

**THE STATE OF NEW HAMPSHIRE**

**MERRIMACK, SS**

**SUPERIOR COURT**

**Docket No. 03-E-0106  
In the Matter of the Liquidation of  
The Home Insurance Company**

**AFFIDAVIT OF PETER A. BENGELSDORF, SPECIAL DEPUTY  
LIQUIDATOR, IN SUPPORT OF APPROVAL OF  
SETTLEMENT AGREEMENT WITH PSE**

I, Peter A. Bengelsdorf, hereby depose and say:

1. I was appointed Special Deputy Liquidator of The Home Insurance Company ("Home"), by the Commissioner of Insurance for the State of New Hampshire, as Liquidator ("Liquidator") of Home. I submit this affidavit in support of the Liquidator's Motion for Approval of Settlement Agreement and Mutual Release ("Settlement Agreement") with Puget Sound Energy, Inc., successor by merger to Washington Natural Gas, Inc. ("PSE"). The facts and information set forth are either within my own knowledge gained through my involvement with this matter, in which case I confirm that they are true, or are based on information provided to me by others, in which case they are true to the best of my knowledge, information and belief.

2. Home issued two insurance policies to PSE for policy periods between May 1, 1968 and June 1, 1973. Prior to Home's liquidation, PSE commenced a declaratory judgment action (the "Coverage Action") in the Superior Court of the State of Washington, King County, seeking coverage under these policies for environmental pollution liability claims. Upon Home's placement in liquidation, PSE filed twenty-one proofs of claim in the Home liquidation. The proofs of claim seek coverage under the policies for claims, including but not limited to claims for environmental pollution, asserted against PSE.

3. The Liquidator and PSE have reached an agreement to resolve the proofs of claim and all matters under the policies, which is reflected in the Settlement Agreement attached as Exhibit A. It is subject to approval by the Court. Settlement Agreement at sixth Whereas clause and ¶ 1.

4. The Settlement Agreement provides that the Liquidator will recommend allowance of PSE's proofs of claim in the aggregate amount of \$3,250,000 as a Class II claim under RSA 402-C:44. Settlement Agreement ¶ 2(A). Allowance of the recommended amount as a Class II claim will fully and finally resolve PSE's proofs of claim and all claims under the policies. Id. ¶ 2(B). Distributions based on that allowance will be made at the same intervals and at the same percentages as distributions to other Class II creditors of Home. Id. ¶ 2(C).

5. The Settlement Agreement is intended to resolve PSE's proofs of claim and all matters relating to the policies. See Settlement Agreement ¶¶ 2(B), 7 (second paragraph). To that end, the Settlement Agreement provides for mutual releases of all claims between Home and PSE arising from or related to proofs of claim or the policies. Id. ¶¶ 5, 6. See also ¶¶ 3, 4.

6. The Liquidator is not aware of any third party claimants asserting claims under the PSE policies. However, in resolving all matters relating to the proofs of claim and the policies, the Settlement Agreement contemplates denial of any third party claimants' claims in the Home liquidation without prejudice to their claims against PSE. Accordingly, PSE acknowledges in the Settlement Agreement that it is intended to resolve all matters between PSE and the Liquidator/Home relating to the policies, the Coverage Action, and proofs of claim, including asserted rights of third party claimants. Settlement Agreement ¶ 7 (second paragraph). PSE agrees to address, at its sole cost, the claims of claimants asserting claims against PSE as if

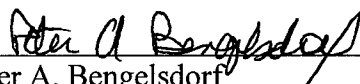
PSE had no insurance coverage from Home under the policies. Id. PSE agrees to indemnify the Liquidator and Home against claims arising from the policies. Id. (first paragraph).

7. The denial of any third party claimants' proofs of claim without prejudice to their claims against PSE will not harm the third party claimants, who will continue to have their full claims against PSE. As noted above, PSE has agreed to address these claims as if it had no insurance coverage from Home under the policies. Settlement Agreement ¶ 7 (second paragraph). Third party claimants' proofs of claim against the insolvent Home, if not denied with this agreement, would release PSE from those claims up to the limits of the policies but only entitle the third party claimants (assuming their claims are allowed) to a presently undetermined percentage distribution at the future date when a distribution is made. It is not expected that the allowed claims of any third party claimants (or other Class II creditors) will be paid in full. Under the Settlement Agreement, PSE will continue to be fully responsible for any third party claimants' claims against it. See Settlement Agreement ¶ 7 (second paragraph).

8. The Settlement Agreement reflects a compromise of the claims asserted in PSE's proofs of claim. It is the result of negotiations involving Home's Claims Department, under my supervision, which has extensive experience in assessing the exposure presented by environmental pollution claims under Home's insurance policies. The agreed settlement amount is based on careful evaluation and negotiation of coverage obligations under Home's policies respecting the underlying claims against PSE. The Liquidator accordingly recommends approval of the Settlement Agreement and allowance of the \$3,250,000 settlement amount as a Class II claim in accordance with RSA 402-C:45 and RSA 402-C:44.

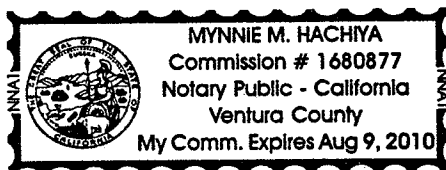
9. I believe that the Settlement Agreement is fair and reasonable, and in the best interests of the policyholders and other creditors of Home.

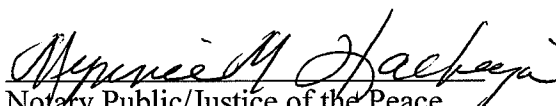
Signed under the penalties of perjury this 24<sup>TH</sup> day of May, 2007.

  
Peter A. Bengelsdorf  
Special Deputy Liquidator of The Home Insurance  
Company

STATE OF CALIFORNIA  
COUNTY OF VENTURA

Subscribed and sworn to, before me, this 24 day of May, 2007



  
Notary Public/Justice of the Peace