

UPDATE ON THE RELICENSING PROCESS FOR THE BAKER PROJECT

In compliance with Section 2 of the Agreement on Revenue Requirement Adjustments between Commission Staff and Puget Sound Energy, Inc. ("PSE"), PSE provides the following update on the Baker River Hydroelectric Project, No. 2150 ("Baker Project") relicensing process before the Federal Energy Regulatory Commission ("FERC").

SUMMARY

The FERC relicensing process for the Baker Project realized some major milestones over the past year. These include: issuance of FERC's Draft Environment Impact Statement ("the DEIS"), comments and public hearings on the DEIS, issuance of FERC's Final Environmental Impact Statement ("FEIS"), and issuance of Washington Department of Ecology ("DOE") draft Water Quality Certification ("WQC") for comments.

Items still to be completed and assimilated by FERC in its Baker Project license include:

- Mandatory Federal Power Act ("FPA") Sections 4(e) and 2(e) terms and conditions to protect the Baker National Forest.
- Mandatory FPA Section 18, prescriptions for fishways.
- Mandatory FPA Section 10(j) recommendations to adequately protect, mitigate damage to, and enhance fish and wildlife (and habitats).
- Town of Concrete to issue a shoreline permit for proposed actions within town.
- Biological Opinions issued by Secretaries of Commerce and Interior.
- DOE issues a certificate of consistency with Washington State's coastal zone management plan pursuant to the Coastal Zone Management Act
- DOE to issue a WQC
- DOE and Town of Concrete adopt the FEIS as satisfying the State Environmental Policy Act criteria.

When these items are completed, FERC will consider the record and staff recommendations and determine the proposal best adapted to a comprehensive plan for the proper use, conservation and development of the Baker River pursuant to FPA Section 10(a). The Company anticipates that FERC will issue a license in 2007. The earliest would be at the end of the first quarter, and most likely in the second quarter of 2007.

TWELVE MONTH -- MILESTONE CHRONOLOGY

- 12/20/2005: WDOE issues its draft Section 401 WQC for comments.
- 03/09/2006: PSE withdraws and resubmits its WQC application/
- 04/07/2006: FERC issues its DEIS and solicits comments.
- 04/07/2006: FERC sends its Baker DEIS to US Fish and Wildlife Service (“USFWS”) stating that the DEIS serves as FERC’s Biological Opinion (“BO”) and asking for USFWS’ BO be sent to FERC within 135-days.
- 04/07/2006: FERC sends its Baker DEIS to National Marine Fisheries Service (“NMFS”) stating that the DEIS serves as FERC’s Biological Opinion (“BO”) and asking for NMFS’ BO be sent to FERC within 135-days.
- 04/11/2006: FERC issues notice of public hearings on the Baker Project DEIS.
- 05/01/2006; 05/02/2006: FERC holds public hearings on the Baker Project DEIS in Seattle and Mt. Vernon.
- 05/05/2006: FERC issues an annual license to PSE for continued operation of the Baker Project under the terms and conditions of the prior project license.
- 06/02/2006: WDOE advises FERC that DOE’s review of the Baker Project for Certification of Consistency with Washington State Coastal Zone Management Program (“CZM”) is extended to September 1, 2006.
- 07/06/2006: FERC advises NMFS that its BO is due August 28, 2006.
- 07/03/2006: USFWS comments to FERC on its request for formal consultation under the Endangered Species Act.
- 08/17/2006: USFWS files with FERC modified Section 18 Prescriptions for Fishways of the Baker River Project.
- 09/01/2006: PSE and DOE file agreement to extend the CZM review period to December 1, 2006.
- 09/08/2006: FERC issues FEIS for Baker River Project.
- 10/03/2006: USFWS advises FERC that it will submit its BO on or before February 9, 2007.
- 10/11/2006: PSE files the final Programmatic Agreement for the Baker Project.
- 11/30/2006: PSE and DOE agree to extend the CZM review period to February 15, 2007.