CONFORMED

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ________ TO _________

Commission File Number	Exact name of registrant as specified in its charter, state of incorporation, address of principal executive offices, telephone number	I.R.S. Employer Identification Number
1-16305	**PUGET ENERGY, INC.** A Washington Corporation 411 - 108th Avenue N.E. Bellevue, Washington 98004-5515 (425) 454-6363	91-1969407
1-4393	**PUGET SOUND ENERGY, INC.** A Washington Corporation 411 - 108th Avenue N.E. Bellevue, Washington 98004-5515 (425) 454-6363	91-0374630

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file for such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

As of June 30, 2002, (i) the number of shares of Puget Energy, Inc. (Puget Energy) common stock outstanding was 87,543,312 ($.01 par value) and (ii) all of the outstanding shares of Puget Sound Energy, Inc. (PSE) common stock were held by Puget Energy.

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FILING FORMAT

This Quarterly Report on Form 10-Q is a combined quarterly report being filed separately by two different registrants Puget Energy and PSE. Any references in this report to the "Company" are to Puget Energy and PSE collectively. PSE makes no representation as to the information contained in this report relating to Puget Energy and the subsidiaries of Puget Energy other than PSE and its subsidiaries.

FORWARD-LOOKING STATEMENTS

Puget Energy and PSE are including the following cautionary statement in this Form 10-Q to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by or on behalf of Puget Energy or PSE. This report includes forward-looking statements, which are statements of expectations, beliefs, plans, objectives, assumptions or future events or performance. Words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will likely result," "will continue" or similar expressions identify forward-looking statements.

Forward-looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed. Puget Energy's and PSE's expectations, beliefs and projections are expressed in good faith and are believed by Puget Energy and PSE, as applicable, to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in records and other data available from third parties, but there can be no assurance that Puget Energy's and PSE's expectations, beliefs or projections will be achieved or accomplished.

In addition to other factors and matters discussed elsewhere in this report, some important factors that could cause actual results or outcomes for Puget Energy and PSE to differ materially from those discussed in forward-looking statements include:

- the outcome and timing of the gas general rate case filed by PSE with the Washington Utilities and Transportation Commission (Washington Commission) on November 26, 2001;
- governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission (FERC) and the Washington Commission, with respect to allowed rates of return, financings, industry and rate structures, acquisition and disposal of assets and facilities, operation and construction of hydro, distribution and transmission facilities, recovery of purchased energy and other capital investments, and present or prospective wholesale and retail competition;
- the recent bankruptcy filing by Enron Corporation, financial difficulties by other energy companies and related events, which may affect the regulatory and legislative process in unpredictable ways;
- weather, which can have a potentially serious impact on PSE's ability to procure adequate supplies of gas, fuel or purchased power to serve its customers and on the cost of procuring such supplies;
- hydroelectric conditions, which can have a potentially serious impact on electric capacity and PSE's ability to generate electricity;
- the stability and liquidity of wholesale energy markets generally, including the effect of price controls promulgated in June 2001 by FERC on the availability and price of wholesale energy purchases and sales in the western United States;
- the effect of wholesale and retail competition (including, but not limited to, electric retail wheeling and transmission costs);
- the amount of collection, if any, of PSE's receivable from the California ISO;
- changes in, and compliance with, environmental and endangered species laws and policies;
- industrial, commercial and residential growth and demographic patterns in the service territories of PSE;
- the loss of any significant customer, or changes in the business of a major customer that may result in changes in demand for services of PSE;
- the impact of significant events, such as the attack on September 11, 2001;

- the ability of Puget Energy and PSE to access the capital markets to support requirements for working capital, construction costs and the repayment of maturing debt;
- capital market conditions, including changes in the availability of capital or interest rate fluctuations;
- the impact of the bankruptcy filing by Enron and financial difficulties of other energy industry companies on capital market conditions of the utility industry, including the availability and cost of capital;
- changes in Puget Energy's or PSE's credit ratings, which may have an adverse impact on the availability and cost of capital;
- legal and regulatory proceedings; and
- employee workforce factors, including strikes, work stoppages or the loss of a key executive.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, Puget Energy and PSE undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

PUGET ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended June 30
(Thousands except per share amounts)
(Unaudited)

	2002	2001
Operating Revenues:		
Electric	$330,326	$719,694
Gas	144,384	163,013
Other	80,277	52,712
Total operating revenues	554,987	935,419
Operating Expenses:		
Energy costs:		
Purchased electricity	142,128	535,277
Purchased gas	88,520	104,184
Electric generation fuel	14,680	63,134
Residential Exchange	(30,964)	(10,304)
Unrealized gain on derivative instruments	(252)	(41,527)
Utility operations and maintenance	73,630	65,414
Other operations and maintenance	62,082	41,470
Depreciation and amortization	57,307	52,935
Conservation amortization	3,605	1,603
Taxes other than federal income taxes	54,584	45,306
Federal income taxes	12,834	11,856
Total operating expenses	478,154	869,348
Operating Income	76,833	66,071
Other income	3,441	1,568
Income Before Interest Charges and Minority Interest	80,274	67,639
Interest charges, net of AFUDC	48,682	48,174
Minority interest in earnings of consolidated subsidiary	223	--
Net Income	31,369	19,465
Less: preferred stock dividends accrual	1,940	2,085
Income for Common Stock	$29,429	$17,380
Basic common shares outstanding – weighted average	87,448	86,303
Diluted common shares outstanding – weighted average	87,646	86,576
Basic and diluted earnings per share	$0.34	$0.20

The accompanying notes are an integral part of the financial statements.

PUGET ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Six Months Ended June 30
(Thousands except per share amounts)
(Unaudited)

	2002	2001
Operating Revenues:		
Electric	$ 711,860	$ 1,484,701
Gas	458,875	467,283
Other	141,597	103,299
Total operating revenues	1,312,332	2,055,283
Operating Expenses:		
Energy costs:		
Purchased electricity	342,400	925,493
Purchased gas	293,318	320,793
Electric generation fuel	79,860	165,518
Residential Exchange	(73,711)	(27,045)
Unrealized gain on derivative instruments	(11,748)	(15,061)
Utility operations and maintenance	139,571	126,593
Other operations and maintenance	116,703	71,610
Depreciation and amortization	113,256	106,063
Conservation amortization	5,769	3,205
Taxes other than federal income taxes	120,186	115,386
Federal income taxes	33,324	66,116
Total operating expenses	1,158,928	1,858,671
Operating Income	153,404	196,612
Other income	3,825	3,509
Income Before Interest Charges and Minority Interest	157,229	200,121
Interest charges, net of AFUDC	99,080	93,609
Minority interest in earnings of consolidated subsidiary	302	--
Income Before Cumulative Effect of Accounting Change	57,847	106,512
Cumulative effect of implementation of FAS-133 derivative instruments and hedge activities, net of tax	--	14,749
Net Income	57,847	91,763
Less: preferred stock dividends accrual	3,952	4,243
Income for Common Stock	$ 53,895	$ 87,520
Basic common shares outstanding – weighted average	87,309	86,169
Diluted common shares outstanding – weighted average	87,508	86,443
Basic earnings per share before cumulative effect of accounting change	$ 0.62	$ 1.19
Cumulative effect of accounting change	--	(0.17)
Basic earnings per share	$ 0.62	$ 1.02
Diluted earnings per share before cumulative effect of accounting change	$0.62	$1.18
Cumulative effect of accounting change	--	(0.17)
Diluted earnings per share	$0.62	$1.01

The accompanying notes are an integral part of the financial statements.

PUGET ENERGY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended June 30
(Dollars in Thousands)
(Unaudited)

	2002	2001
Net Income	$31,369	$19,465
Other comprehensive income, net of tax:		
Unrealized holding losses arising on marketable securities during the period	(377)	(612)
Foreign currency translation adjustment	96	--
Unrealized losses on derivative instruments during the period	(3,513)	(278,117)
Reversal of unrealized (gains) losses on derivative instruments settled during the period	1,347	(37,267)
Other comprehensive loss	(2,447)	(315,996)
Comprehensive Income (Loss)	$28,922	$(296,531)

PUGET ENERGY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Six Months Ended June 30
(Dollars in Thousands)
(Unaudited)

	2002	2001
Net Income	$57,847	$91,763
Other comprehensive income, net of tax:		
Unrealized holding losses arising on marketable securities during the period	(526)	(1,407)
Reclassification adjustment for realized gains on marketable securities included in net income	(724)	--
Foreign currency translation adjustment	(116)	--
Transition adjustment for unrealized gain on derivative instruments at January 1, 2001	--	286,928
Unrealized losses on derivative instruments during the period	(2,102)	(149,379)
Reversal of unrealized (gains) losses on derivative instruments settled during the period	32,834	(143,335)
Other comprehensive income (loss)	29,366	(7,193)
Comprehensive Income	$87,213	$84,570

The accompanying notes are an integral part of the financial statements.

PUGET ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

ASSETS

	June 30, 2002	December 31, 2001
Utility Plant: (at original cost, including construction work in progress of $123,115 and $123,307 respectively)		
Electric	$ 4,193,417	$ 4,167,920
Gas	1,589,701	1,551,439
Common	373,768	362,670
Less: Accumulated depreciation and amortization	(2,268,062)	(2,194,048)
Net utility plant	3,888,824	3,887,981
Other Property and Investments:		
Goodwill, net	132,894	102,151
Intangibles, net	16,755	16,059
Non-utility property and equipment, net	67,333	48,369
Other	153,319	150,670
Total other property and investments	370,301	317,249
Current Assets:		
Cash	91,273	92,356
Restricted cash	5,869	--
Accounts receivable, net	272,096	279,321
Unbilled revenue	69,970	147,008
Materials and supplies, at average cost	60,766	90,333
Purchased gas receivable	--	37,228
Current portion of unrealized gain on derivative instruments	314	3,315
Prepayments and other	10,279	11,277
Total current assets	510,567	660,838
Other Long-Term Assets:		
Regulatory asset for deferred income taxes	183,721	193,016
Regulatory asset for PURPA buyout costs	244,124	244,635
Unrealized gain on derivative instruments	8,479	3,317
Other	275,090	239,941
Total other long-term assets	711,414	680,909
Total Assets	$ 5,481,106	$ 5,546,977

The accompanying notes are an integral part of the financial statements.

PUGET ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

CAPITALIZATION AND LIABILITIES

	June 30, 2002	December 31, 2001
Capitalization:		
Common shareholders' investment:		
Common stock $0.01 par value, 250,000,000 shares authorized, 87,543,312 shares and 87,023,210 outstanding	$ 875	$ 870
Additional paid-in capital	1,362,327	1,358,946
Earnings reinvested in the business	24,051	32,229
Accumulated other comprehensive income (loss)	45	(29,321)
Preferred stock not subject to mandatory redemption	60,000	60,000
Preferred stock subject to mandatory redemption	43,162	50,662
Corporation obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the corporation	300,000	300,000
Long-term debt	2,197,457	2,127,054
Total capitalization	3,987,917	3,900,440
Minority interest in equity of a consolidated subsidiary	9,947	--
Current Liabilities:		
Accounts payable	128,617	167,426
Short-term debt	125,107	348,577
Current maturities of long-term debt	87,212	119,523
Purchased gas liability	91,385	--
Accrued expenses:		
Taxes	76,962	70,708
Salaries and wages	12,068	14,746
Interest	45,823	42,505
Current portion of unrealized loss on derivative instruments	4,821	35,145
Other	58,036	46,178
Total current liabilities	630,031	844,808
Long-Term Liabilities:		
Deferred income taxes	624,791	605,315
Other deferred credits	228,378	196,339
Unrealized loss on derivative instruments	42	75
Total long-term liabilities	853,211	801,729
Total Capitalization and Liabilities	$ 5,481,106	$ 5,546,977

The accompanying notes are an integral part of the financial statements.

PUGET ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30
(Dollars in Thousands)
(Unaudited)

	2002	2001
Operating Activities:		
Net Income	$ 57,847	$ 91,763
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	113,256	106,063
Deferred federal and state income taxes and tax credits – net	28,771	3,997
Net unrealized (gains) losses on derivative instruments	(11,748)	7,630
Other	8,197	10,446
Change in certain current assets and current liabilities:		
Accounts receivable and unbilled revenue	95,630	184,594
Materials and supplies	31,560	(639)
Prepayments and other	1,161	(1,168)
Purchase gas receivable/liability	128,613	(35,577)
Accounts payable	(42,126)	(251,235)
Accrued expenses and other	24,864	(3,005)
Net Cash Provided by Operating Activities	436,025	112,869
Investing Activities:		
Construction and capital expenditures-excluding equity AFUDC	(128,081)	(135,869)
Additions to energy conservation program	(4,434)	(3,713)
Acquisitions by InfrastruX, net of cash acquired	(40,261)	(54,247)
Restricted cash	(5,869)	--
Loans to Schlumberger (formerly Cellnet Data Services)	--	(12,158)
Other	(7,266)	(5,903)
Net Cash Used by Investing Activities	(185,911)	(211,890)
Financing Activities:		
Change in short-term debt – net	(223,470)	(38,008)
Dividends paid	(56,145)	(70,675)
Issuance of trust preferred stock	--	200,000
Redemption of preferred stock	(7,500)	(7,500)
Issuance of bonds and long term debt	95,980	55,165
Redemption of bonds and notes	(60,000)	--
Other	(62)	(6,685)
Net Cash Provided (Used) by Financing Activities	(251,197)	132,297
Net Increase (Decrease) in Cash	(1,083)	33,276
Cash at Beginning of Year	92,356	36,383
Cash at End of Period	$ 91,273	$ 69,659
Supplemental Cash Flow Information:		
Cash payments for:		
Interest (net of capitalized interest)	$ 95,779	$ 91,594
Income taxes	$ (577)	$ 59,900

The accompanying notes are an integral part of the financial statements.

PUGET SOUND ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended June 30
(Dollars in Thousands)
(Unaudited)

	2002	2001
Operating Revenues:		
Electric	$ 330,326	$ 719,694
Gas	144,384	163,013
Other	4,155	7,243
Total operating revenues	478,865	889,950
Operating Expenses:		
Energy costs:		
Purchased electricity	142,128	535,277
Purchased gas	88,520	104,184
Electric generation fuel	14,680	63,134
Residential Exchange	(30,964)	(10,304)
Unrealized gain on derivative instruments	(252)	(41,527)
Utility operations and maintenance	73,630	65,414
Other operations and maintenance	356	3,496
Depreciation and amortization	54,053	51,517
Conservation amortization	3,605	1,603
Taxes other than federal income taxes	49,339	45,306
Federal income taxes	11,046	10,221
Total operating expenses	406,141	828,321
Operating Income	72,724	61,629
Other income	3,455	2,485
Income Before Interest Charges	76,179	64,114
Interest charges, net of AFUDC	47,340	46,839
Net Income	28,839	17,275
Less: preferred stock dividends accrual	1,940	2,085
Income for Common Stock	$ 26,899	$ 15,190

The accompanying notes are an integral part of the financial statements.

PUGET SOUND ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Six Months Ended June 30
(Dollars in Thousands)
(Unaudited)

	2002	2001
Operating Revenues:		
Electric	$ 711,860	$ 1,484,701
Gas	458,875	467,283
Other	4,714	29,290
Total operating revenues	1,175,449	1,981,274
Operating Expenses:		
Energy costs:		
Purchased electricity	342,400	925,493
Purchased gas	293,318	320,793
Electric generation fuel	79,860	165,518
Residential Exchange	(73,711)	(27,045)
Unrealized gain on derivative instruments	(11,748)	(15,061)
Utility operations and maintenance	139,571	126,593
Other operations and maintenance	810	6,619
Depreciation and amortization	107,731	103,002
Conservation amortization	5,769	3,205
Taxes other than federal income taxes	112,904	115,386
Federal income taxes	31,089	65,032
Total operating expenses	1,027,993	1,789,535
Operating Income	147,456	191,739
Other income	3,764	5,328
Income Before Interest Charges	151,220	197,067
Interest charges, net of AFUDC	96,683	92,164
Income Before Cumulative Effect of Accounting Change	54,537	104,903
Cumulative effect of implementation of FAS-133 derivative instruments and hedge activities, net of tax	--	14,749
Net Income	54,537	90,154
Less: preferred stock dividends accrual	3,952	4,243
Income for Common Stock	$ 50,585	$ 85,911

The accompanying notes are an integral part of the financial statements.

PUGET SOUND ENERGY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended June 30
(Dollars in Thousands)
(Unaudited)

	2002	2001
Net Income	$28,839	$17,275
Other comprehensive income, net of tax:		
Unrealized holding losses on marketable securities arising during the period	(377)	(612)
Unrealized gains (losses) on derivative instruments during the period	3,513	(278,117)
Reversal of unrealized gains on derivative instruments settled during the period	(1,347)	(37,267)
Other comprehensive income (loss)	1,789	(315,996)
Comprehensive Income (Loss)	$30,628	$(298,721)

PUGET SOUND ENERGY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Six Months Ended June 30
(Dollars in Thousands)
(Unaudited)

	2002	2001
Net Income	$54,537	$90,154
Other comprehensive income, net of tax:		
Unrealized holding losses on marketable securities arising during the period	(526)	(1,407)
Reclassification adjustment for realized gains on marketable securities included in net income	(724)	--
Transition adjustment for unrealized gain on derivative instruments at January 1, 2001	--	286,928
Unrealized losses on derivative instruments during the period	(2,102)	(149,379)
Reversal of unrealized (gains) losses on derivative instruments settled during the period	32,834	(143,335)
Other comprehensive income (loss)	29,482	(7,193)
Comprehensive Income	$84,019	$82,961

The accompanying notes are an integral part of the financial statements.

PUGET SOUND ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

ASSETS

	June 30, 2002	December 31, 2001
Utility Plant: (at original cost, including construction work in progress of $123,115 and $123,307 respectively)		
Electric	$4,193,417	$4,167,920
Gas	1,589,701	1,551,439
Common	373,768	362,670
Less: Accumulated depreciation and amortization	(2,268,062)	(2,194,048)
Net utility plant	3,888,824	3,887,981
Other Property and Investments	154,875	150,530
Current Assets:		
Cash	68,159	82,708
Restricted cash	5,869	--
Accounts receivable, net	205,104	235,348
Unbilled revenue	69,970	147,008
Materials and supplies, at average cost	55,625	85,318
Purchased gas receivable	--	37,228
Current portion of unrealized gain on derivative instruments	314	3,315
Prepayments and other	4,977	7,405
Total current assets	410,018	598,330
Other Long-Term Assets:		
Regulatory asset for deferred income taxes	183,721	193,016
Regulatory asset for PURPA buyout costs	244,124	244,635
Unrealized gain on derivative instruments	8,479	3,317
Other	275,090	239,941
Total other long-term assets	711,414	680,909
Total Assets	$ 5,165,131	$5,317,750

The accompanying notes are an integral part of the financial statements.

PUGET SOUND ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

CAPITALIZATION AND LIABILITIES

	June 30, 2002	December 31, 2001
Capitalization:		
Common shareholders' investment:		
Common stock, $10 stated value, 150,000,000 shares authorized, 85,903,791 shares outstanding	$859,038	$859,038
Additional paid-in capital	382,600	382,592
Earnings reinvested in the business	53,737	55,345
Accumulated other comprehensive income (loss)	161	(29,321)
Preferred stock not subject to mandatory redemption	60,000	60,000
Preferred stock subject to mandatory redemption	43,162	50,662
Corporation obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the corporation	300,000	300,000
Long-term debt	2,063,824	2,053,815
Total capitalization	3,762,522	3,732,131
Current Liabilities:		
Accounts payable	118,087	154,600
Short-term debt	108,046	338,168
Current maturities of long-term debt	87,000	117,000
Purchased gas liability	91,385	--
Accrued expenses:		
Taxes	76,303	70,210
Salaries and wages	12,068	14,746
Interest	45,823	42,505
Current portion of unrealized loss on derivative instruments	4,821	35,145
Other	25,966	25,178
Total current liabilities	569,499	797,552
Long-Term Liabilities:		
Deferred income taxes	617,377	601,001
Other deferred credits	215,691	186,991
Unrealized loss on derivative instruments	42	75
Total long-term liabilities	833,110	788,067
Total Capitalization and Liabilities	$ 5,165,131	$ 5,317,750

The accompanying notes are an integral part of the financial statements.

PUGET SOUND ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30
(Dollars in Thousands)
(Unaudited)

	2002	2001
Operating Activities:	$ 54,537	$ 90,154
Net Income		
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation and amortization	107,731	103,002
Deferred federal income taxes and tax credits – net	25,670	8,074
Net unrealized (gains) losses on derivative instruments	(11,748)	7,630
Other	5,231	17,495
Change in certain current assets and current liabilities:		
Accounts receivable and unbilled revenue	107,282	189,784
Materials and supplies	29,693	(3,417)
Prepayments and other	2,429	(416)
Purchased gas receivable/liability	128,613	(35,577)
Accounts payable	(36,650)	(244,140)
Accrued expenses and other	15,861	(11,876)
Net Cash Provided by Operating Activities	428,649	120,713
Investing Activities:		
Construction expenditures – excluding equity AFUDC	(113,133)	(135,420)
Additions to energy conservation program	(4,434)	(3,713)
Restricted cash	(5,869)	--
Loan to Schlumberger (formerly Cellnet Data Services)	--	(12,158)
Other	(5,888)	(5,902)
Net Cash Used by Investing Activities	(129,324)	(157,193)
Financing Activities:		
Change in short-term debt – net	(230,122)	(48,161)
Dividends paid	(56,145)	(70,675)
Issuance of trust preferred stock	--	200,000
Redemption of preferred stock	(7,500)	(7,500)
Issuance of bonds	--	--
Redemption of bonds and notes	(20,000)	--
Other	(107)	(6,346)
Net Cash Provided (Used) by Financing Activities	(313,874)	67,318
Net Increase (Decrease) in Cash	(14,549)	30,838
Cash at Beginning of Year	82,708	36,383
Cash at End of Period	$ 68,159	$ 67,221
Supplemental Cash Flow Information:		
Cash payments for:		
Interest (net of capitalized interest)	$ 93,033	$ 91,594
Income taxes (net of refunds)	$ (838)	$ 59,900

The accompanying notes are an integral part of the financial statements.

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Consolidation Policy

The consolidated financial statements of Puget Energy include the accounts of Puget Energy and its subsidiaries, PSE and InfrastruX Group, Inc. (InfrastruX). Puget Energy holds all the common shares of PSE and holds a majority interest in InfrastruX. The results of PSE and InfrastruX are presented on a consolidated basis. PSE's consolidated financial statements include the accounts of PSE and its subsidiaries. Puget Energy and PSE are collectively referred to herein as "the Company". The consolidated financial statements are presented after elimination of all significant intercompany items and transactions. Minority interests in operating results are reflected in the consolidated financial statements. Certain amounts previously reported have been reclassified to conform with current year presentations with no effect on total equity or net income.

The consolidated financial statements contained in this Form 10-Q are unaudited. In the respective opinions of the managements of Puget Energy and PSE, all adjustments necessary for a fair presentation of the results for the interim periods have been reflected and were of a normal recurring nature. These condensed financial statements should be read in conjunction with the audited financial statements (and the Combined Notes thereto) included in the combined Puget Energy and PSE annual report on Form 10-K for the year ended December 31, 2001, which is available at the Securities and Exchange Commission website at www.sec.gov or at Puget Energy's website at www.pse.com.

(2) Earnings per Common Share (Puget Energy Only)

Puget Energy's basic earnings per common share have been computed based on weighted average common shares outstanding of 87,448,000 and 87,309,000 for the three and six months ended June 30, 2002, respectively and 86,303,000 and 86,169,000 for the three and six months ended June 30, 2001, respectively.

Puget Energy's diluted earnings per common share have been computed based on weighted average common shares outstanding of 87,646,000 and 87,508,000 for the three and six months ended June 30, 2002, respectively, and 86,576,000 and 86,443,000 for the three and six months ended June 30, 2001, respectively. These shares include the dilutive effect of securities related to employee and director equity plans. The difference between the number of basic common shares and diluted common shares is immaterial.

(3) Segment Information (Puget Energy Only)

Puget Energy operates in primarily two business segments: "PSE" (regulated utility operations) and "InfrastruX" (utility infrastructure services). Puget Energy's regulated utility operation generates, purchases, transports and sells electricity, and natural gas. The service territory covers approximately 6,000 square miles in Washington state. InfrastruX specializes in contracting services to other gas and electric utilities, primarily in the Mid-West, Texas and the Eastern United States.

The "Other" non-utility line of business includes a PSE real estate and development subsidiary and Puget Energy holding company related expenses. The assets of ConneXt, the developer and marketer of customer information and billing system software, were sold during the third quarter of 2001. Reconciling items between segments are not material.

Financial data for business segments are as follows:

(Dollars in Thousands)

Three Months Ended June 30, 2002	PSE	InfrastruX	Other	Total
Revenues	$ 474,710	$ 76,121	$ 4,156	$ 554,987
Depreciation and amortization	54,000	3,253	54	57,307
Federal income taxes	9,538	1,824	1,472	12,834
Operating income	70,547	4,177	2,109	76,833
Interest charges, net of AFUDC	47,340	1,342	--	48,682
Net income	26,662	2,598	2,109	31,369
Goodwill, net	--	132,894	--	132,894
Total assets	5,038,294	317,212	125,600	5,481,106
Goodwill, net at December 31, 2001	--	$ 102,151	--	$ 102,151
Total assets at December 31, 2001	$ 5,178,601	229,125	$ 139,251	5,546,977

Three Months Ended June 30, 2001	PSE	InfrastruX	Other	Total
Revenues	$ 882,707	$ 45,469	$ 7,243	$ 935,419
Depreciation and amortization	51,513	1,418	4	52,935
Federal income taxes	8,954	1,654	1,248	11,856
Operating income	59,211	4,480	2,380	66,071
Interest charges, net of AFUDC	46,731	1,336	107	48,174
Net income	14,956	2,228	2,281	19,465

Six Months Ended June 30, 2002	PSE	InfrastruX	Other	Total
Revenues	$ 1,170,735	$ 136,883	$ 4,714	$ 1,312,332
Depreciation and amortization	107,673	5,525	58	113,256
Federal income taxes	29,291	2,350	1,683	33,324
Operating income	145,021	6,162	2,221	153,404
Interest charges, net of AFUDC	96,683	2,397	--	99,080
Net income	52,280	3,524	2,043	57,847

Six Months Ended June 30, 2001	PSE	InfrastruX	Other	Total
Revenues	$ 1,951,984	$ 74,009	$ 29,290	$ 2,055,283
Depreciation and amortization	102,995	3,061	7	106,063
Federal income taxes	57,187	1,111	7,818	66,116
Operating income	177,039	4,924	14,649	196,612
Interest charges, net of AFUDC	91,951	1,445	213	93,609
Net income	75,375	1,661	14,727	91,763

(4) Accounting for Derivative Instruments and Hedging Activities

On January 1, 2001, Puget Energy adopted Financial Accounting Standards Board Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities” (Statement No. 133), as amended by Statement No. 138. Statement No. 133 requires that all contracts considered to be derivative instruments be recorded on the balance sheet at their fair value. The Company enters into both physical and financial contracts to manage its energy resource portfolio including forward physical and financial contracts, option contracts and swaps. The majority of these contracts qualify for the normal purchase and normal sale exception provided by Statement No. 133.

On January 1, 2001, the Company recognized the cumulative effect of adopting Statement No. 133 by recording a liability and an offsetting after-tax decrease to current earnings of approximately $14.7 million for the fair value of electric derivatives that did not meet hedge criteria. The Company also recorded an asset and an offsetting increase to other comprehensive income of approximately $286.9 million for the fair value of derivative instruments that did meet hedge criteria on the implementation date.

During the three months ended June 30, 2002, the Company recorded an increase in earnings for the change in the market value of derivative instruments not meeting cash flow hedge criteria of approximately $0.3 million pre-tax ($0.2 million after-tax) as compared to an increase in earnings of $41.5 million pre-tax ($27.0 million after-tax) for the same period in 2001. During the six month period ending June 30, 2002, the Company recorded an increase in earnings of approximately $11.7 million pre-tax ($7.6 million after-tax) as compared to a decrease in earnings of $7.6 pre-tax ($4.9 million after-tax) for the same period in 2001.

At October 15, 2001, the Company had recorded a deferred liability of approximately $26.9 million after-tax for financial gas contracts to be used for electric production that until October 15, 2001 were designated as qualifying cash flow hedges. Changes in the market values of these de-designated contracts resulted in the recording of a loss of $7.8 million pre-tax ($5.1 million after-tax) to earnings in the fourth quarter of 2001. During the three months ended March 31, 2002, all of these contracts were settled or terminated, resulting in the loss being reversed during the first quarter of 2002.

On September 19, 2001, the Financial Accounting Standards Board's Derivative Implementation Group for Statement No. 133 issued guidance under Issue C16 – "Applying the Normal Purchases and Normal Sales Exception to Contracts that Combine a Forward Contract and Purchased Option Contract" which became effective in the second quarter of 2002 for Puget Energy. Issue C16 establishes that fuel supply contracts that combine a forward contract with a purchased option cannot qualify for the normal purchase and normal sales exception because of the optionality of the quantity of fuel to be delivered under the contract.

A review of the fuel supply contracts by the Company determined that two long term fuel supply contracts that deliver natural gas to the Company's Encogen combustion turbine plant contained provisions for the purchase of optional quantities of fuel, and as originally written, would no longer qualify as normal purchase contracts upon implementation of Issue C16. In the second quarter of 2002, the Company signed amendments to those contracts that remove the optional provisions, requiring that the Company purchase 100% of the contractual fuel quantities for the remaining terms of the contracts. As a result, the contracts continue to qualify for the normal purchase-normal sale exception to Statement 133.

(5) **Acquisitions** (Puget Energy Only)

During the six months ended June 30, 2002, InfrastruX, a majority-owned subsidiary of Puget Energy, acquired Chapman Construction Company, an electric utility construction company, and Flowers Construction Company, an electric and gas utility construction and maintenance contractor. Both companies are based in Texas. With these acquisitions, InfrastruX's combined annualized revenues are expected to be approximately $320 million. During 2001, InfrastruX made six acquisitions of utility infrastructure companies in the Eastern United States, Mid-West and Texas. These companies provide utility infrastructure services such as: installing, replacing and restoring underground cables and pipes for utilities; transmission and distribution pipeline construction, maintenance and rehabilitation services for the natural gas and petroleum industries, including directional drilling and vacuum excavation; and transmission and distribution overhead electric construction services to electric utilities and cooperatives.

The above acquisitions in both 2001 and 2002 were accounted for using the purchase method of accounting and, accordingly, the operating results of these companies have been included in Puget Energy's consolidated financial statements since their acquisition dates. Goodwill representing the excess of cost over the net tangible and identifiable intangible assets of the business at the time of purchase was approximately $137.3 million. During 2001, goodwill was being amortized on a straight-line basis using a 30-year life except for goodwill on two acquisitions made after June 30, 2001, which was not amortized per Statement of Financial Accounting Standards No. 142 – "Goodwill and Other Intangible Assets" (Statement No. 142). With the implementation of Statement No. 142 on January 1, 2002, Puget Energy discontinued amortizing goodwill and reclassified $5.2 million of intangible assets that no longer met the criteria of identifiable intangible assets to goodwill. In lieu of the amortization, Puget Energy performed an initial impairment review of goodwill and determined that no impairment would be recorded. Puget Energy will perform an annual impairment review hereafter or at the time an event or circumstance would reduce the fair value below the carrying value.

The income statement effects of discontinuing amortization of goodwill for the comparative periods are as follows for Puget Energy:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	2002	2001	2002	2001
Reported net income for common	$29,429	$17,380	$53,895	$87,520
Add back goodwill amortization	--	676	--	1,303
Adjusted net income for common	$29,429	$18,056	$53,895	$88,823
Basic earnings per share				
Reported net income for common	$0.34	$0.20	$0.62	$1.02
Add back goodwill amortization	--	0.01	--	0.01
Adjusted net income for common	$0.34	$0.21	$0.62	$1.03
Diluted earnings per share				
Reported net income for common	$0.34	$0.20	$0.62	$1.01
Add back goodwill amortization	--	0.01	--	0.01
Adjusted net income for common	$0.34	$0.21	$0.62	$1.02

Identifiable intangible assets acquired as a result of acquisitions of companies are amortized over the expected useful lives of the assets, which range from five to 20 years. As InfrastruX acquires more companies the total amortization amount in future periods will change. Identifiable intangible assets are as follows:

	June 30, 2002			December 31, 2001		
(Dollars in thousands)	Gross Intangibles	Accumulated Amortization	Net Intangibles	Gross Intangibles	Accumulated Amortization	Net Intangibles
Covenant not to compete	$ 4,061	$ 718	$ 3,343	$ 2,768	$ 364	$ 2,404
Developed technology	14,190	1,360	12,830	14,190	1,005	13,185
Patents	582	--	582	470	--	470
Total	$18,833	$2,078	$16,755	$17,428	$1,369	$16,059

The identifiable intangible amortization expense for the three and six months ended June 30, 2002 was $0.4 million and $0.7 million, respectively, compared to $0.3 million and $0.5 million for the same periods of 2001. The identifiable intangible assets amortization for future periods based on the current acquisitions will be:

(Dollars in thousands)	2002	2003	2004	2005	2006	2007
Future Intangible Amortization	$761	$1,528	$1,528	$1,512	$1,181	$766

(6) Restricted Cash

Restricted cash represents cash to be used for specific purposes. Approximately $4.8 million in restricted cash is for residential and small farm customers who receive a credit on their bills for the Residential and Farm Energy Exchange credit tariff. The restricted amount is the excess paid by the Bonneville Power Administration over the credit provided to these customers. Approximately $1.1 million in restricted cash is for a real estate development project that a city requires to ensure work is completed either by the Company or by the city.

(7) New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued Statement No. 143 – "Accounting for Asset Retirement Obligations" (Statement No. 143). Statement No. 143 requires companies to record the fair value of a liability for an asset retirement obligation in the period in which the obligation is incurred. When the liability is initially recorded, the company will capitalize the cost as part of the asset's carrying amount and expense the retirement obligation over the asset's useful life. The adoption of this statement is for fiscal years beginning after June 15, 2002, although earlier adoption is encouraged. The Company is in the process of determining the impacts of this statement. The Federal Energy Regulatory Commission which has jurisdiction over utilities such as PSE, has not yet issued accounting guidance on Statement No. 143.

The Emerging Issues Task Force of the Financial Accounting Standard's Board (EITF or Task Force) at its June 2002 meeting came to a consensus on one of three items included in EITF Issue 02-3 "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-3). The Task Force has agreed that all mark-to-market gains and losses on energy trading contracts whether realized or unrealized will be shown net in the income statement (costs offset against revenues), irrespective of whether the contract is physically settled. The presentation will be applicable to financial statements for periods ending after July 15, 2002. The Company performs risk management activities to optimize the value of energy supply and transmission assets and to ensure that physical energy supply is available to meet the customer demand loads. The Company also purchases energy when demand exceeds available supplies in its portfolio; likewise the Company makes sales to other utilities and marketers when surplus energy is available. These transactions are part of the Company's normal operations to meet retail load. The Company reports these transactions gross in the income statement in electric operating revenue and purchased power. The Company's unrealized gains and losses are shown net in the income statement in operating expenses as a separate expense item. Beginning in the third quarter of 2002, the Company will present all actual settled energy contracts that meet this definition net in the income statement with all comparative financial statements reclassified to conform to the new presentation. The adoption of EITF 02-3 will not have any impact on the net income of the Company.

(8) Other

On March 28, 2002, the Washington Commission approved a settlement agreement that was announced on March 20, 2002 which resolved the Company's request for an interim rate increase and three of the four significant financial issues in the Company's electric and gas general rate cases. As a result, an interim electric rate surcharge of $25 million was in effect for the period April 1, 2002 through June 30, 2002. The three important financial issues that were resolved for the general rate case included the equity capital ratio, the return on equity and adoption of an electric power cost adjustment mechanism. The settlement also created a fast track collaborative process for completion of any adjustments to the Company's requested revenue requirement for the gas general rate case by September 1, 2002. If the fast track collaborative process cannot be completed by September 1, 2002, then the completion of the gas general rate case would be no later than November 1, 2002.

On June 20, 2002, the Washington Commission issued final regulatory approval of the comprehensive electric-rate settlement submitted by PSE, key constituents and customer groups, state regulatory staff and the state attorney general's Public Counsel Section. The authorization grants PSE a 4.6% electric general rate increase that will generate approximately an additional $59 million annually beginning July 1, 2002. In addition, the settlement provides for an 8.76% overall return on capital based on a projected capital structure with an equity component of 40% and an authorized 11% return on common equity. The settlement also resolved all electric and gas cost allocation issues and established an 8.76% overall return on capital for the gas general rate case. The settlement also includes a power cost adjustment mechanism that triggers if PSE's costs to provide customers' electricity falls outside certain bands from a normalized level of power costs established in the electric general rate case. The cumulative maximum pre-tax earnings exposure due to power cost variations over the four year period ending June 30, 2006 is limited to $40 million plus 1% of the excess. All significant variable power supply cost drivers are included in the power cost adjustment mechanism (hydroelectric generation variability, market price variability for purchased power and surplus power sales, natural gas and coal fuel price variability, generation unit forced outage risk and wheeling cost variability). The mechanism apportions increases or decreases in power costs, on a graduated scale, between PSE and its customers in the following manner:

Annual Power Cost Variability	Customers' Share	Company's Share [1]
+/- $20 million	0%	100%
+/- $20-$40 million	50%	50%
+/- $40-$120 million	90%	10%
+/- $120+ million	95%	5%

[1] Over the four year period July 1, 2002 through June 30, 2006, the Company's share of pre-tax power cost variances is capped at a cumulative $40 million plus 1% of the excess.

Interest will be accrued on any overcollection or undercollection of the customer's share of the excess power cost that is deferred. The Company can also request a power cost adjustment rate surcharge if for any 12 month period the projected deferred power cost will exceed $30 million.

On May 24, 2002, the Washington Commission allowed a Purchased Gas Adjustment rate reduction that was filed by PSE on May 6, 2002 to become effective June 1, 2002, lowering natural gas rates by 21.2%. This ended a temporary surcharge that went into effect September 1, 2001. The PGA mechanism passes through to customers increases or decreases in the gas supply portion of the natural gas service rates based upon changes in the prices. PSE's gas margin and net income is not affected by the change in gas rates.

PSE was formally designated as a "potentially liable party" under the Washington State Model Toxics Control Act for a new site in Washington state on March 29, 2002, because PSE's predecessor companies operated a manufactured gas plant in the area from 1907 to 1956. During 1992, the Washington Commission issued an order regarding the treatment of certain environmental costs incurred by PSE under its remediation program. The order authorizes the Company to accumulate and defer prudently incurred cleanup costs paid to third parties for recovery in rates established in future rate proceedings. The Company believes its future environmental remediation costs are recoverable from either insurance companies, third parties or under the Washington Commission's order and has recorded a regulatory asset.

For all gas environmental sites, legal and remediation activities incurred to date total approximately $58.3 million and approximately $37.6 million has been accrued for future remediation costs for this and other remediation sites. To date, the Company has recovered approximately $58.2 million from insurance carriers and other third parties. Based on all known facts and analyses, the Company believes it is not likely that the identified environmental liabilities will result in a material adverse impact on the Company's financial position, operating results or cash flow trends. The Company is currently pursuing claims against insurance companies and third parties for the amount spent on legal and remediation costs to date along with future remediation costs.

In February 2002, the Company filed a shelf registration statement with the Securities and Exchange Commission for the offering, on a delayed or continuous basis, of up to $500 million principal amount of any combination of common stock of Puget Energy, principal amount of senior notes of PSE secured by a pledge of first mortgage bonds, unsecured debentures of PSE or trust preferred securities of PSE.

In June 2001, InfrastruX signed a three year credit agreement with several banks to provide up to $150 million in financing. Puget Energy is the guarantor of the line of credit. In addition, InfrastruX's subsidiaries have $29.5 million in lines of credit with various banks. Borrowings available for InfrastruX are used to fund acquisitions and working capital requirements of InfrastruX and its subsidiaries. At June 30, 2002, InfrastruX and its subsidiaries had outstanding loans of $148.1 million, effectively reducing the available borrowing capacity under these lines of credit to $31.4 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the Company's financial condition and results of operations contains forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. Words such as "anticipate," "believe," "expect," "future" and "intend" and similar expressions are used to identify forward-looking statements. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. The Company's actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the factors described below and under the caption "Forward-Looking Statements" at the beginning of this report. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-Q.

Puget Energy
Results of Operations

All of the operations of Puget Energy are conducted through its subsidiaries, PSE and InfrastruX. Puget Energy's net income for the three months ended June 30, 2002 was $31.4 million on operating revenues of $555.0 million, compared to net income of $19.5 million on operating revenues of $935.4 million for the same period in 2001. Net income for common stock was $29.4 million for the second quarter of 2002 compared to $17.4 million for the second quarter of 2001. Basic and diluted earnings per share were $0.34 for the second quarter of 2002 compared to $0.20 for the second quarter of 2001.

For the first six months of 2002, net income was $57.8 million on operating revenues of $1.3 billion, compared to net income of $91.8 million on operating revenues of $2.1 billion for the corresponding period in 2001. Income for common stock was $53.9 million for the first half of 2002 and $87.5 million for the same period in 2001. Basic and diluted earnings per common share were $0.62 for the six months ended June 30, 2002 and $1.02 and $1.01, respectively, for the same period in 2001. The six months results of 2001 are net of a charge to earnings of $0.17 per basic and diluted share associated with the adoption of Statement No. 133.

Total kilowatt-hour energy sales to retail electric consumers in the second quarter of 2002 were 4.4

billion compared to 4.7 billion in 2001. Kilowatt-hours transported to commercial and industrial transportation customers under a new electric tariff established in the third quarter of 2001 were 516.9 million for the second quarter of 2002. Those transport customers were served under a retail full service industrial tariff in 2001. Kilowatt-hour sales to wholesale customers were 1.4 billion in the second quarter of 2002 compared to 2.0 billion in 2001. Total gas sales to retail consumers in the second quarter of 2002 were 158.5 million therms compared to 160.7 million therms in 2001. Total gas delivered for transportation customers in the second quarter of 2002 was 49.0 million therms compared to 44.2 million therms in 2001. For the six month periods ended June 30, 2002 and 2001, total kilowatt-hour sales to retail electric consumers were 9.9 billion and 10.4 billion, respectively. Kilowatt-hours transported to transportation customers were 1.1 billion for the first six months of 2002. Kilowatt-hour sales to wholesale customers were 2.8 billion for the first six months of 2002 compared to 3.9 billion in 2001. Total gas sales to retail consumers for the first six months of 2002 were 505.5 million therms compared to 481.1 million therms in 2001. Total gas delivered for transportation customers for the first six months of 2002 was 103.8 million therms compared to 93.2 million therms in 2001.

The Company's utility operating revenues and associated expenses are not generated evenly during the year. Variations in energy usage by consumers do occur from season to season and from month to month within a season, primarily as a result of weather conditions. The Company normally experiences its highest retail energy sales in the first and fourth quarters of the year. Varying wholesale electric prices and the amount of hydroelectric energy supplies available to the Company also make quarter-to-quarter comparisons difficult. In addition, operating revenues and associated expenses of InfrastruX vary quarter-to-quarter with its highest revenues in the second and third quarters, excluding the effects of any new acquisitions during the year.

The Company meets its forecasted electric supply needs throughout the year through Company-controlled electric generation and by obtaining power through long-term contracts, annual contracts and short-term markets. The Company meets its forecasted natural gas supply needs throughout the year through Company-owned gas storage and by purchasing gas supplies through long-term contracts, annual contracts and short-term markets. The Company also performs risk management activities to optimize the value of energy supply and transmission assets and to ensure that physical energy supply is available to meet the customer demand loads. The Company also purchases energy when demand exceeds available supplies in its portfolio; likewise the Company makes sales to other utilities and marketers when surplus energy is available. These transactions are part of the Company's normal operations to meet retail load. Electric sales to other utilities and marketers vary by quarter and year depending principally upon water conditions for the generation of hydroelectric power, retail customer usage, the energy requirements of other utilities and energy market conditions in the Pacific Northwest. The June 27, 2002 seasonal water supply forecast published by the National Weather Service indicated that the total forecasted runoff into the Grand Coulee reservoir for the period April through September 2002 would be 110% of normal. This compares to 57% of normal for the same period in 2001. Although runoff conditions are above normal, PSE expects hydro generation from the Mid-Columbia projects will be slightly below normal in 2002 due to the refilling of the reservoirs that were drawn down by last year's drought conditions.

Temperatures based on heating-degree-days measured at Seattle-Tacoma airport during the three month period ended June 30, 2002 were 7% cooler than normal as compared to heating-degree-days being 12% cooler than normal during the three month period ended June 30, 2001.

Results of Operations of Puget Energy
Comparative Three and Six Months Ended
June 30, 2002 vs. June 30, 2001
Increase (Decrease)
(Dollars in Millions)

	Three Month Period	Six Month Period
Operating revenue changes:		
Electric revenue sold at index rates	$ (62.6)	$ (152.6)
Electric revenue sold to conservation trust	5.6	11.7
Residential exchange credit	(11.9)	(22.7)
Interim electric rate increase April – June 2002	25.0	25.0
Electric load and other	0.3	9.0
Electric transportation revenue	4.5	8.1
Electric sales to other utilities and marketers	(350.3)	(651.3)
Total electric revenue change	(389.4)	(772.8)
Retail gas revenue	(19.3)	(9.3)
Gas transportation revenue and other	0.7	0.9
Total gas revenue change	(18.6)	(8.4)
InfrastruX revenue	30.7	62.9
Other revenue	(3.1)	(24.6)
Total operating revenue change	(380.4)	(742.9)
Operating expense changes:		
Energy costs:		
Purchased electricity	(393.1)	(583.1)
Residential exchange power cost credit	(20.7)	(46.7)
Purchased gas	(15.7)	(27.5)
Electric generation fuel	(48.4)	(85.7)
Unrealized (gain) loss on derivative instruments	41.2	3.4
Utility operations and maintenance:		
Production operations and maintenance	6.4	7.1
Personal energy management	(1.4)	(1.5)
Other utility operations and maintenance	3.2	7.4
Other operations and maintenance		
InfrastruX operations and maintenance	23.7	50.7
Other operations and maintenance	(3.1)	(5.5)
Depreciation and amortization	4.4	7.1
Conservation amortization	2.0	2.6
Taxes other than federal income taxes	9.3	4.8
Federal income taxes	1.0	(32.8)
Total operating expense change	(391.2)	(699.7)
Other income (net of tax) change	1.8	0.3
Interest charges change	0.5	5.4
Minority Interest in earnings of consolidated subsidiary change	0.2	0.3
FAS-133 transition loss (net of tax) change	--	(14.7)
Net income change	$ 11.9	$ (33.9)

The following is additional information pertaining to the changes outlined in the previous table.

Operating Revenues – Electric

Electric revenues for the three months ended June 30, 2002 were $330.3 million, a decrease of $389.4 million compared to the same period in 2001. Retail kWh sales volumes declined 7.6% from 4.7 billion kWh in 2001 to 4.4 billion kWh in 2002. Retail sales revenue decreased 15.7% as a result of industrial and commercial customers on market index rates switching to transportation rate tariffs beginning in July 2001, as allowed by a Washington Commission order dated April 5, 2001, authorizing the establishment of a transportation tariff. Transportation revenues were $4.5 million in the three months ended June 30, 2002. Electric sales to other utilities and marketers in the western wholesale market, including the Pacific Northwest, decreased $350.3 million in the three months ended June 30, 2002 compared to the same period in 2001 due to decreased prices in the wholesale electricity market. Wholesale sales volumes declined by 587.5 million kWh or 29.0% in the three months ended June 30, 2002 compared to the same period in 2001.

Electric revenues for the six months ended June 30, 2002 were $711.9 million, a decrease of $772.8 million compared to the same period in 2001. Retail kWh sales volumes declined 5.1% from 10.4 billion kWh in 2001 to 9.9 billion kWh in 2002. Retail sales revenue decreased 15.8% as a result of industrial and commercial customers on market index rates switching to transportation rate tariffs beginning in July 2001, as allowed by a Washington Commission order dated April 5, 2001, authorizing the establishment of a transportation tariff. Transportation revenues were $8.0 million in the six months ended June 30, 2002. Electric sales to other utilities and marketers in the western wholesale market, including the Pacific Northwest, decreased $651.3 million in the six months ended June 30, 2002 compared to the same period in 2001 due to decreased prices in the wholesale electricity market. Wholesale sales volumes declined by 1.1 billion kWh or 27.6% in the six months ended June 30, 2002 compared to the same period in 2001.

On April 25, 2001, the Washington Commission approved "time-of-day" rates for approximately 300,000 residential electric customers for the period May 1, 2001 through September 30, 2001. On September 26, 2001, the Washington Commission authorized the extension of the "time-of-day" rates pilot program for residential customers through May 31, 2002 and to allow approximately 20,000 business customers to participate in a "time-of-day" rates program from October 1, 2001 through September 30, 2002. Pursuant to the order, if the cumulative revenues collected under "time-of-day" tariffs during the beginning through the end of the programs exceed the revenues that would have been collected under the original tariffs, PSE must defer any overcollection and refund it to participating customers. Through June 30, 2002, revenues billed under the "time-of-day" tariff have been slightly less than the original tariffs by an immaterial amount, thus no deferred liability was established at June 30, 2002. This provision ended on July 1, 2002 when the electric general rate increase became effective. Personal Energy Management™ consumption information is available to all classes of customers. Customers are able to monitor their energy usage and shift usage to low-demand off-peak periods. This program reduces the demand for peak power generation.

Revenues from electric customers in the first six months of 2001 and 2002 were reduced by a Residential and Farm Energy Exchange credit tariff in place from October 1, 1995 through June 30, 2001 and an amended Residential Purchase and Farm Energy Exchange credit in place since July 1, 2001. On June 13, 2001, the Washington Commission approved an amended Residential Purchase and Sale Agreement between PSE and Bonneville Power Administration (BPA) under which PSE's residential and small farm customers would continue to receive benefits of federal power. Completion of this agreement enables PSE to continue to provide, and in fact increase, effective January 1, 2002, the Residential and Farm Energy Exchange credit. Under the amended Residential Purchases and Sale agreement, PSE receives cash payments during the period July 1, 2001 through September 30, 2006 and benefits in the form of power and/or cash equivalent to approximately 648 annual average MW from October 1, 2006 through September 30, 2011. The level and form of any federal benefits to be received by PSE's residential and small farm customers may vary, depending on the outcome of regulatory and legal proceedings and reviews. As of July 1, 2001, the cash payments received from BPA by PSE are passed-through to eligible residential and small farm customers, with an offsetting reduction in purchased electricity expense recorded. PSE expects payments from BPA spread monthly in the amount of $127.3 million for the period January 2002 through September 2002 and $702.2 million for the period October 2002 through September 2006.

On March 28, 2002, the Washington Commission approved an electric interim rate surcharge that was announced on March 20, 2002 as part of the interim and general rate case proceedings. As a result, an interim electric rate surcharge of $25 million was in effect for the period April 1, 2002 through June 30, 2002.

On June 20, 2002, the Washington Commission also issued final regulatory approval of a settlement agreement in the electric general rate case. The authorization grants PSE a 4.6% electric general rate increase that will generate approximately an additional $59 million annually beginning July 1, 2002. The approval also includes a power cost adjustment mechanism that triggers if PSE's costs to provide customers' electricity varies from a certain threshold.

To meet customer demand, PSE's power supply portfolio includes net purchases of power under long-term supply contracts. However, depending principally upon streamflow available for hydroelectric generation and weather effects on customer demand, from time to time, PSE may have surplus power available for sale to wholesale customers. PSE manages its core energy portfolio through short and intermediate-term purchases, sales, arbitrage and other risk management techniques. PSE also operates its combustion turbine plants located in Western Washington when it is cost-effective to do so. During the first six months of 2001, PSE had operated its combustion turbine plants extensively to meet retail load requirements compared to the same period in 2002. As energy prices moderated in the fourth quarter of 2001 and the second quarter of 2002, PSE reduced operations of its combustion turbine plants which reduced electric generation fuel expenses compared to the first six months of 2001. In addition, the moderate electricity prices have reduced electric sales to other utilities and marketers as well as purchased electricity costs in the first six months of 2002 compared to the same period in 2001. Wholesale energy sales in the second and third quarters of 2002 have been adversely impacted by very low wholesale energy prices at a time when the Company typically has excess supplies of electricity, thus adversely affecting sales to other utilities and marketers.

PSE operates within the western wholesale market and made sales into the California energy market during the fourth quarter of 2000. In 2001, Pacific Gas & Electric Company (PG&E) and Southern California Edison defaulted on payment obligations owed to various energy suppliers, including the California Independent System Operator (CAISO). Consequently, the CAISO defaulted on its payment obligations to PSE and various other energy suppliers. During the second quarter of 2001, PSE received partial payments related to these sales which resulted in a receivable balance of $68.0 million. PSE also has a bad debt and a transaction fee reserve totaling $41.5 million in connection with these receivables, such that the net receivable at June 30, 2002 was $26.5 million. On March 1, 2002, Southern California Edison paid its past due energy obligations to the CAISO and various other parties, however, those funds were not used to pay the outstanding balance of the CAISO obligations. PSE is currently pursuing recovery of these obligations.

On July 25, 2001, FERC ordered an evidentiary hearing to determine what refunds, if any, California energy buyers are due for purchases in the spot markets operated by the CAISO covering the period October 2, 2000 through June 20, 2001. In July 2002, the CAISO submitted testimony in the proceeding indicating the CAISO owes PSE $61.9 million less a refund due of $26.3 million for a net due PSE of $35.6 million. In July 2002, PSE and various other parties filed rebuttal testimony in the proceeding. If all of the adjustments to the CAISO refund claims proposed in PSE's testimony are adopted, PSE's refund liability would be reduced and PSE's net receivable would be $46.7 million. Hearings on the FERC proceeding are scheduled to resume August 19, 2002 in San Francisco, California, and be completed before the end of August. The Administrative Law Judge is expected to issue his report and recommendations in the fall, and FERC is expected to take action with respect to that report at an indefinite time thereafter.

FERC Investigation into Western Energy Markets. On July 25, 2001, FERC also established a separate preliminary evidentiary proceeding for the purpose of exploring whether there have been excessive charges for spot market sales in the Pacific Northwest for the period December 25, 2000 through June 20, 2001. The presiding Administrative Law Judge in the Pacific Northwest proceeding has issued a recommendation that refunds with respect to such charges during such period were not warranted. FERC is reviewing this recommendation. PSE made transactions that may be subject to refund in this proceeding. PSE is unable to predict the outcome of this FERC proceeding or any judicial proceeding arising therefrom.

On May 8, 2002, the FERC issued a data request, concerning specific trading strategies described in memos prepared by Enron, to all sellers, including PSE, of wholesale electricity and/or ancillary services to the CAISO and/or the California Power Exchange Corporation during the years 2000-2001. On May 21 and May 22, 2002, FERC issued two more data requests to all sellers of wholesale electricity or natural gas in the western United States, including PSE, concerning "wash" or "roundtrip" trading activities. Each of the three requests required such sellers to respond with an affidavit concerning the seller's use or knowledge of various trading practices identified in the request. In response to the data requests, PSE conducted a review of its activities, and denied engaging in the trading activity described in the applicable request.

Other California Proceedings. On May 31, 2002, FERC conditionally dismissed a complaint filed on March 20, 2002 by the California Attorney General in Docket EL02-71 that alleged violations of the Federal Power Act by FERC and all sellers (including PSE) of electric power and energy into California. The complaint asserted that FERC's adoption and implementation of market rate authority was flawed, and that as a result, individual sellers such as PSE were liable for sales of energy at rates that were "unjust and unreasonable." The condition for dismissal was that all sellers re-file transaction summaries of sales to (and, after a clarifying order issued on June 28, purchases from) certain California entities during 2000 and 2001. PSE re-filed such transaction summaries on July 1 and July 8, 2002. The order of dismissal is now subject to rehearing at the request of the California Attorney General and others.

On the same day as FERC's order in Docket EL02-71 was entered, the California Attorney General announced it had filed individual complaints against a number of sellers, including PSE, in California Superior Court in San Francisco. That complaint alleges that PSE's sales to California violated the requirements of the Federal Power Act, and that as such, the sales also violated certain sections of the California Business Practices Act that forbid unlawful business practices. The complaint asserts that each such "violation" subjects PSE to a fine of up to $2,500 plus an award of attorneys' fees, and asserts that there were "thousands" of such violations. PSE has removed that suit to federal court, and has moved to dismiss it on the grounds that the issues are within the exclusive or primary jurisdiction of FERC. A decision on that motion is expected in the Fall of 2002. PSE cannot predict the outcome of these proceedings at this time.

During May 2002, PSE was served with two cross-complaints, by Reliant Energy Services and Duke Energy Trading & Marketing, respectively, in six consolidated class actions pending in Superior Court in San Diego, California. The original complaints in the actions allege violations by the original (approximately 40) defendants of various California Business Practices Act or Cartwright Act (antitrust) provisions. The cross-complaints assert essentially that the cross-defendants, including PSE, were also participants in the energy market in California at the relevant times, and that any remedies ordered against some market participants should be ordered against all. Reliant Energy Services and Duke Energy Trading & Marketing also seek indemnity and conditional relief as a buyer on transactions involving cross-defendants should the plaintiffs prevail. Those cross-complaints added over 30 new defendants, including PSE, to litigation that had been pending for well over a year and had been set for trial in state court. Some of the newly added defendants removed that litigation to federal court. PSE and numerous other defendants added by the cross-complaints have moved to dismiss these claims, and those motions are scheduled to be heard in September 2002, together with motions to remand the case back to state court filed by the original plaintiffs. As a result of the various motions, no trial date is set at this time. PSE cannot predict the outcome of this proceeding, nor can PSE evaluate any of the claims at this time.

Operating Revenues – Gas

Gas sales to retail customers decreased $19.3 million (2.1 million therms) for the three month period ended June 30, 2002 compared to the same period in 2001 due to lower natural gas prices that are passed through to customers in the Purchased Gas Adjustment (PGA) and the switching of some industrial customers from retail to transportation tariffs. Gas delivered for transportation customers increased $0.4 million (4.8 million therms) for the three month period ended June 30, 2002.

Gas sales to retail customers decreased $9.3 million while volume increased 24.4 million therms for the six month period ended June 30, 2002 compared to the same period in 2001 due to lower natural gas prices that are passed through to customers in the PGA and cooler temperatures increasing consumption. Gas delivered for transportation customers increased $0.5 million (10.6 million therms) for the six month period ended June 30, 2002.

On August 29, 2001, the Washington Commission approved a decrease in PSE's natural gas rates of 8.9% due to lower natural gas costs purchased for customers under terms of the Purchased Gas Adjustment (PGA) mechanism effective September 1, 2001. Also, on May 24, 2002, the Washington Commission allowed a decrease in PGA rates of 21.2% to become effective on June 1, 2002. This ended a temporary surcharge that went into effect September 1, 2001. The PGA mechanism passes through to customers increases or decreases in the gas supply portion of the natural gas service rates based upon changes in the price of natural gas purchased from producers and wholesale marketers or changes in gas pipeline transportation costs. PSE's gas margin and net income are not affected by changes under the PGA.

Operating Revenues – Other

Other operating revenues for the three and six months ended June 30, 2002 increased $27.6 million and $38.3 million from the same periods in 2001. This increase was due primarily to the acquisitions of several companies by InfrastruX in 2001, which contributed $30.7 million and $62.9 million for the three and six months ended June 30, 2002. Excluding the impact of acquisitions for InfrastruX for the three and six month periods ended June 30, 2002, InfrastruX's revenue increased $1.2 million and decreased $0.2 million, respectively. InfrastruX records revenues as services are performed or on a percent of completion for fixed price projects. Offsetting the increase from InfrastruX is a decrease of $3.1 million and $24.6 million for the three and six months ended June 30, 2002 as compared to the same periods in 2001 primarily due to a decrease in property sales from PSE's real estate development subsidiary Puget Western, Inc.

Operating Expenses

Purchased electricity expenses decreased $393.1 million and $583.1 million for the three and six month periods ended June 30, 2002 compared to the same periods in 2001. The decreases reflect the dramatic decline of wholesale electricity prices since June 2001. In addition, PSE experienced an 83-day unplanned outage of one of PSE's 104 MW combustion turbine electric generating units located at its Fredonia generating station from February 21, 2001 to May 14, 2001, resulting in higher purchased electricity costs during that period. The historic low hydroelectric power generation conditions experienced in 2001 forced PSE to purchase additional energy during that period to meet retail electric customer loads.

Purchased gas expenses decreased $15.7 million and $27.5 million for the three and six month periods ended June 30, 2002 compared to the same periods in 2001. The decrease was due primarily to the impact of decreased gas costs, which are passed through to customers through the PGA mechanism. The PGA allows PSE to recover expected gas costs. PSE defers, as a receivable or liability, any gas costs that exceed or fall short of the amount in PGA rates and accrues interest under the PGA. The PGA balance was a receivable at June 30, 2001 of $131.6 million while the balance at June 30, 2002 was a liability of $91.4 million.

Electric generation fuel expense decreased $48.4 million and $85.7 million for the three and six month periods ended June 30, 2002 compared to the same periods in 2001 as a result of decreased generation costs at PSE-controlled combustion turbine facilities. These facilities operated at much higher levels during the six months ended June 30, 2001 compared to the same period in 2002 to meet retail electric customer loads due to adverse hydroelectric conditions in 2001.

Residential exchange credits associated with the Residential Purchase and Sale Agreement with BPA increased $20.7 million and $46.7 million for the three and six month periods ended June 30, 2002 compared to the same periods in 2001 due to the amended Residential Purchase and Sale Agreement between PSE and BPA as discussed in Operating Revenues – Electric. As of July 2001, all residential exchange credits are passed through to eligible residential and small farm customers by a corresponding reduction in revenues.

Unrealized gains/losses on derivative instruments during the three months and six months ended June 30, 2002 resulted in an increase in earnings of $0.3 million, and $11.7 million compared to an increase of $41.5 million and $15.1 million respectively, for the same periods in 2001. The unrealized gains and losses recorded in the income statement are the result of the change in the market value of derivative instruments not meeting cash flow hedge criteria. In addition, Statement No. 133 was adopted on January 1, 2001, and as a result, a one-time $14.7 million after-tax transition loss was recorded in 2001 from recognizing the cumulative effect of this change in accounting principle. (For further discussion see Note 4).

Production operations and maintenance cost increased $6.4 million and $7.1 million for the three and six month periods ended June 30, 2002 compared to the same periods in 2001 due primarily to a $4.0 million pre-tax charge related to an industrial accident at Colstrip units 1 and 2, of which PSE is a 50% owner, and overall higher operating costs for the Colstrip generating facilities.

Other utility operations and maintenance costs increased $3.2 million for the three months ended June 30, 2002 compared to the same period in 2001 due primarily to the final determination of the net curtailment gain recorded in the first quarter of 2002 for Statement of Financial Accounting Standards No. 88 – "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" (Statement No. 88) as calculated by PSE's actuary. The full impact of the Statement No. 88 gain is recorded in the income statement. Other utility operations and maintenance costs increased $7.4 million for the six months ended June 30, 2002 compared to the same period in 2001 due primarily to PSE employee severance costs totaling $4.2 million related to strategic outsourcing of operations work to service providers.

InfrastruX operations and maintenance expenses increased $23.7 million and $50.7 million for the three and six month periods ended June 30, 2002 compared to the same periods in 2001 due primarily to the acquisition of companies during 2001. Excluding the impact of acquisitions for the three and six month periods ended June 30, 2002, InfrastruX's operating expenses increased $0.9 million and decreased $1.0 million, respectively. PSE's **other operations and maintenance** expenses decreased $3.1 million and $5.5 million for the three and six month periods ended June 30, 2002 compared to the same periods in 2001 primarily due to the sale of ConneXt's assets in the third quarter of 2001.

Depreciation and amortization expense increased $4.4 million and $7.1 million for the three and six months ended June 30, 2002 compared to the same periods in 2001 due primarily to the effects of new plant placed into service during the past year. Also contributing to the increase are the acquisitions by InfrastruX which increased depreciation and amortization by $0.6 million and $1.7 million for the three and six month periods ended June 30, 2002, respectively.

Taxes other than federal income taxes increased $9.3 million and $4.8 million for the three and six month periods ended June 30, 2002 compared to the same periods in 2001 primarily due to property taxes, payroll taxes and a municipal tax expense of $1.7 million related to various claims by cities that PSE underpaid municipal taxes owed as a result of not collecting the tax in rural areas that were annexed by cities. Property taxes for PSE increased by $6.3 million and $5.9 million for the three and six months ended June 30, 2002 compared to the same periods in 2001 due primarily to increases in the valuation of plant. Payroll taxes for InfrastruX increased by $4.7 million and $6.4 million for the three and six months ended June 30, 2002 due primarily to an increased workforce as new acquisitions have been completed.

Federal income taxes includes a one-time refund of $4.7 million, recorded in the second quarter of 2002, related to the audit of the Company's 1998 and 1999 federal income tax returns. Of this amount, $4.1 million reduced current tax expense and the balance, $0.6 million, was recorded as a deferred income tax liability. Additionally, the Company recorded interest income of $0.7 million in Other Income for a total refund amount of $5.4 million, which was received in the second quarter of 2002 from the Internal Revenue Service.

Interest Charges

Interest charges, which consist of interest and amortization on long-term debt and other interest, increased $0.5 million and $5.4 million for the three and six month periods ended June 30, 2002 compared to the same periods in 2001 as detailed in the following table:

Interest Charges Increase (Decrease) (Dollars in Millions)	Three Month Period	Six Month Period
PSE long-term debt interest	$ 2.2	$ 6.4
PSE other interest	(1.7)	(1.9)
PSE total interest charges change	0.5	4.5
InfrastruX interest charges change	--	0.9
PE interest charges change	$ 0.5	$ 5.4

PSE's interest on long-term debt increased primarily as a result of the issuance of $200 million 8.40% Trust Preferred Securities in May 2001. Other interest expense decreased compared to the same periods in 2001 due primarily to lower weighted average interest rates and lower average daily short-term borrowings. InfrastruX's six months ended June 30, 2002 interest charges increased due to an increase in the amount of debt outstanding.

Capital Expenditures, Capital Resources and Liquidity

Capital Requirements

Contractual Obligations and Commercial Commitments

Puget Energy. The following are Puget Energy's aggregate consolidated (including PSE) contractual and commercial commitments as of June 30, 2002:

PUGET ENERGY Contractual Obligations (in millions)	Total	Payments Due Per Period 2002	2003- 2004	2005- 2006	2007 and Thereafter
Long-term debt	$2,305.4	$58.9	$360.0	$115.0	$1,771.5
Short-term debt	125.1	125.1	--	--	--
Trust preferred securities (1)	300.0	--	--	--	300.0
Preferred dividends (2)	1.1	1.1	--	--	--
Service contract obligations	205.5	9.5	40.5	43.2	112.3
Capital lease obligations	8.2	0.9	4.4	2.9	--
Non-cancelable operating leases	64.6	13.0	34.9	11.2	5.5
Fredonia combustion turbines lease (3)	78.1	2.5	9.8	9.5	56.3
Energy purchase obligations	4,818.5	407.0	1,211.7	832.5	2,367.3
Financial hedge obligations	8.8	(5.6)	6.1	5.3	3.0
Total contractual cash obligations	$7,915.3	$612.4	$1,667.4	$1,019.6	$4,615.9

Commercial Commitments (in millions)	Total	Amount of Commitment Expiration Per Period 2002	2003- 2004	2005- 2006	2007 and Thereafter
Guarantees (4)	$131.0	--	$131.0	--	--
Lines of credit – available (5)	298.4	2.1	296.3	--	--
Total commercial commitments	$429.4	$2.1	$427.3	--	--

(1) In 1997 and 2001, PSE formed Puget Sound Energy Capital Trust I and Puget Sound Energy Capital Trust II, respectively, for the sole purpose of issuing and selling preferred securities (Trust Securities) and issuing common securities to PSE. The proceeds from the sale of Trust Securities were used by the Trusts to purchase Junior Subordinated Debentures (Debentures) from PSE. The Debentures are the sole assets of the Trusts and PSE owns all common securities of the Trusts.

(2) On April 3, 2002, the Board of Directors of PSE declared a dividend payable on July 1, 2002 for preferred stock outstanding on June 13, 2002.

(3) In April 2001, PSE entered into a lease line of up to $70 million with a financial institution, under which PSE leases two combustion turbines for its Fredonia 3 and 4 electric generation facility. The lease has a term expiring in 2011, but can be cancelled by PSE after three years. Lease payments and amortization under the lease include interest equal to 1.20% above the London inter-bank offered rate (LIBOR). At June 30, 2002, PSE's outstanding balance under the lease was $62.1 million. For purposes of the table, lease payments assume a LIBOR of 1.85%. The expected residual value under the lease is the lesser of $36 million or 60% of the cost of the equipment. In the event the equipment is sold to a third party upon termination of the lease and the aggregate sales proceeds are less than 87% of the unamortized value of the equipment, PSE would be required to pay the lessor an amount equal to the deficiency.

(4) In June 2001, InfrastruX signed a three-year credit agreement with several banks to provide up to $150 million in financing. Under the credit agreement, Puget Energy is the guarantor of the line of credit.

(5) At June 30, 2002, PSE had $375 million in lines of credit with various banks, which provide credit support for the outstanding bank loans and commercial paper of $108.0 million, effectively reducing the available borrowing capacity under these lines of credit to $267.0 million. The line of credit will expire on February 13, 2003. InfrastruX had $179.5 million in lines of credits with various banks, which fund capital requirements of InfrastruX and its subsidiaries. InfrastruX and its subsidiaries had outstanding loans of $148.1 million, effectively reducing the available borrowing capacity under these lines of credit to $31.4 million.

Puget Sound Energy. The following are PSE's aggregate contractual and commercial commitments as of June 30, 2002:

PUGET SOUND ENERGY Contractual Obligations (in millions)	Total	**Payments Due Per Period** 2002	2003- 2004	2005- 2006	2007 and Thereafter
Long-term debt	$2,150.8	$57.0	$210.5	$112.0	$1,771.3
Short-term debt	108.0	108.0	--	--	--
Trust preferred securities (1)	300.0	--	--	--	300.0
Preferred dividends (2)	1.1	1.1	--	--	--
Service contract obligations	205.5	9.5	40.5	43.2	112.3
Non-cancelable operating leases	41.0	7.5	20.2	8.2	5.1
Fredonia combustion turbines lease (3)	78.1	2.5	9.8	9.5	56.3
Energy purchase obligations	4,818.5	407.0	1,211.7	832.5	2,367.3
Financial hedge obligations	8.8	(5.6)	6.1	5.3	3.0
Total contractual cash obligations	$7,711.8	$587.0	$1,498.8	$1,010.7	$4,615.3

Commercial Commitments (in millions)	Total	Amount of Commitment Expiration Per Period 2002	2003-2004	2005-2006	2007 and Thereafter
Lines of credit – available (4)	$267.0	--	$267.0	--	--

(1) See note (1) above.

(2) See note (2) above.

(3) See note (3) above.

(4) See note (5) above with respect to PSE.

In 1995 and 1997, PSE sold a stream of future electric revenues associated with $237.7 million of its investment in conservation assets in its electric general rate tariff to two grantor trusts. As a result of this sale, PSE collects these revenues from its electric customers and remits them to the trusts. During the three months ended June 30, 2002, PSE collected and remitted $2.7 million to the trusts as compared to $6.5 million for the same period in 2001. In the first quarter of 2002, PSE completed its final remittance to the 1997 trust. The remaining principal expected to be collected on behalf of the 1995 trust is $23.8 million at June 30, 2002.

Utility Construction Program. Current utility construction expenditures for generation, transmission and distribution are designed to meet continuing customer growth and to improve efficiencies of PSE's energy delivery systems. Construction expenditures, excluding equity Allowance for Funds Used During Construction (AFUDC), were $113.1 million for the six months ended June 30, 2002. PSE expects construction expenditures will be approximately $235.0 million in 2002. Construction expenditure estimates are subject to periodic review and adjustment in light of changing economic, regulatory, environmental and conservation factors.

Other Additions. Other property, plant and equipment additions were $15.0 million for the six months ended June 30, 2002. InfrastruX will continue to acquire companies related to utility infrastructure services with its available line of credit and cash.

Capital Resources

Cash From Operations. Cash generated from operations (net of dividends and equity and debt AFUDC) totaled $379.0 million for the six months ended June 30, 2002, and provided 287.9% of the $131.7 million of utility construction expenditures (net of equity and debt AFUDC) and other capital expenditure requirements during the first six months of 2002. Puget Energy and PSE expect to continue financing the utility construction program and other capital expenditure requirements with cash generated from operations and short-term borrowings under its committed bank lines.

Financing Program. Financing utility construction requirements and operational needs is dependent upon the cost and availability of external funds through capital markets and from financial institutions. Access to funds is dependent upon factors such as general economic conditions, regulatory authorizations and policies, and Puget Energy's and PSE's credit ratings. The Company expects to meet capital and operational needs for the balance of 2002 with cash generated from operations and short-term borrowings under its committed bank lines. The Company does not plan to issue long-term debt or preferred stock.

The Company must meet certain required equity targets as outlined in the General and Interim Rate Proceeding section and, therefore, will issue common stock prior to the end of 2003 to help reach those targets. If the equity targets are not met then PSE's general rates are subject to a 2% reduction.

Restrictive Covenants. In determining the type and amount of future financing, PSE may be limited by restrictions contained in its electric and gas mortgage indentures, articles of incorporation and certain loan agreements. Under the most restrictive tests, at June 30, 2002, PSE could issue:

- no additional first mortgage bonds due to the interest coverage ratio being below the 2.0 times net earnings available for interest limit (1.95 at June 30, 2002). The shortfall of interest coverage is due to under recovery of power costs prior to receiving the electric interim rate relief in the second quarter of 2002. With the interim and general rate relief, the Company expects to be in position to meet the interest coverage ratio and issue first mortgage bonds by the end of 2002. The Company has approximately $953.8 million of electric and gas bondable property available to use for issuance of up to $572.3 million of first mortgage bonds, subject to the interest coverage ratio limitation;
- no additional preferred stock; and
- approximately $232.4 million of unsecured long-term debt.

Credit Ratings. Neither Puget Energy nor PSE has any rating downgrade triggers that would accelerate the maturity dates of outstanding debt. However, a downgrade in the senior unsecured credit ratings could adversely affect the companies' ability to renew existing, or obtain access to new, credit facilities and could increase the cost of such facilities. For example, under PSE's revolving credit facility, the spreads over the index and commitment fee increase as PSE's secured long term debt ratings decline. A downgrade in commercial paper ratings could preclude PSE's ability to issue commercial paper under its current programs. The marketability of PSE commercial paper is currently limited by the A-3/P-2 ratings by Standard & Poor's and Moody's Investor Services. In addition, any downgrade below investment grade of the senior secured debt could allow counterparties in the wholesale electric, wholesale gas and financial derivative markets to require PSE to post a letter of credit or other collateral, make cash prepayments, obtain a guarantee agreement or provide other mutually agreeable security.

The current ratings of Puget Energy and Puget Sound Energy, as of July 25, 2002, are:

	Standard & Poor's Ratings	Moody's Ratings
Puget Energy		
Corporate credit/issuer rating	BBB-	Ba1
Puget Sound Energy		
Corporate credit/issuer rating	BBB-	Baa3
Senior secured debt	BBB	Baa2
Shelf debt senior secured	BBB	Baa2
Senior unsecured	BB+	Baa3
Preferred stock	BB	Ba2
Commercial paper	A-3	P-2
Subordinate	*	Ba1
Revolving Credit Facility	*	Baa3
Ratings Outlook	Negative	Negative

* No ratings provided.

Standard & Poor's has stated that its negative outlook reflects the fact that current financial ratios are weak for the rating and a concern that Puget Energy and PSE might not be able to achieve current projections, which indicate that both entities should achieve financial targets consistent with the rating by 2004 and 2005. Standard &Poor's further stated that although the Washington Commission settlement agreement provides tools, such as the power cost adjustment and required annual equity targets, that should enable Puget Energy and PSE to achieve its projections, additional investment in the unregulated InfrastruX subsidiary could hinder the financial recovery of Puget Energy. Standard & Poor's has raised the business profile on PSE from 5 to 4, stating that the business profile reflects PSE's conservative business strategy, strong markets served by the electric and gas businesses, and a favorable settlement with the Washington Commission. The Puget Energy business profile is 5, which incorporates the stronger utility business profile of 4 and the weaker InfrastruX business profile of 8. Moody's Investors Services has stated that its negative outlook is based upon lingering uncertainties about the final outcome of FERC investigations and legal proceedings with respect to western power market activities by utilities like PSE that sold power into the California market in 2000.

Shelf Registration. In February 2002, the Company filed a shelf registration statement with the Securities and Exchange Commission for the offering, on a delayed or continuous basis, of up to $500 million principal amount of:

- common stock of Puget Energy,
- senior notes of PSE, secured by a pledge of PSE's first mortgage bonds,
- unsecured debentures of PSE, and
- trust preferred securities of Puget Sound Energy Capital Trust III.

As of June 30, 2002, no securities had been issued under this shelf registration statement and the only securities available for issuance at this time due to restricted covenants are the common stock of Puget Energy and the unsecured debentures of PSE.

Borrowings and Commercial Paper. PSE's short-term borrowings from banks and the sale of commercial paper are used to provide working capital for the utility construction program. At June 30, 2002, PSE had available $375 million in lines of credit with various banks, which provide credit support for outstanding commercial paper of $78.0 million and $30.0 million of outstanding short-term borrowing, effectively reducing the available borrowing capacity under these lines of credit to $267.0 million. The line of credit will expire February 13, 2003.

In June 2001, InfrastruX signed a three-year credit agreement with several banks to provide up to $150 million in financing. Puget Energy is the guarantor of the line of credit. In addition, InfrastruX's subsidiaries have $29.5 million in lines of credit with various banks. Borrowings available for InfrastruX are used to fund acquisitions and working capital requirements of InfrastruX and its subsidiaries. At June 30, 2002, InfrastruX and its subsidiaries had outstanding loans of $148.1 million, effectively reducing the available borrowing capacity under these lines of credit to $31.4 million.

Stock Purchase and Dividend Reinvestment Plan. Puget Energy has a stock purchase and dividend reinvestment plan pursuant to which existing shareholders and residents of the State of Washington may invest cash and cash dividends in shares of Puget Energy's common stock. Since new shares of common stock may be purchased directly from Puget Energy, Puget Energy may receive funds for general corporate purposes through the program. Puget Energy has registered 5,000,000 shares of common stock for sale pursuant to the plan. Puget Energy issued common stock from the Stock Purchase and Dividend Reinvestment Plan of $3.3 million (165,996 shares) and $9.8 million (470,110 shares) in the three and six months ended June 30, 2002, compared to $6.4 million (270,818 shares) and $12.8 million (534,280 shares) for the same periods in 2001.

In April 2002, Puget Energy filed an amendment to the plan with the Securities and Exchange Commission to increase the number of shares registered under the plan to 10,000,000, and to permit any interested investor, even if the investor is not an existing shareholder or resident of the State of Washington, to invest cash in shares of Puget Energy's common stock. The registration statement relating to the amendment has not yet been declared effective by the Securities and Exchange Commission.

General and Interim Rate Proceedings. On March 28, 2002, the Washington Commission approved a settlement agreement that was announced on March 20, 2002 which resolved the Company's request for an interim rate increase and three of the four significant financial issues in the Company's electric and gas general rate cases. As a result, an interim electric rate surcharge of $25 million was in effect for the period April 1, 2002 through June 30, 2002. The three important financial issues that were resolved for the general rate case included the equity capital ratio, the return on equity and adoption of an electric power cost adjustment mechanism. The settlement also created a fast track collaborative process for completion of any adjustments to the Company's requested revenue requirement for the gas general rate case by September 1, 2002. If the fast track collaborative process cannot be completed by September 1, 2002, then the completion of the gas general rate case would be no later than November 1, 2002.

On June 20, 2002, the Washington Commission issued final regulatory approval of the comprehensive electric-rate settlement submitted by PSE, key constituents and customer groups, state regulatory staff and the state attorney general's Public Counsel Section. The authorization grants PSE a 4.6% electric general rate increase that will generate approximately an additional $59 million annually beginning July 1, 2002. In addition, the settlement provides for an 8.76% overall return on capital based on a projected capital structure with an equity component of 40% and an authorized 11% return on common equity. The settlement also resolved all electric and gas cost allocation issues and established an 8.76% overall return on capital for the gas general rate case.

The settlement also includes a power cost adjustment mechanism that triggers if PSE's costs to provide customers' electricity falls outside certain bands from a normalized level of power costs established in the electric general rate case. The cumulative maximum pre-tax earnings exposure due to power cost variations over the four year period ending June 30, 2006 is limited to $40 million plus 1% of the excess. All significant variable power supply cost drivers are included in the power cost adjustment mechanism (hydroelectric generation variability, market price variability for purchased power and surplus power sales, natural gas and coal fuel price variability, generation unit forced outage risk and wheeling cost variability). The mechanism apportions increases or decreases in power costs, on a graduated scale, between PSE and its customers in the following manner:

Annual Power Cost Variability	Customers' Share	Company's Share [1]
+/- $20 million	0%	100%
+/- $20-$40 million	50%	50%
+/- $40-$120 million	90%	10%
+/- $120+ million	95%	5%

[1] Over the four year period July 1, 2002 through June 30, 2006, the Company's share of pre-tax power cost variances is capped at a cumulative $40 million plus 1% of the excess.

Interest will be accrued on any overcollection or undercollection of the customer's share of the excess power cost that is deferred. The Company can also request a power cost adjustment rate surcharge if for any 12 month period the projected deferred power cost will exceed $30 million.

The settlement also gives PSE the financial flexibility to rebuild its common equity ratio to at least 39% over a 3 ½ year period, with milestones of 34%, 36% and 39% at the end of 2003, 2004 and 2005, respectively. If PSE should fail to meet this schedule, it would be subject to a 2% rate reduction penalty.

Purchased Gas Adjustment Mechanism. On May 24, 2002, the Washington Commission allowed a Purchased Gas Adjustment rate reduction that was filed on May 6, 2002, effective June 1, 2002, lowering natural gas rates by 21.2%. This ended a temporary surcharge that went into effect September 1, 2001. The PGA mechanism passes through to customers increases or decreases in the gas supply portion of the natural gas service rates based upon changes in the prices. PSE's gas margin and net income is not affected by the change in gas rates.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to market risks, including changes in commodity prices and interest rates.

Commodity Price Risk. The Company's energy related businesses are exposed to risks related to changes in commodity prices. As part of its business, the Company markets power to wholesale customers by entering into contracts to purchase or supply electric energy or natural gas at specified delivery points and at specified future delivery dates. The Company's energy risk management function manages its core electric and gas supply portfolio.

The Company manages its energy supply portfolio to achieve three primary objectives:

(i) Ensure that physical energy supplies are available to serve retail customer requirements;
(ii) Manage portfolio risks to limit undesired impacts on the Company's financial results; and
(iii) Optimize the value of the Company's energy supply assets.

The portfolio is subject to major sources of variability (e.g., hydro generation, temperature-sensitive retail sales, and market prices for gas and power). At certain times, these sources of variability can mitigate portfolio imbalances; at other times they can exacerbate portfolio imbalances.

Hedging strategies for the Company's energy supply portfolio interact with portfolio optimization activities. Some hedges can be implemented in ways that retain the Company's ability to use its energy supply portfolio to produce additional value; other hedges can only be achieved by forgoing optimization opportunities.

The prices of energy commodities are subject to fluctuations due to unpredictable factors including weather, generation outages and other factors that impact supply and demand. This commodity price risk is a consequence of purchasing energy at fixed and variable prices and providing deliveries at different tariff and variable prices. Costs associated with ownership and operation of production facilities are another component of this risk. The Company may use forward delivery agreements, swaps and option contracts for the purpose of hedging commodity price risk. Unrealized changes in the market value of these derivatives are generally deferred and recognized upon settlement along with the underlying hedged transaction. Effective January 1, 2001, pursuant to Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", which requires all derivative instruments to be recorded on the balance sheet at fair value, changes in the fair value of the Company's derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as a qualifying hedge under the statement. The Company does not consider its current operation to meet the definition of trading activities as described by the Emerging Issues Task Force of the Financial Accounting Standards Board Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities".

At June 30, 2002, the Company had an after-tax net asset of approximately $3.6 million of energy contracts designated as qualifying as cash flow hedges and a corresponding amount in other comprehensive income. The Company also had energy contracts that were marked-to-market through current earnings for the three month period ended June 30, 2002 of $0.2 million after-tax ($0.3 million pre-tax). A hypothetical 10% increase in the market prices of natural gas and electricity would increase the fair value of qualifying cash flow hedges by approximately $4.8 million after-tax and would have an immaterial impact on current earnings for those contracts marked-to-market in earnings.

In addition, PSE believes its current rate design, including the various special contracts and the PGA mechanism, mitigate a portion of the commodity price risk. The approval in June 2002 of the electric general rate increase and the electric power cost adjustment mechanism will also reduce the commodity price risk. The electric power cost adjustment mechanism will significantly reduce market exposure to volatile wholesale energy and fuel prices.

Market risk is managed subject to parameters established by the Board of Directors. The Company has established a Risk Management Committee composed of Company officers, separate from the units that manage these risks, that monitors compliance with the Company's policies and procedures. In addition, the Audit Committee of the Company's Board of Directors has oversight of the Risk Management Committee.

Interest Rate Risk. The Company believes interest rate risk of the Company primarily relates to the use of short-term debt instruments and new long-term debt financing needed to fund capital requirements. The Company manages its interest rate risk through the issuance of mostly fixed-rate debt of various maturities. The Company does utilize bank borrowings, commercial paper and line of credit facilities to meet short-term cash requirements. These short-term obligations are commonly refinanced with fixed rate bonds or notes when needed and when interest rates are considered favorable. The Company may enter into swap instruments to manage the interest rate risk associated with these debts.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Other California Proceedings. On May 31, 2002, FERC conditionally dismissed a complaint filed on March 20, 2002 by the California Attorney General in Docket EL02-71 that alleged violations of the Federal Power Act by FERC and all sellers (including PSE) of electric power and energy into California. The complaint asserted that FERC's adoption and implementation of market rate authority was flawed, and that as a result, individual sellers such as PSE were liable for sales of energy at rates that were "unjust and unreasonable." The condition for dismissal was that all sellers re-file transaction summaries of sales to (and, after a clarifying order issued on June 28, purchases from) certain California entities during 2000 and 2001. PSE re-filed such transaction summaries on July 1 and July 8, 2002. The order of dismissal is now subject to rehearing at the request of the California Attorney General and others.

On the same day as FERC's order in Docket EL02-71 was entered, the California Attorney General announced it had filed individual complaints against a number of sellers, including PSE, in California Superior Court in San Francisco. That complaint alleges that PSE's sales to California violated the requirements of the Federal Power Act, and that as such, the sales also violate certain sections of the California Business Practices Act that forbids unlawful practices. The complaint asserts that each such "violation" subjects PSE to a fine of up to $2,500 plus an award of attorneys' fees, and asserts that there were "thousands" of such violations. PSE has removed that suit to federal court, and has moved to dismiss it on the grounds that the issues are within the exclusive or primary jurisdiction of FERC. A decision on that motion is expected in the Fall of 2002. PSE cannot predict the outcome of these proceedings at this time.

During May 2002, PSE was served with two cross-complaints, by Reliant Energy Services and Duke Energy Trading & Marketing, respectively, in six consolidated class actions pending in Superior Court in San Diego, California. The original complaints in the actions allege violations by the original (approximately 40) defendants of various California Business Practices Act or Cartwright Act (antitrust) provisions. The cross-complaints assert essentially that the cross-defendants, including PSE, were also participants in the energy market in California at the relevant times, and that any remedies ordered against some market participants should be ordered against all. Reliant Energy Services and Duke Energy Trading & Marketing also seek indemnity and conditional relief as a buyer on transactions involving cross-defendants should the plaintiffs prevail. Those cross-complaints added over 30 new defendants, including PSE, to litigation that had been pending for well over a year and had been set for trial in state court. Some of the newly added defendants removed that litigation to federal court. PSE and numerous other defendants added by the cross-complaints have moved to dismiss these claims, and those motions are scheduled to be heard in September 2002, together with motions to remand the case back to state court filed by the original plaintiffs. As a result of the various motions, no trial date is set at this time. PSE cannot predict the outcome of this proceeding, nor can PSE evaluate any of the claims at this time.

Contingencies arising out of the normal course of the Company's business exist at June 30, 2002. The ultimate resolution of these issues is not expected to have a material adverse impact on the financial condition, results of operations or liquidity of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

Puget Energy's annual meeting of shareholders was held on May 14, 2002. At the annual meeting, the shareholders elected two directors that filled vacancies on the Board arising after the 2001 annual meeting to hold office until the annual meeting of shareholders in 2004 and three directors to hold office until the annual meeting of shareholders in 2005 or until their successors are elected and qualified. The vote was as follows:

	NUMBER OF SHARES	
	FOR	**WITHHELD**
Term Expiring 2004		
Stephen P. Reynolds	70,903,403	2,077,924
Dr. Kenneth P. Mortimer	70,196,685	2,784,642

Term Expiring 2005		
Charles W. Bingham	70,391,700	2,859,627
Robert L. Dryden	70,859,974	2,121,353
Sally G. Narodick	70,717,332	2,263,995

There were no broker non-votes.

The terms of the following directors continued after the annual meeting:

Douglas P. Beighle
Phyllis J. Campbell
Craig W. Cole
John D. Durbin
Tomio Moriguchi

Item 6. <u>Exhibits and Reports on Form 8-K</u>

(a) See Exhibit Index for list of exhibits.

(b) Reports on Form 8-K

<u>Filed by Puget Energy</u>

Form 8-K dated April 17, 2002, Item 5 – Other Events, related to first quarter earnings.

<u>Filed by Puget Energy & Puget Sound Energy</u>:

Form 8-K dated May 23, 2002, Item 5 – Other Events, related to PSE response to FERC data request on manipulation of the California energy market.

Form 8-K dated June 6, 2002, Item 5 – Other Events, related to the comprehensive settlement on PSE's electric general rate case.

Form 8-K dated June 21, 2002, Item 5 – Other Events, related to the Washington Commission approval of the comprehensive settlement of PSE's electric general rate case.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

PUGET ENERGY, INC.
PUGET SOUND ENERGY, INC.

____
James W. Eldredge
Corporate Secretary and Chief Accounting Officer

Date: August 12, 2002

Chief accounting officer and officer duly authorized to sign this report on behalf of each registrant

EXHIBIT INDEX

The following exhibits are filed herewith:

- 10-1 Power Sales Contract dated April 15, 2002 between Public Utility District No. 2 of Grant County, Washington and PSE, relating to the Priest Rapids Project.
- 10-2 Reasonable Portion Power Sales Contract dated April 15, 2002 between Public Utility District No. 2 of Grant County, Washington and PSE, relating to the Priest Rapids Project.
- 10-3 Additional Power Sales Contract dated April 15, 2002 between Public Utility District No. 2 of Grant County, Washington and PSE, relating to the Priest Rapids Project.
- 10-4 Change-in-control agreement with G. B. Swofford, Senior Vice President and Chief Operating Officer dated March 12, 1999.
- 10-5 Change-in-control agreement with T. J. Hogan, Senior Vice President, External Affairs dated March 12, 1999.
- 12-1 Statement setting forth computation of ratios of earnings to fixed charges (1997 through 2001 and 12 months ended June 30, 2002) for Puget Energy.
- 12-2 Statement setting forth computation of ratios of earnings to fixed charges (1997 through 2001 and 12 months ended June 30, 2002) for PSE.
- 99-1 Chief Executive Officer certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 99-2 Chief Financial Officer certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.