Public Counsel's Motion to Reopen the Record fails to state any other good and sufficient cause for adding eleven news reports regarding the health and stability of financial markets to the eleven news reports already in the record. In fact, the only argument offered by Public Counsel in support of the Motion to Reopen the Record is the unsupported assertion that "the health and stability of financial markets impacts the level of risk which this transaction poses for Puget and its customers, and, accordingly, affects

[4] Motion to Reopen the Record at ¶4.

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whether or not the transaction should be approved as proposed."[5] The health and stability of financial markets affects the level of risk to PSE regardless of the outcome of this proceeding and consummation of the Proposed Transaction, but particularly if the Proposed Transaction is not approved. Unlike the proposed ownership by Puget Holdings, PSE is dependent upon the same volatile markets to which the Public Counsel seeks to draw attention when it needs to raise equity capital as the subsidiary of a publicly listed company. Therefore, Public Counsel can offer no good or sufficient cause for twenty-two exhibits in the record to support a proposition that no party to this proceeding disputes.

B. Additional Evidence Regarding the Health and Stability of Financial Markets Is Unnecessary, Irrelevant, and Cumulative/Duplicative to Evidence in the Record

14. Each of the Joint Applicants objects to the additional eleven news reports as unnecessary, irrelevant, and cumulative/duplicative to evidence already in the record. As discussed in greater detail above, Public Counsel has already entered eleven news reports that demonstrate the troubled financial markets into the record. Eleven additional news reports demonstrating the same simply burdens the records and is unnecessary and cumulative/duplicative.

15. Additionally, the eleven additional news reports are irrelevant to this proceeding because most of them make no reference to any entity related to the Investor Consortium. The investors in Puget Holdings have provided responses to hundreds of data requests and provided detailed testimony regarding the nature of their businesses and their

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[5] Motion to Reopen the Record

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sources of un-listed committed capital for infrastructure investment. Public market fluctuations do not affect the stability of the funds committed to the investors in Puget Holdings. Furthermore, these press reports are irrelevant to the ability of Puget Holdings to finance the transaction and Puget Holdings to support PSE's capital needs because Puget Holdings has already secured all external financing that PSE management forecasts will be necessary over the next five years to meet gas and electricity demand due to customer growth, "green" PSE's energy supply as required by law, and replace aging generation and delivery infrastructure. This committed capital will provide safe harbor to PSE from the storms of the financial market so that PSE can focus on keeping up with the growing energy needs of its service territory.

16. If Public Counsel's news reports have any bearing on the Proposed Transaction, they underscore the risks inherent in relying solely on listed equity markets for raising equity capital. Public Counsel's stated position in this proceeding—and the argument he seeks to support with his news reports—is that PSE's "customers would be better off with the 'status quo'—a publicly-traded investment-grade utility . . . ." (Hill, Exh. 261HCT at 3:9-10.) This position is flawed. In fact, PSE, as a publicly-traded utility, is far more vulnerable to the turmoil of the financial markets than it would be under the ownership of Puget Holdings because PSE currently raises equity capital—through Puget Energy—on the New York Stock Exchange.

17. As a publicly-traded utility, PSE must rely on the very institutions that are currently failing for lack of capital. The recent events reflected in the eleven news reports

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that Public Counsel now seeks to enter into the record unequivocally demonstrate that neither domestic nor international financial markets are immune to the liquidity crisis created by problems in the U.S. real estate market and associated complex financial securities. Indeed, Lehman Brothers and Merrill Lynch have traditionally been two of the largest underwriters of investment-grade utility debt in the U.S. (*See* Exh. 19HC at 32.) Lehman Brothers was the underwriter of Puget Energy's last public offering of 15 million shares in November 2005. (*See* Exh. 402HC at 337; Reynolds, Tr. at 605:7-18.)

18. The domestic and international financial market, the difficulties faced by major firms in these financial markets, and the resultant consolidation in the domestic and international financial services industry will likely present obstacles to PSE in obtaining capital on reasonable terms absent the transaction. Indeed, many publicly-listed utilities face increasing share price volatility and uncertainty in their ability to raise equity capital in the listed markets. In fact, the S&P 500 Utilities Index declined 9.3% in the four trading days between September 12, 2008, and close of business on September 17, 2008, and the Chicago Board Options Exchange's volatility index (the VIX) set a new high for the year in trading on Thursday, September 18, 2008, and rose to levels not seen since October 2002.

19. The collapse of Lehman Brothers is illustrative of the volatility faced by publicly-traded utilities, such as Puget Energy. As of June 30, 2008, Lehman Brothers held 2,856,953 shares of Puget Energy, making it the fifth largest shareholder of Puget Energy.[6]

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6 *See* Yahoo! Finance, Puget Energy Inc. Major Holders, http://finance.yahoo.com/q/mh?s=PSD (last visited Sept. 17, 2008)

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Now that Lehman Brothers has filed for protection under Chapter 11 of the U.S. Bankruptcy Code, this large position in Puget Energy will likely be unwound, which will likely place downward pressures on the Puget Energy share price. Such downward pressures will likely present additional obstacles to PSE in obtaining capital on reasonable terms on a stand-alone basis.

20. The Joint Applicants do not dispute Public Counsel's assertions that these are challenging times, particularly for a public-listed company facing a large capital shortfall in an uncertain environment. Indeed, Mr. Markell, Ms. Campbell, and Mr. Pettit have each supplied extensive testimony on the challenges PSE would face in this environment as a stand-alone entity. *See, e.g.,* Campbell, 1CT; Markell, Exh. No. 71T; Markell, Exh. No. 75CT; Pettit, Exh. No. 111CT.

21. In contrast to the potential perils of relying solely on the public markets, the Proposed Transaction would provide a new source of equity capital for PSE—deep-pocketed unlisted funds of infrastructure capital that would significantly decrease the potential effect of market volatility on PSE, while not excluding the ability to access listed markets if needed. In short, the Proposed Transaction will provide PSE with more options in a time of crisis, such as the greater access to diverse global markets provided by the Investor Consortium's size, scale, and relationship base, will provide a real benefit to PSE.

22. Public Counsel, however, fails to demonstrate in that the eleven news reports are in any way relevant to a transaction funded by un-listed and fully committed capital from an Investor Consortium that manages a vast and rapidly growing pool of capital. The

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Investor Consortium has combined assets under management of $499 billion as of March 31, 2008, and it has demonstrated a track record of success in securing financing even during the current financial crisis. As further demonstration of such access to capital, the Investor Consortium (i) has already invested $296 million of equity in PSE, (ii) has committed to invest $3.4 billion in the Proposed Transaction, and (iii) has raised $3.6 billion in committed debt facilities to fund the Proposed Transaction and PSE's ongoing capital expenditure and working capital needs for the next five years. Every dollar of this capital was committed after the onset of the current credit crisis, with the most recent addition being a commitment by the Investor Consortium in July 2008 to invest another $200 million of equity into Puget Energy in response to concerns raised in this proceeding.

23. These are among the several reasons why the Joint Applicants believe that the members of the Investor Consortium are exactly the type of long term, deep-pocketed and resourceful investors a company with a large capital plan would hope for in a time of financial crisis, especially given that nothing in the transaction limits the ability of Puget Holdings to access listed equity markets if desired, as evidenced by Commitment No. 35 to the Settlement Stipulation.

III. CONCLUSION

24. As discussed above, Public Counsel has failed to meet the threshold showing under WAC 480-07-830 that the materials that Public Counsel seeks to enter into the record are essential to the outcome of this proceeding. Moreover, each of the Joint Applicants objects to these news reports on the grounds that they are unnecessary, irrelevant and

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cumulative/duplicative to evidence in the record. For these and the other reasons set forth above, the Commission should deny Public Counsel's Motion to Reopen the Record.

25. If, however, the Commission decides to reopen the record and allow Public Counsel to supplement the record, the Commission should also admit into evidence the documents that the Joint Applicants have submitted with this opposition as Exhibits A, B, C, and D, which respond to the new evidence submitted by Public Counsel.

Respectfully submitted this 19th day of September, 2008.

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Exhibit A

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MACQUARIE

ASX/Media Release

Response to The Australian article

SYDNEY, 17 September 2008 – A report in today's Australian newspaper which claimed that Macquarie Group needs to refinance $A45 billion of debt and that $A5 billion requiring refinancing by March 2009 "could prove difficult to get away" is false and inconsistent with information provided to the market by the Group.

Since 31 March 2008, the Group has raised term funding of $A6.4 billion from a variety of sources. In addition, from 31 March 2008 to 31 July 2008, Macquarie Bank Limited increased deposits by $A3.8 billion to $A17 billion. The Group also has an undrawn $A3.8 billion senior credit facility.

Macquarie remains well-funded and well-capitalised with liquid assets of more than $A20 billion as at 30 June 2008, which is twice the level of a year ago.

The author did not provide the Group with an opportunity to respond to these claims.

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Exhibit B

Rating Action: Macquarie Bank Limited

Moody's affirms Macquarie Group's ratings with stable outlook, continues to monitor

Approximately AUD100 million of debt affected

Sydney, September 18, 2008 -- Moody's Investors Service has affirmed, with a stable outlook, the A2 / Prime-1 issuer and debt ratings of Macquarie Group Limited and Macquarie International Finance. Macquarie Bank Limited's deposit and debt ratings were affirmed at A1 / Prime-1, while its outlook was revised to stable from positive.

"Macquarie Group's stable rating outlook reflects its very strong liquidity and capital positions, and its minimal exposure to troubled asset classes and counterparties. The Group's earnings could also decline significantly and remain within the expected range for its rating", said Patrick Winsbury, an analyst with Moody's in Sydney.

"However, Moody's continues to monitor market developments closely, in particular with regards to whether the potential for declines in market confidence could impact the Group's fundamental business operations. Even if this were to occur, Macquarie Group's strong financial position would cushion the immediate impact," Winsbury adds.

Moody's regards the Group's liquidity profile as strong. Liquid assets at end June 2008 were in excess of AUD20 billion, providing very substantial cover of the bank's short-term wholesale liabilities and affording the Group flexibility to ride out prolonged periods of wholesale funding market dislocations.

At end March 2008, the Group reported capital over 40% in excess of regulatory requirements.

Macquarie's earnings have historically demonstrated well above-average stability for the wholesale banking sector, as a result of a high degree of diversification by product and geography. A global slowdown in equity markets appears to have the potential to impact the greatest number of Macquarie's businesses. On a positive note however, the Group has a track record of successfully capturing opportunities during periods of market weakness.

The Group's specialist funds activities have a high profile, but contribute only around 20% of total earnings, and Moody's ratings have for many years incorporated the potential for a material decline in this business line's contribution.

Moody's notes that Macquarie's stock is currently subject to a high proportion of short positions and that the Australian Securities and Investments Commission is investigating alleged false rumours spread about listed companies, including Macquarie. The Group's stock price has fallen approximately 40% since early August.

A declining stock price might have only an indirect impact on Macquarie's rating. This could be transmitted in two ways:

(i) If the group needed to raise capital

The potential for the Group to need to raise capital is low. It has minimal reported exposures to troubled asset classes or counterparties that may require provisioning, and a large regulatory capital buffer.

The Group does retain stakes in listed Macquarie-managed funds and listed fund managers, which may require mark to market, but the total of these positions is no larger than the Group's excess regulatory capital. The funds themselves are invested in regulated assets with stable cashflows. Gearing is present at the individual asset level, but average gearing levels are not unusual for assets of this type and Macquarie does not have lending exposures to these assets.

(ii) If counterparty confidence were to be affected

Macquarie's business model does inevitably have a sensitivity to counterparty confidence, both in its specialist funds business and broader market activities. Reduced counterparty willingness to transact with the Group would reduce its flexibility and impact earnings, although its strong financial position would act as a buffer.

Macquarie Bank's rating outlook was revised to stable from positive, reflecting the reduced potential for upward rating movement as a result of turbulent financial market conditions.

The Bank's ratings had previously been assigned a positive outlook in November 2007, upon Macquarie's restructure under a new holding company Macquarie Group Limited -- primarily on the basis that as the bank's bridge facility to Macquarie Group Limited was repaid, the bank would become increasingly ring-fenced from the potentially more volatile business lines concentrated in Macquarie's non-banking operations.

Although the Group has steadily repaid the bridge facility as it has raised financing from the market, and could theoretically repay the facility outright from internal resources, heightened market dislocations as have been experienced in recent days may impact group funding opportunities and revenues at the bank. Hence while the bank's financial metrics are strong for its current rating level, the potential for a rating upgrade is curtailed, and the outlook is now stable.

Macquarie Group Limited is headquartered in Sydney, New South Wales, Australia. It reported assets of AUD167 billion (approximately USD133 billion) at 31 March 2008.

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Exhibit C

Ratings

Back

Ratings On Macquarie Group Affirmed; Outlook Revised To Neg On Financial Market Turmoil

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Publication date: 17-Sep-08, 06:39:26 EST
Reprinted from RatingsDirect

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• Current Ratings

MELBOURNE (Standard & Poor's) Sept. 17, 2008—Standard & Poor's Ratings Services said today that it had affirmed its ratings on Australia-based Macquarie Group Ltd. and the Macquarie group of companies (see list). At the same time, the outlooks on all five companies were revised to negative from stable. The negative outlook implies roughly a one-in-three chance of a rating downgrade. In other words, the most likely scenario (the two-in-three chance) is that our ratings on Macquarie group entities will remain at their current levels.

"The negative outlook reflects a potential weakening in the Macquarie group's operating and financial flexibility due to heightened dislocation of the global financial markets in recent days, and weakening of investor sentiment--which has generally affected many financial sector entities. This is notwithstanding the Macquarie group's limited direct exposure to the impact of the current global financial market turmoil, and very capable management of its liquidity, capital, and counterparty exposures," Standard & Poor's credit analyst Sharad Jain said. "Reduced flexibility might manifest in a number of ways, but we note in particular the material amount of Macquarie's short-term wholesale debt funding and the reliance of the Macquarie group's business model on favorable investor sentiment. However, potential for a financial stress in the short term is minimized by the group holding a high level of cash and liquid assets."

The rating affirmations reflect our view that the financial and business fundamentals of the Macquarie group are unlikely to be materially affected by the current dislocation in financial markets. We believe that the Macquarie group is likely to maintain a strong earnings profile, although the earnings for fiscal 2009 are expected to be weaker than the previous year's. Furthermore, the rating has tolerance for short-term earnings volatility. We also believe that the Macquarie group is unlikely to have material credit or mark-to-market losses because it has very limited exposures to subprime mortgages, collateralized debt obligations (CDOs), and counterparties whose credit quality has materially worsened in recent days.

The ratings on Macquarie group entities could be lowered if the global financial-market conditions deteriorate further, so as to put significant pressure on Macquarie's long-term business model, and the group's funding and liquidity. The ratings are also likely to be lowered if investor sentiment materially worsens, or if the group's reputation is significantly damaged from events such as an operational failure, or a perceived conflict of interest between Macquarie's roles as originator, advisor, and asset manager. Standard & Poor's believes that the risk of perceived conflict of interest is mitigated by the well-developed risk-management framework. The ratings could also be affected by significant liquidity problems at the Macquarie corporate level. Additionally, although the Macquarie group has a policy of not financially supporting funds under its management, the Macquarie franchise could be damaged if one of the major assets managed by the Macquarie group was allowed to get into financial difficulty.

Affirmation of the ratings with a stable outlook would depend on restoration of equity- and debt-investor sentiment, and stability of financial markets. Additionally, a rating upgrade will depend on continued strengthening of Standard & Poor's confidence in the group's risk-management framework, earnings resilience, and sustainability of capital adequacy relative to the risks. Continued improvement in the geographic and business diversity could also support higher ratings.

Ratings Affirmed; Outlook Action

	To	From
Macquarie Group Ltd.		
Macquarie International Finance Ltd.		
Macquarie Financial Holdings Ltd.		
Counterparty Credit Rating	A-/Negative/A-2	A-/Stable/A-2
Macquarie Bank Ltd.		
Counterparty Credit Rating	A/Negative/A-1	A/Stable/A-1
Macquarie Life Ltd.		
Counterparty Credit and Financial Strength Rating		
Local Currency	A/Negative/--	A/Stable/--

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

Exhibit D

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MACQUARIE

ASX/Media Release

MACQUARIE GROUP NOTES S&P HAS REAFFIRMED RATINGS AND REVISED OUTLOOKS TO NEGATIVE DUE TO FINANCIAL MARKET TURMOIL

SYDNEY, 17 September 2008 – Macquarie Group Limited today noted that Standard and Poor's (S&P) had reaffirmed its ratings for the Macquarie group of companies: 'A' long-term and 'A-1' short-term issuer credit ratings on Macquarie Bank Limited, and 'A-' long-term and 'A-2' short-term issuer credit ratings on Macquarie Group Limited, Macquarie Financial Holdings Limited, and Macquarie International Finance Limited.

The Group's Chief Financial Officer, Mr Greg Ward, noted that S&P in reaffirming the ratings for the Macquarie group of companies observed:

- The group's "limited direct exposure to the impact of the current global financial market turmoil, and very capable management of its liquidity, capital and counterparty exposures".
- "Macquarie's well-developed risk management systems are robust enough to deal with the market uncertainties under most stress situations commensurate with a 'A' rating category".
- "The financial and business fundamentals of the Macquarie group are unlikely to be materially affected by the current dislocation in financial markets".
- The group is "likely to maintain a strong earnings profile" and is "unlikely to have material credit or mark-to-market losses because it has very limited exposures to subprime mortgages, collateralized debt obligations (CDOs) and counterparties whose credit quality has materially worsened in recent days".

The Group noted the outlook for the Macquarie group of companies had been revised to negative from stable due to financial market turmoil but that the most likely scenario is that the agency's ratings on Macquarie group entities will remain at their current levels.

Macquarie also noted reported comments by Moody's Investors Service Senior Vice President, Mr Patrick Winsbury, who said: "The fundamental story at Macquarie is very different from anything you've seen in the US. They have done an extremely good job avoiding all the pitfalls so far in the crisis."

Mr Ward said that while current markets are challenging, the Group remains profitable, well capitalised and well funded with liquid assets of more than $A20 billion as at 30 June 2008. The Group's existing long term funding sources exceed the Group's long term assets; the Group has raised over $A6 billion of long term funding from various sources since 31 March 2008. As we have previously noted, we have been carefully managing exposures to professional counterparties for some time.

Macquarie Group is regulated by the Australian Prudential Regulation Authority (APRA) as a holding company of an Australian bank.

The Group also advised that it had an exposure to Lehman Brothers group of $A21 million and $A33 million to American International Group which separately and combined are not material.

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