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(AT)

November 16, 1999

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

Carole Washburn, Executive Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

**Re: Puget Sound Energy, Inc.
Application for Approval of Corporate Reorganization**

Dear Ms. Washburn:

Enclosed for filing is an original and nineteen (19) copies of an Application of Puget Sound Energy, Inc. ("PSE") for an Order Approving a Corporate Reorganization to Create a Holding Company, Puget Energy, Inc.

PSE respectfully requests that the Commission issue its order with respect to the Application prior to the end of the year in order to allow the closing for this corporate reorganization to occur during calendar year 1999.

Thank you for your assistance. If the Commission or its staff has any questions with respect to this Application, please contact me at (425) 462-3196.

PUGET SOUND ENERGY, INC.

By Christy A. Omohundro
Christy A. Omohundro
Director, Rates & Regulation

cc: Simon ffitch, Office of Public Counsel

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

In the Matter of the Application of
PUGET SOUND ENERGY, INC.

For an Order Approving a Corporate
Reorganization to Create a Holding Company,
Puget Energy, Inc.

DOCKET NO. UE- _____

APPLICATION

Pursuant to Chapter 80.12 RCW and WAC 480-143-120, Puget Sound Energy, Inc. (“PSE” or “Applicant”) hereby applies to the Commission for an order from the Washington Utilities and Transportation Commission (the “Commission”) which:

- (a) disclaims jurisdiction over the corporate reorganization,¹ or
- (b) alternatively, if the Commission concludes it has jurisdiction over the transaction, approving the proposed reorganization to create a holding company, Puget Energy, Inc.

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

¹ Commission authorization is necessary under RCW 80.12.020 for a public service company to sell, lease, assign, or otherwise dispose of, or merge or consolidate, any of its franchises, properties or facilities with any other public service company. Under RCW 80.12.040, Commission authorization is necessary before another public service company can, directly or indirectly, purchase, acquire, or become the owner of any of the franchises, properties, facilities, capital stocks or bonds of a public service company. The statutory authorities arguably do not give the Commission jurisdiction over the proposed transaction. RCW 80.12.020 does not apply because no Washington public service company is attempting to sell, lease, assign or otherwise dispose of any of its franchises, properties or facilities in the proposed reorganization. Under the reorganization, only an exchange of stock is involved, with the shareholders of PSE becoming the shareholders of Puget Energy. The transaction does not operate to sell, lease, assign or otherwise dispose of, or merge or consolidate, any Washington franchises, properties or facilities. Similarly, RCW 80.12.040 does not apply because no public service company is, under the proposed corporate reorganization, purchasing, acquiring or becoming the owner of any of the capital stocks or bonds of any other public service company. Puget Energy is not, and will not be, a public service company. Accordingly, Applicant requests an order of the Commission determining that it has no jurisdiction over the transaction and that no authorizations are required under Chapter 80.12 RCW. Notwithstanding and without waiving any jurisdictional arguments, PSE is submitting this Application for Commission approval of the reorganization in light of recent Commission precedent asserting jurisdiction over reorganizations involving, indirectly, Washington public service companies. Irrespective of whether approval is necessary, submittal of this filing serves to inform the Commission and its staff of the elements of the reorganization.

I. BACKGROUND

The proposed reorganization involves the formation of a holding company structure for PSE and its subsidiaries. PSE will become a subsidiary of Puget Energy, Inc. ("Puget Energy"), which will own all the common stock of PSE. The current owners of PSE common stock will own Puget Energy common stock, which will be publicly traded on the New York Stock Exchange. A copy of the resolution of Puget Sound's Board of Directors authorizing the proposed reorganization is attached hereto as Exhibit A. This proposal received the approval of at least 2/3 of its shareholders at its annual meeting on June 23, 1999.

The primary purpose of the holding company proposal is to allow PSE to implement a corporate structure that in the future will facilitate the separation of its regulated utility business from certain other nonregulated businesses. This, in turn, will enhance Puget Energy's ability to respond to the changing industry environment and will permit greater financing flexibility.

The holding company structure will be formed pursuant to the terms and conditions of a Plan of Exchange ("Exchange Plan"), attached hereto as Exhibit B, which will be executed by and between PSE and Puget Energy. Puget Energy is incorporated in the State of Washington and will issue common stock in the same number of shares as the number of shares of PSE common stock issued and outstanding immediately prior to the effective time of the share exchange. Subject to the terms of the Exchange Plan, each share of PSE common stock will be exchanged for one share of common stock in Puget Energy, except to the extent that any holders of PSE common stock are entitled to dissent to the proposed transaction and receive payment of their shares pursuant to such dissenters' rights. When all necessary regulatory approvals have been obtained, the acquisition will become effective immediately following the close of business on the date of filing with the Secretary of State of the State of Washington of articles of share exchange pursuant to RCW 23B.11.050.²

² The filing of the articles of share exchange with the Secretary of State and the consummation of the exchange are subject to the satisfaction of the following conditions precedent: (1) the approval of the holders of

Immediately following the exchange, Puget Energy will have no outstanding securities other than common stock. PSE's preferred stock and debt will continue to be held by PSE and the terms and thereof will not be altered as a result of the share exchange. The PSE Articles of Incorporation will not be changed in any way as a result of the share exchange. Initially, the same persons elected to the PSE Board of Directors will serve as the directors of Puget Energy, and the senior officers of Puget Energy will also be the officers of PSE.

The proposed reorganization will not affect title to or interest in any facilities subject to the jurisdiction of the Commission. PSE will continue to own, operate and manage all of its facilities used in the generation, transmission and sale of electricity. The reorganization will not affect the ability of the State of Washington to regulate PSE and will not affect the Commission's ability to regulate PSE.

In connection with the reorganization, the current subsidiaries of PSE will continue to be wholly owned subsidiaries of PSE. These subsidiaries are WNG Cap I, ConneXt, HEDC, Puget Western, Inc., Washington Energy Gas Marketing, Hydro-West, PSE Utility Solutions, and Puget Sound Energy Services. A diagram of Puget Energy's proposed corporate structure after the reorganization is attached hereto as Exhibit C.

II. GENERAL INFORMATION

A. Name and Address of Applicant.

Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734

PSE common stock; (2) the receipt of such orders, authorizations, approvals or waivers from the Commission, and all other regulatory bodies, boards or agencies as are or may be required in connection with the exchange and related transactions, which orders, authorizations, approvals or waivers remain in full force and effect, and do not include, in the sole judgment of PSE's Board of Directors, unacceptable conditions; (3) the effectiveness of a registration statement under the Securities Act of 1933 relating to Puget Energy Common Stock to be issued or reserved for issuance in connection with the exchange; (4) the approval for listing upon official notice of issuance, by the New York Stock Exchange of Puget Energy Common Stock to be issued in connection with the Exchange; and (5) the receipt of a favorable opinion by legal counsel to PSE covering certain United States federal income tax matters.

B. Counsel for Applicant.

Kimberly J. Harris, Esq.
Assistant General Counsel
Puget Sound Energy, Inc.
One Bellevue Center
411 – 108th Avenue, Suite 1500
Bellevue, Washington 98004

James M. Van Nostrand, Esq.
Stoel Rives LLP
Suite 3600, One Union Square
600 University Street
Seattle, Washington 98101-3197

C. Description of Business and Properties.

PSE provides retail electric and gas service in a portion of the state of Washington covering approximately 6,000 square miles, principally in the Puget Sound region. The Company serves electricity in Skagit, Jefferson, Thurston, Kitsap, Whatcom, King, Kittitas, and Pierce counties (excluding the cities of Seattle and Tacoma), and provides gas service in King, Kittitas, Snohomish, Pierce, Thurston and Lewis counties.

D. Purpose of the Transaction.

The formation of Puget Energy will put in place a corporate structure that will enable PSE to insulate its utility business from its non-utility business. At the same time, it will permit greater financing flexibility to respond to the changing business environment in the utility industry. The holding company structure is a well-established form of organization for companies engaging in multiple lines of business, and is increasingly prevalent in the utility industry. Many utilities are organized under a public utility holding company structure.

The corporate separation and financing flexibility afforded by a holding company structure will increase Puget Energy's ability to respond to changes in the electric industry, markets and regulation. When new business opportunities arise, they can be operated as Puget Energy subsidiaries, enhancing the separation between PSE and those businesses. Such separation will insulate PSE and its customers from the risks associated with operating

other businesses.

The holding company structure will permit the use of financing techniques that are more directly suited to the particular requirements, characteristics and risks of Puget Energy's other businesses, without any impact on the capital structure of PSE. For example,

- Puget Energy, in addition to receiving dividends from PSE, will be able to obtain funds through its own debt or equity financings.
- PSE will be able to obtain funds through its own financings, which may include the issuance of debt or preferred stock, as well as the issuance of additional shares of PSE common stock to Puget Energy.
- The other businesses may obtain funds from Puget Energy, from affiliates other than PSE, or from their own outside financings.

Of course, any financings will depend on the financial and other conditions of the entities involved and market conditions.

In contrast to a holding company structure, PSE's current corporate structure cannot accommodate the same degree of financial separation because all business activities must either be part of the utility itself or be conducted in entities owned by the utility. As a result, any volatility in earnings associated with these other businesses will continue to be reflected in the present utility's financial results. In a holding company structure, these other businesses can be operated as Puget Energy subsidiaries. PSE can be more effectively insulated from the potential volatility of these operations because the activities of sister companies of PSE would not be reflected in the utility's financial statements. Any unfavorable financial results or liabilities of these companies generally will not adversely affect PSE's equity capital.

Puget Energy will be a "public utility holding company" under the Public Utility Holding Company Act of 1935, as amended, or PUHCA. Puget Energy will file an application with the Securities and Exchange Commission seeking an exemption under

Section 3(a)(1) of PUHCA on two grounds:

1. Both Puget Energy and PSE are organized and will carry on their businesses substantially in the state of Washington; and
2. Neither Puget Energy nor PSE will derive any material part of its income from a public utility company subsidiary either organized or carrying on its business predominantly outside of the state of Washington.

This exemption will exempt Puget Energy from the provisions of PUHCA, except Section 9(a)(2), which requires SEC approval for a direct or indirect acquisition of five percent or more of the voting securities of any other electric or gas utility company. To maintain this exemption, Puget Energy must file an exemption statement with the SEC each year prior to March 1.

III. REQUESTED REGULATORY APPROVALS

A. The Standard for Approval of the Transaction

Under WAC 480-143-050, the standard for approval of the transaction is that it be consistent with the public interest:

If, upon examination of an 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.

In a decision earlier this year, the Commission provided further guidance on the standard by which the public interest is to be evaluated in cases involving changes in corporate ownership:

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.

In the Matter of the Application of PacifiCorp and Scottish Power plc, Docket No. UE-981627, Third Supplemental Order on Prehearing Conference (April 2, 1999), p. 2.

B. Approval of the Corporate Reorganization

Approval is requested for the corporate reorganization whereby PSE will become a subsidiary of Puget Energy, Inc., which will own all the common stock of PSE. As noted above, the primary purpose of the holding company proposal is to allow PSE to implement a corporate structure that will enable separation of its regulated utility business from certain other nonregulated businesses. This will enhance Puget Energy's ability to respond to the changing industry environment and will permit greater financing flexibility.

The proposed reorganization is consistent with the public interest. The transaction will be transparent to PSE's utility customers, and thus satisfies the "no harm" standard. PSE will continue to own, operate and manage all of its facilities used in the generation, transmission and sale of electricity. The reorganization will not affect the ability of the Commission to regulate PSE. If anything, the reorganization can be expected to enhance the Commission's regulatory oversight, as unregulated operations in the future can be clearly separated from PSE's regulated activities. Any specific transactions between PSE and other subsidiaries of Puget Energy would be subject to the filing requirements of Chapter 80.16 RCW.

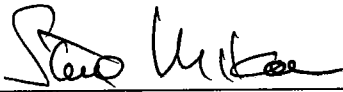
Moreover, the reorganization will benefit PSE's utility customers by separating them from the risks associated with any new business enterprises undertaken by Puget Energy. As new business opportunities arise, they can be operated as Puget Energy subsidiaries, thereby achieving a separation between PSE and those businesses. A holding company structure will also provide financing flexibility, which will increase Puget Energy's ability to respond to changes in the electric industry, markets and regulation.

IV. CONCLUSION

PSE respectfully submits that the transaction satisfies the standard for approval under WAC 480-143-050. If the Commission determines that it has jurisdiction over the transaction, PSE requests that the Commission make its order granting approval of the Application, as provided for in Chapter 80.12 RCW.


DATED at Bellevue this 16th day of November, 1999.

PUGET SOUND ENERGY, INC.

By  _____
Steve McKeon
Vice President and General Counsel

VERIFICATION

Steve McKeon hereby states that he is Vice President and General Counsel of Puget Sound Energy, Inc., the Applicant in the proceeding entitled above, that he has read the foregoing application and knows the contents thereof; and that the same are true of his own knowledge, except as to matters which are therein stated on information or belief, and as to those matters he believes them to be true.



Steve McKeon
Vice President and General Counsel

LIST OF EXHIBITS

Exhibit A	Board of Directors Resolution
Exhibit B	Plan of Exchange
Exhibit C	Proposed Corporate Structure

Exhibit A

Board of Directors Resolution

Puget Sound Energy, Inc.
P. O. Box 97034, OBC-15
Bellevue, Washington 98009-97
(425) 454-6363

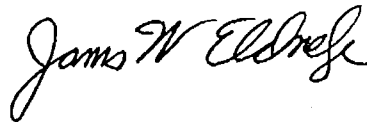
MINUTES OF THE BOARD OF DIRECTORS' MEETING – APRIL 23, 1999

TO ALL DIRECTORS:

March 24, 1999

A one-hour telephonic Board meeting has been scheduled on Friday, April 23, 1999, beginning at 10:00 a.m. The meeting is needed to approve the definitive combined Form S-4 Registration Statement and Proxy Statement for filing in connection with our June 23, 1999 Annual Meeting of Shareholders. We anticipate receiving comments from the SEC on April 19, 1999 on our preliminary filing of March 9, 1999.

Sincerely,



James W. Eldredge
Corporate Secretary &
Controller

Pursuant to notice duly given (a copy of which appears above), a telephonic meeting of the Board of Directors of Puget Sound Energy was held in Bellevue, Washington at 10:00 a.m. on Tuesday, April 23, 1999.

The following Directors were present, either in person or by telephone:

D. P. Beighle
C. W. Bingham
P. J. Campbell
D. J. Covey
R. L. Dryden
J. W. Ellis
D. J. Evans
T. Moriguchi
S. G. Narodick
R. R. Sonstelie
W. S. Weaver

being more than a quorum.

Also present for the meeting were:

J. W. Eldredge, Corporate Secretary and Controller
R. L. Hawley, Vice President and Chief Financial Officer
S. A. McKeon, Vice President and General Counsel
Andrew Bor, Perkins Coie LLP
Andrew Moore, Perkins Coie LLP

William S. Weaver, President and Chief Executive Officer presided and J. W. Eldredge, Corporate Secretary and Controller, kept the records of the meeting.

Mr. Weaver then called the meeting to order.

AUTHORIZATION OF FORMATION OF HOLDING COMPANY. Mr. Weaver then asked Mr. McKeon to review with the Board matters in connection with formation of a holding company. Mr. McKeon then reviewed corporate governance matters in connection with the formation of Puget Energy, Inc. and certain draft resolutions for the Board to consider. After full discussion, on motion duly made and seconded, it was

RESOLVED – That the formation by officers of this corporation of a Washington corporation named "Puget Energy, Inc." ("Puget Energy") is hereby ratified and approved.

RESOLVED – That the contribution of up to \$1,000 to the capital of Puget Energy in exchange for all of its outstanding shares is hereby ratified and approved.

RESOLVED – That the President and CEO of this corporation is hereby authorized and directed to vote the shares of Puget Energy owned by this corporation on any and all matters coming before the shareholders of Puget Energy, and otherwise take all action and sign any documents he deems necessary or desirable with respect to such shares of Puget Energy, including any consents of shareholders made in lieu of meetings of the shareholders, such authority to continue until revoked by resolution of the Board of this corporation.

RESOLVED – That this Board hereby deems it advisable and in the best interests of this corporation for this corporation to adopt a holding company structure to be implemented through a plan of exchange (the "Plan of Exchange") between this corporation and Puget Energy.

RESOLVED – That this Board hereby approves the formation of a holding company structure to be implemented pursuant to the Plan of Exchange.

RESOLVED – That, subject to approval by the Common Shareholders of this corporation, the Plan of Exchange, pursuant to which shares of common stock of this corporation will be exchanged for shares of common stock of Puget Energy on a share-for-share basis, is hereby approved in substantially the form presented to this meeting, with such changes therein as the officers of this corporation may deem necessary or appropriate, provided that such Plan of Exchange may be amended or terminated by action of this Board at any time in accordance with the terms thereof and provided further that the decision to implement the Plan of Exchange shall require further authorization by this Board.

RESOLVED – That the Plan of Exchange be submitted to the Common Shareholders of this corporation for approval at the Annual Meeting of the Shareholders of this corporation to be held on June 23, 1999.

RESOLVED – That the officers of this corporation, and each of them, are hereby authorized and directed to take any and all action and execute any and all documents as they may deem necessary or advisable, including without limitation the execution and filing of applications or requests for exemption, approval of or consents to the Plan of Exchange by any third parties (including the Washington Utilities and Transportation Commission, the Federal Energy Regulatory Commission, the Securities and Exchange Commission and any other governmental and regulatory agencies and bodies) and applications for listing of the common stock of Puget Energy, Inc. on the New York Stock Exchange, or any related documents, all in connection with the Plan of Exchange.

RESOLVED – That this Board hereby ratifies and approves in all respects all actions heretofore taken by any officer or director of this corporation in connection with the foregoing.

RESOLVED – That the officers of this corporation, or any one of them, are hereby authorized to take any and all actions and to prepare and execute on behalf of this corporation any and all documents as may be deemed by any one of them to be necessary or advisable to effectuate the transactions and agreements contemplated by the foregoing resolutions, and the taking of any and all such actions and the execution of any and all documents in connection

with the foregoing shall conclusively establish their authority therefor from this corporation and the approval and ratification thereof by this Board.

AMENDMENT OF THE COMPANY'S 1998 FORM 10-K REPORT. Mr. Weaver

then asked Mr. Eldredge to review with the Board changes management recommends be made to the Company's 1998 form 10-K filing with the SEC on March 17, 1999. Mr. Eldredge reviewed the suggested changes described in the Company's response to an SEC's comment letter of April 16, 1999, a copy of which is filed with the minutes of this meeting. After full discussion on motion duly made and seconded it was

RESOLVED - That this Board of Directors hereby approves amending the Company's 1998 Form 10-K Annual Report, as described by management in this meeting and authorizes the filing of an Amendment to the Form 10-K Annual Report with the Securities and Exchange Commission after certain changes are made thereon, if any, as the President and CEO, Vice President and CFO or the Corporate Secretary may deem necessary or desirable.

PROXY/REGISTRATION STATEMENT. Mr. Weaver then asked Mr. Eldredge

to review the Proxy/Registration Statement to be filed with the Securities and Exchange Commission (SEC) in connection with Puget Sound Energy's June 23, 1999 Annual Meeting of Shareholders. Mr. Eldredge advised the Board that Puget Sound Energy had received a comment letter from the SEC on April 16, 1999 on its Proxy/Registration Statement filed in preliminary form with the SEC on March 9, 1999. Mr. Eldredge then reviewed the Company's written response to the SEC's comment letter of April 16, 1999, and a copy of the Proxy/Registration Statement with the Board. Copies of materials reviewed with the Board, which were furnished in advance of this meeting, are filed with the minutes of this meeting. After full discussion, on motion duly made and seconded it was

RESOLVED – That the action of certain officers of this corporation in providing for the filing of a Proxy Statement and Prospectus, Form of Proxy and all other material presented at this meeting to be filed therewith with the Securities and Exchange Commission (the "Commission") is hereby acknowledged and ratified, and the President and CEO, any Vice President, or the Corporate Secretary, are hereby authorized to make any alterations to the Proxy Statement and Prospectus, Form of Proxy and any additional filings with the Commission which in their sole discretion they, or any of them, deem necessary.

There being no further business to come before the meeting, on motion duly made and seconded, it was unanimously

RESOLVED - That this meeting be and hereby is adjourned.

A true record.

ATTEST:


Secretary

Exhibit B

Plan of Exchange

PLAN OF EXCHANGE

THIS PLAN OF EXCHANGE (the "Plan of Exchange"), dated as of April 28, 1999, is between Puget Sound Energy, Inc., a Washington corporation ("PSE"), the corporation whose shares of Common Stock will be acquired pursuant to the exchange provided for in this Plan of Exchange (the "Exchange"), and Puget Energy, Inc., a Washington corporation ("Puget Energy"), the acquiring corporation. PSE and Puget Energy are hereinafter referred to, collectively, as the "Companies."

WITNESSETH:

WHEREAS, the authorized capital of PSE consists of (a) 150,000,000 shares of Common Stock, stated value \$10 per share ("PSE Common Stock"), of which 84,560,545 shares were issued and outstanding as of April 16, 1999, (b) 3,000,000 shares of Preferred Stock, par value \$100 per share, of which 656,619 shares were issued and outstanding as of April 16, 1999, (c) 13,000,000 shares of Preferred Stock, par value \$25 per share, of which 3,600,000 shares were issued and outstanding as of April 16, 1999, and (d) 700,000 shares of Preference Stock, par value \$50 per share, of which no shares were issued and outstanding as of April 16, 1999; the number of shares of PSE Common Stock being subject to increase to the extent that shares reserved for issuance are issued prior to the Effective Time, as hereinafter defined.

WHEREAS, Puget Energy is a wholly-owned subsidiary of PSE with authorized capital stock consisting of (a) 250,000,000 shares of Common Stock, par value \$.01 per share ("Puget Energy Common Stock"), of which one hundred (100) shares are issued and outstanding and owned by PSE and (b) 50,000,000 shares of Preferred Stock, par value \$.01 per share, none of which are issued and outstanding;

WHEREAS, the Boards of Directors of the Companies deem it desirable and in the best interests of the Companies and the shareholders of PSE that, at the Effective Time, each share of PSE Common Stock be exchanged for a share of Puget Energy Common Stock with the result that Puget Energy becomes the owner of all outstanding PSE Common Stock and that each holder of PSE Common Stock becomes the owner of an equal number of shares of Puget Energy Common Stock, all on the terms and conditions hereinafter set forth; and

WHEREAS, the Boards of Directors of the Companies have each approved and adopted this Exchange, and the Board of Directors of PSE has recommended that the shareholders of PSE approve this Exchange pursuant to Section 23B.11.030 of the Washington Business Corporation Act (the "Act").

NOW, THEREFORE, the Companies hereby agree as follows:

ARTICLE I

This Exchange shall be submitted to the holders of PSE Common Stock for approval as provided by Section 23B.11.030 of the Act. The affirmative vote of the holders of at least two-thirds (2/3) of the outstanding shares of PSE Common Stock shall be necessary to approve this Exchange.

ARTICLE II

Subject to the terms and conditions of this Exchange, the Exchange shall become effective immediately following the close of business on the date of filing with the Secretary of State of the State of Washington (the "Secretary of State") of articles of share exchange pursuant to Section 23B.11.050 of the Act (the "Articles"), or at such later time and date as may be stated in the Articles (the time and date at and on which the Exchange becomes effective being referred to herein as the "Effective Time").

ARTICLE III

A. At the Effective Time:

(1) each share of PSE Common Stock issued and outstanding immediately prior to the Effective Time shall be automatically exchanged for one share of Puget Energy Common Stock, which shares shall be fully paid and nonassessable;

(2) Puget Energy shall acquire and become the owner and holder of each issued and outstanding share of PSE Common Stock so exchanged;

(3) each share of Puget Energy Common Stock issued and outstanding immediately prior to the Effective Time shall be canceled and shall thereupon constitute an authorized and unissued share of Puget Energy Common Stock;

(4) each right to receive shares of PSE Common Stock or unexpired and unexercised option to purchase PSE Common Stock (herein a "PSE Grant") under the PSE Long Term Incentive Compensation Plan, the PSE Directors' Stock Plan, the PSE Deferred Compensation Plan, the PSE Investment Plan for Employees or the WECO Stock Option Plan (collectively, the "PSE Plans"), whether vested or unvested, shall automatically be converted into the right to acquire a number of shares of Puget Energy Common Stock or an option to purchase a number of shares of Puget Energy

Common Stock equal to the number of shares of PSE Common Stock that could have been acquired or purchased immediately prior to the Effective Time (assuming full vesting) under such PSE Plans and, with respect to options, at a price per share of Puget Energy Common Stock equal to the per share option exercise price specified in such PSE Grant, and each such PSE Grant shall be subject to the rights and benefits that are no more or less favorable than the rights and benefits offered under the PSE Plans; and

(5) each share of PSE Common Stock held under the Stock Purchase and Dividend Reinvestment Plan immediately prior to the Effective Time shall automatically be exchanged for a like number of shares (including fractional and uncertificated shares) of Puget Energy Common Stock, which shares shall be held under and issued pursuant to the Stock Purchase and Dividend Reinvestment Plan;

B. The former holders of PSE Common Stock shall be entitled only to receive shares of Puget Energy Common Stock in exchange therefor as provided in this Exchange or to their rights under Chapter 23B.13 of the Act.

C. As of the Effective Time, Puget Energy shall succeed to the Stock Purchase and Dividend Reinvestment Plan as in effect prior to the Effective Time, and the Stock Purchase and Dividend Reinvestment Plan shall be appropriately amended to provide for the issuance and delivery of Puget Energy Common Stock on and after the Effective Time.

D. As of the Effective Time, the PSE Long Term Incentive Compensation Plan, the PSE Directors' Stock Plan, the PSE Deferred Compensation Plan, the PSE Investment Plan for Employees, the WECO Stock Option Plan or the PSE Stock Purchase and Dividend Reinvestment Plan shall be appropriately amended to provide for the issuance and delivery of Puget Energy Common Stock on and after the Effective Time.

ARTICLE IV

The filing of the Articles with the Secretary of State and the consummation of the Exchange are subject to satisfaction of the following conditions precedent:

A. the approval by the holders of PSE Common Stock provided for in Article I of this Plan of Exchange;

B. the receipt of such orders, authorizations, approvals or waivers from the Washington Utilities and Transportation Commission, the Federal Energy Regulatory Commission, and all other regulatory bodies, boards or agencies as are or may be required in connection with the Exchange and related transactions, which orders,

authorizations, approvals or waivers remain in full force and effect, and do not include, in the sole judgment of the Board of Director of PSE, unacceptable conditions;

C. the effectiveness of a registration statement under the Securities Act of 1933 relating to Puget Energy Common Stock to be issued or reserved for issuance in connection with the Exchange;

D. the approval for listing upon official notice of issuance, by the New York Stock Exchange of Puget Energy Common Stock to be issued in connection with the Exchange; and

E. the receipt of a favorable opinion of Perkins Coie LLP covering certain United States federal income tax matters.

ARTICLE V

Following the Effective Time, each holder of an outstanding certificate or certificates theretofore representing shares of PSE Common Stock may, but shall not be required to, surrender the same to Puget Energy's transfer agent for cancellation and reissuance of a new certificate or certificates in such holder's name or for cancellation and transfer, and each such holder or transferee shall be entitled to receive a certificate or certificates representing the same number of Puget Energy Common Stock as the shares of PSE Common Stock previously represented by the certificate or certificates surrendered. Until so surrendered or presented for exchange or transfer, each outstanding certificate which, immediately prior to the Effective Time, represents PSE Common Stock shall be deemed and shall be treated for all purposes to represent the ownership of the same number of shares of Puget Energy Common Stock as though such surrender or exchange or transfer had taken place. The holders of PSE Common Stock at the Effective Time shall have no right at and after the Effective Time to have their shares of PSE Common Stock transferred on the stock transfer books of PSE (such stock transfer books being deemed closed for this purpose at the Effective Time), and at and after the Effective Time such stock transfer books shall be deemed to be the stock transfer books of Puget Energy.

ARTICLE VI

A. This Plan of Exchange may be amended, modified or supplemented, or compliance with any provision hereof may be waived, at any time prior to the Effective Time (including, without limitation, after receipt of the affirmative vote of holders of PSE Common Stock as provided in Article I hereof), by the mutual consent of the Boards of Directors of PSE and Puget Energy at any time prior to the Effective Time; provided, however, that no such amendment, modification, supplement or


waiver would, in the sole judgment of the Board of Directors of PSE, materially and adversely affect the shareholders of PSE.

B. This Plan of Exchange may be terminated and the Exchange and related transactions abandoned, at any time prior to the Effective Time (including, without limitation, after receipt of the affirmative vote of holders of PSE Common Stock as provided in Article I hereof), if the Board of Directors of PSE determines, in its sole judgment, that consummation of the Exchange would for any reason be inadvisable or not in the best interests of PSE or its shareholders.


IN WITNESS WHEREOF, each of the Companies, pursuant to authorization and approval given by its Board of Directors, has caused this Plan of Exchange to be executed as of the date first above written.

PUGET SOUND ENERGY, INC.

PUGET ENERGY, INC.

By: 

William S. Weaver
President and Chief Executive
Officer

By: 

James W. Eldredge
Corporate Secretary

Exhibit C

Proposed Corporate Structure

Proposed Structure with Holding Company

