



## News Release

### Infrastructure Investments, Higher Costs Prompt Puget Sound Energy to Request General Rate Increase for Late 2008

BELLEVUE, Wash.--(BUSINESS WIRE)--Dec. 3, 2007--Puget Sound Energy (utility subsidiary of Puget Energy (NYSE: PSD)) today filed a request to increase electric and natural gas rates in late 2008. This request would allow the utility to recover large investments made in energy infrastructure in 2006 and 2007, which will continue to be needed to serve the growing region, as well as costs related to higher operating and power-supply expenses.

If approved by the Washington Utilities and Transportation Commission (WUTC), the general rate case filing would raise PSE's average electric and natural gas rates by 9.5 percent and 5.31 percent, respectively, effective Nov. 1, 2008. A WUTC general rate case review typically takes up to 11 months as the commission thoroughly examines utility operational costs and revenues before issuing a decision.

"We are asking the commission to allow us to recover the investments we have made and will continue to make in our pipes, wires and power supplies to provide the service our customers have come to expect, and to meet the growing needs of the vibrant Puget Sound region," said Eric M. Markell, PSE CFO and executive vice president in charge of rates and regulation. "With rising steel, copper and fuel prices, a tightening of the global competition for resources, and a weak U.S. dollar, the cost of doing business has increased and will continue to increase.

"While our utility serves a remarkably growing and prosperous region, we recognize the strain that rising costs, including energy costs, can place on our most vulnerable citizens," added Markell. "Consequently, this filing also proposes to increase bill-payment assistance to our low-income customers.

"Fortunately, we were able to reduce our natural gas rates by 13 percent in October and we continue to work to reach agreement to restore federal power benefits for our household and small-farm customers. Those two factors will help cushion PSE customers in 2008 from the higher rates we are requesting to recover for our infrastructure investments and higher costs."

As filed with the WUTC, the PSE request would annually provide an additional \$174.5 million in electric revenue and \$56.8 million in natural gas revenue to help the utility continue to provide safe and reliable customer service and meet continued growth demands in the utility's 11-county, 6,000-square-mile service area of Western Washington.

Almost one-third, or \$55 million, of the electric revenue request can be attributed to power-related costs. Other key drivers include: \$20 million for storm-recovery expenses and \$19.2 million for increased operations and maintenance expenses. The bulk of the natural gas revenue request can be attributed to recovering costs for infrastructure investments to improve reliability and serve new customers.

"PSE has added 75,000 electric and gas customers over the last two years," said Markell. "In 2005 and 2006 alone, we invested \$635 million in our electric and natural gas delivery systems, including six new substations, more than 600 miles of new power lines and almost 400 miles of new natural gas pipelines. That's on top of the \$580 million we have invested in our two wind farms."

All utilities, Markell said, are facing tremendous cost pressures related to increasing competition for available energy resources, the ripple effects of volatile oil and natural gas prices, and requirements to address climate change. The cost pressures are particularly acute, he added, for utilities like PSE that must invest billions to meet the rising energy demands of a steadily growing customer base.

"Over the next several years," he said, "we expect to invest roughly \$1 billion a year to upgrade and expand the energy-delivery infrastructure and acquire new power supplies to serve a steadily growing customer base, meet increased safety requirements and strengthen reliability."

If the rate case is approved by the WUTC, effective Nov. 1, 2008, a typical household electricity bill (based on 1,000 kilowatt-hours (kWhs) of electricity) would increase 11.66 percent, or \$10.65 a month. A typical natural gas bill (based on 68 therms), would increase 5.6 percent, or \$4.60 a month. This would make PSE's average monthly electric residential bill \$101.91 and the average monthly natural gas residential bill \$86.68.

The proposed electric rate increase, Markell noted, does not reflect the federal power benefits that PSE customers lost last spring because of a federal court ruling. A negotiated resumption of customer benefits from the Bonneville Power Administration is expected before any rate increase would go into effect next year and would help offset the increase.

One key driver of today's filing is higher power costs related to the expiration of several fixed-price, below-market natural gas supply contracts for fueling PSE's gas-fired power plants. These fuel contracts will need to be replaced in a much higher-priced gas market. While a softening in wholesale natural gas prices earlier this year enabled this fall's gas-rate reduction for PSE customers, in the long-term natural gas prices continue to trend upward, which will translate into higher power-production costs for the utility.

The recently proposed merger between PSE's parent company, Puget Energy, and a consortium of long-term infrastructure investors has no bearing on today's filing, Markell said. The revenues sought by the rate proposal, he said, are aimed solely at recovering costs and providing the financial resources PSE needs to ensure safe and reliable service to a growing region.

#### Puget Sound Energy General Rate Case Highlights

As filed Dec. 3, 2007

Revenues

Requests an increase of \$174.5 million in electric revenue with almost one-third, or \$55 million, of that amount related to higher power costs; \$20 million for storm-recovery expenses, and \$19.2 million for increased operations and maintenance expenses.

Requests an increase of \$56.8 million in natural gas revenue mostly attributable to recovering costs for infrastructure investments to improve reliability and serve new customers.

#### Low-Income Assistance

PSE is proposing to increase the funding available to low-income customers to help offset the impact of the proposed rate increase and mitigate changes in the natural gas rate design.

#### Allowed Return on Equity

Requests 10.8 percent, compared to current 10.4 percent

#### Rates

-- Proposed rate increase, on average, across all customer groups: 9.5 percent for electricity; and 5.31 percent for natural gas.

-- Proposed percentage increase for "typical" household bill (i.e., 1,000 kWhs of electricity use / 68 therms natural gas use): 11.66 percent for electricity; and 5.6 percent for natural gas.

-- Proposed dollar increase for typical monthly residential bill: \$10.65 for electricity; and \$4.60 for natural gas.

-- New monthly bill for typical-usage household: \$101.91 for electricity; and \$86.68 for natural gas.

#### Renewable Resources

PSE is proposing to recover new investments in renewable energy resources including four more wind turbines at its Hopkins Ridge Wind Power Facility, where 83 turbines have generated renewable energy to PSE customers since November 2005, and in a new, 20-year power-purchase contract with PPM Energy for 50 megawatts of electricity generated from the Klondike III Wind Project in north-central Oregon.

#### About Puget Sound Energy

Washington state's oldest and largest energy utility, with a 6,000-square-mile service area stretching across 11 counties, PSE serves more than 1 million electric customers and nearly 725,000 natural gas customers, primarily in Western Washington. PSE meets the energy needs of its growing customer base through incremental, cost-effective energy efficiency, procurement of sustainable energy resources, and far-sighted investment in the energy-delivery infrastructure. For more information, visit [www.PSE.com](http://www.PSE.com).

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