

Appendix C to Joint Application

TRANSACTION COMMITMENTS

In support of the Joint Application, Puget Holdings LLC (“Puget Holdings”) and Puget Sound Energy, Inc. (“PSE”) make the following commitments (the “Commitments”) in connection with Commission approval of the transaction pursuant to which Puget Holdings would acquire all of the outstanding common stock of Puget Energy, Inc. (“Puget Energy”) and PSE would thereafter become an indirect, wholly-owned subsidiary of Puget Holdings (the “Proposed Transaction”).

A. Commitments from Agreement and Plan of Merger

1. PSE and Puget Holdings commit to continue the Service Quality measures currently in place for PSE.
2. Puget Holdings acknowledges PSE’s need for significant amounts of capital to invest in its energy supply and delivery infrastructure and commits that meeting these capital requirements will be considered a high priority by the Boards of Puget Holdings and PSE.
3. Puget Holdings will secure and provide at closing contractually committed credit facilities for PSE and Puget Energy of a term not less than three years, in an amount not less than \$1.4 billion to support PSE’s capital expenditure program as set forth in the summary of PSE’s multi-year Business Plan, dated October 19, 2007.
4. Puget Holdings acknowledges PSE’s obligations under Washington’s Renewable Portfolio Standard and commits to support PSE with additional expertise and capital as necessary to enable PSE to fulfill those obligations.
5. Puget Holdings commits to work with PSE to acquire all renewable energy resources required by law and such other renewable energy resources as may from time to time be deemed advisable in accordance with its biennial integrated resource planning process.
6. Puget Holdings commits to and supports PSE’s Greenhouse Gas and Carbon Policy contained in PSE’s current Integrated Resource Plan.
7. Puget Holdings commits to and supports PSE’s energy efficiency goals and objectives set forth in PSE’s May 2007 Integrated Resource Plan and its ongoing collaborative efforts to expand and enhance them.
8. Within ninety (90) days of the Proposed Transaction closing, PSE and Puget Holdings will file a non-consolidation opinion with the Commission which concludes, subject to customary assumptions and exceptions, that the ring fencing provisions are sufficient that a bankruptcy court would not order the substantive consolidation of the assets and liabilities of PSE with those of Puget Energy or its affiliates or subsidiaries.
9. PSE will (i) maintain separate books and records; (ii) agree to prohibitions against loans or pledges of utility assets to Puget Energy or Puget Holdings without Commission approval; and (iii) generally hold PSE customers harmless from any business and

financial risk exposures associated with Puget Energy, Puget Holdings and its other affiliates.

10. PSE will maintain separate debt and preferred stock, if any. PSE will maintain its own corporate and debt credit rating, as well as ratings for long-term debt and preferred stock.
11. PSE will commit to a common equity ratio for PSE of not less than 50% at closing or shortly thereafter, and not less than 44% thereafter except to the extent a lower equity ratio is established for ratemaking purposes by the Commission.
12. Any net cost savings that may be achieved by PSE as a result of the Proposed Transaction will be reflected in subsequent rate proceedings, as such savings materialize.
13. Puget Holdings and PSE commit that PSE will honor its existing labor contracts.
14. PSE will maintain its current pension funding policy in accordance with sound actuarial practice.
15. PSE and Puget Holdings will maintain staffing and presence in the communities in which PSE operates at levels sufficient to maintain the provision of safe and reliable service and cost-effective operations.
16. As part of the Proposed Transaction, Puget Holdings will seek to retain all current senior management of PSE.
17. At least one director of PSE will be an Independent Director who is not a member, stockholder, director (except as such Independent Director of PSE), officer, or employee of Puget Holdings or its affiliates. The organizational documents for PSE will not permit PSE, without the unanimous consent of all its directors including the Independent Director, to consent to the institution of bankruptcy proceedings or the inclusion of PSE in bankruptcy proceedings. The Chief Executive Officer of PSE will be a member of the board of PSE.
18. PSE and Puget Holdings commit that PSE and Puget Energy corporate headquarters will remain in the Bellevue, Washington area for a period of at least five years after closing (unless such headquarters are relocated as a result of a decision issued by the Commission).
19. PSE and Puget Sound Energy Foundation will maintain its existing level of corporate contributions and community support in the State of Washington (as identified by PSE for such region in its budget for 2007) for a period five years after closing. Upon closing of the Proposed Transaction, Puget Holdings will make a one-time contribution of \$5 million to the Puget Sound Energy Foundation.
20. Puget Holdings and PSE will make reasonable commitments, consistent with recent Commission merger orders, to provide access to PSE's books and records; access to financial information and filings; audit rights with respect to the documents supporting any costs that may be allocable to PSE; and access to PSE's board minutes, audit reports,

and information provided to credit rating agencies pertaining to PSE.

21. Affiliate Transactions, Cross-Subsidization: PSE agrees (i) to file cost allocation methodologies used to allocate Puget Energy or Puget Holdings-related costs to PSE; (ii) to propose methods and standards for treatment of affiliate transactions; and (iii) that there will be no cross-subsidization by PSE customers of unregulated activities.
22. Transaction Costs: PSE and Puget Holdings agree that there will be no recovery of legal and financial advisory fees associated with the Proposed Transaction in rates and no recovery of the acquisition premium in rates.
23. PSE and Puget Holdings commit to maintain existing low-income programs.
24. PSE and Puget Holdings commit to continue to work with low-income agencies to address issues of low-income customers.

B. Additional Transaction Commitments

25. Puget Holdings and PSE will not advocate for a higher cost of debt or equity capital as compared to what PSE's cost of debt or equity capital would have been absent Puget Holdings' ownership.
26. In furtherance of Commitment 8, if the ring-fencing provisions are insufficient to obtain a non-consolidation opinion, Puget Holdings and PSE agree to promptly undertake the following actions:
 - (i) Notify the Commission of this inability to obtain a non-consolidation opinion.
 - (ii) Propose and implement, upon Commission approval, such additional ring-fencing provisions around PSE as are sufficient to obtain a non-consolidation opinion subject to customary assumptions and exceptions.
27. In furtherance of Commitment 9:
 - (a) Puget Holdings and PSE commit that PSE's customers will be held harmless from the liabilities of any nonregulated activity of PSE or Puget Holdings. In any proceeding before the Commission involving rates of PSE, the fair rate of return for PSE will be determined without regard to any adverse consequences that are demonstrated to be attributable to the nonregulated activities. Any new nonregulated subsidiary will be established as a subsidiary of either Puget Holdings, Puget Intermediate Holdings Inc., or Puget Energy rather than as a subsidiary of PSE. Measures providing for separate financial and accounting treatment will be established for each nonregulated activity.
 - (b) Puget Holdings and PSE will notify the Commission subsequent to Puget Holdings' board approval and as soon as practicable following any public announcement of: (1) any acquisition of a regulated or unregulated business representing 5 percent or more of the capitalization of Puget Holdings; or (2) the

change in effective control or acquisition of any material part or an of PSE by any other firm, whether by merger, combination, transfer of stock or assets.

- (c) Neither PSE nor Puget Holdings will assert in any future proceedings, that, by virtue of the Proposed Transaction and the resulting corporate structure, the Commission is without jurisdiction over any transaction that results in a change of control of PSE.

28. In furtherance of Commitment 20:

- (a) PSE and Puget Holdings will maintain the necessary books and records so as to provide an audit trail for all corporate, affiliate, or subsidiary transactions with PSE, or that result in costs that may be allocable to PSE.
- (b) PSE will provide Commission Staff and Public Counsel access to books and records (including those of Puget Holdings or any affiliate or subsidiary companies) required to be accessed to verify or examine transactions with PSE, or that result in costs that may be allocable to PSE. The Proposed Transaction will not result in reduced access to the necessary books and records that relate to transactions with PSE, or that result in costs that may be allocable to PSE, and the Proposed Transaction and resulting corporate structure will not be used by PSE as a basis to oppose requests for such books and records made by the Commission or by Commission Staff or Public Counsel.
- (c) Nothing in the Proposed Transaction will limit or affect the Commission's rights with respect to inspection of accounts, books, papers and documents of PSE pursuant to RCW 80.04.070 or RCW 80.16.030. Nothing in the Proposed Transaction will limit or affect the Commission's rights with respect to inspection of accounts, books, papers and documents of Puget Holdings pursuant to RCW 80.16.030; provided, that such right to inspection shall be limited to those accounts, books, papers and documents of Puget Holdings that pertain to transactions affecting PSE's regulated utility operations.
- (d) Puget Holdings and PSE will provide the Commission with access to written information provided by and to credit rating agencies that pertains to PSE. Puget Holdings and each of its members will also provide the Commission with access to written information provided by and to credit rating agencies that pertains to Puget Holdings' subsidiaries to the extent such information may potentially affect PSE.

29. In furtherance of Commitment 21:

- (a) If and when any subsidiary of PSE becomes a subsidiary of Puget

Holdings, Puget Intermediate Holdings Inc., or Puget Energy, PSE will so advise the Commission within thirty (30) days and will submit to the Commission a written document setting forth PSE's proposed corporate and affiliate cost allocation methodologies.

- (b) PSE will notify the Commission of any change in corporate structure that affects PSE's corporate and affiliate cost allocation methodologies. PSE will propose revisions to such cost allocation methodologies to accommodate such changes. PSE will not argue that compliance with this provision constitutes approval by the Commission of a particular methodology for corporate and affiliate cost allocation.
 - (c) PSE and Puget Holdings will comply with all applicable provisions of Title 80 RCW, including those pertaining to transfers of property under Chapter 80.12 RCW, affiliated interests under Chapter 80.16 RCW, and securities and the assumption of obligations and liabilities under Chapter 80.08 RCW.
 - (d) With respect to the ratemaking treatment of affiliate transactions, PSE and Puget Holdings will comply with the Commission's then-existing practice; provided, however, that nothing in this Commitment limits PSE from also proposing a different ratemaking treatment for the Commission's consideration or limit the positions any other party may take with respect to ratemaking treatment.
 - (e) PSE will bear the burden of proof in any general rate case that any corporate and affiliate cost allocation methodology it proposes is reasonable for ratemaking purposes. Neither PSE nor Puget Holdings will contest the Commission's authority to disallow, for retail ratemaking purposes in a general rate case, unsupported, unreasonable, or misallocated costs from nonregulated or affiliate businesses to PSE's regulated utility operations.
30. PSE and Puget Holdings acknowledge that all existing orders issued by the Commission with respect to PSE or its predecessors, Puget Sound Power & Light Company and Washington Natural Gas Company, will remain in effect, and are not modified or otherwise affected by the Proposed Transaction or any order of the Commission approving the Proposed Transaction. Notwithstanding the immediately preceding sentence, the Commission's *Order Accepting Stipulation and Approving Corporate Reorganization to Create a Holding Company, With Conditions*, dated August 15, 2000, in Docket No. UE-991779 will be superseded and replaced in its entirety by any order of the Commission approving the Proposed Transaction.
31. Nothing in these Commitments shall be interpreted as a waiver of Puget Holdings' or PSE's rights to request confidential treatment for information that is the subject of any of

the Commitments.

32. Unless otherwise specified by Commission regulations or applicable statute, the Commission shall give Puget Holdings and PSE written notification of any violation by either company of the Commitments made in this application. If such failure is corrected within thirty (30) calendar days, the Commission shall take no action. Puget Holdings or PSE may request, for cause, an extension of these time periods. If Puget Holdings or PSE fails to correct such violations within the specified time frames, as modified by any Commission-approved extensions, the Commission may seek to assess penalties for violation of a Commission order, against either Puget Holdings or PSE, but not both, as allowed under state laws and regulations.
33. By June 1, 2009 and each June 1 thereafter through June 1, 2013, PSE will file a report with the Commission regarding the implementation of the Commitments. The report will, at a minimum, provide a description of the performance of each of the Commitments that have quantifiable results. If any of the Commitments is not being met, relative to the specific terms of the Commitment, the report shall provide proposed corrective measures and target dates for completion of such measures. PSE will make publicly available at the Commission non-confidential portions of the report.
34. Puget Holdings and PSE acknowledge that the Commitments are being made by Puget Holdings and PSE and are binding only upon them (and their affiliates where noted). Puget Holdings and PSE are not requesting in this proceeding a determination of the prudence, just and reasonable character, rate or ratemaking treatment, or public interest of the investments, expenditures or actions referenced in the Commitments, and the Parties in appropriate proceedings may take such positions regarding the prudence, just and reasonable character, rate or ratemaking treatment, or public interest of the investments, expenditures or actions as they deem appropriate.