EXHIBIT NO. ___(EMM-14HC)
DOCKET NO. UE-06___/UG-06___
2006 PSE GENERAL RATE CASE
WITNESS: ERIC M. MARKELL

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-06____** **Docket No. UG-06____**

THIRTEENTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF ERIC M. MARKELL ON BEHALF OF PUGET SOUND ENERGY, INC.

REDACTED VERSION

FEBRUARY 15, 2006

PUGET SOUND ENERGY, INC.

MINUTES OF THE BOARD OF DIRECTORS' MEETING SEPTEMBER 13, 2005

Pursuant to notice duly given on August 22, 2005 (a copy of which is filed with these minutes), a meeting of the Board of Directors of Puget Sound Energy was held at Marcus Whitman Hotel in Walla Walla, Washington beginning at 7:30 a.m. on Tuesday, September 13, 2005.

The following Directors were present:

W. S. Ayer
C. W. Bingham
P. J. Campbell
C. W. Cole
R. L. Dryden
S. E. Frank
T. Moriguchi
K. P. Mortimer
S. G. Narodick
S. P. Reynolds

Puget Energy and Puget Sound Energy (PSE) Management
J. W. Eldredge, Vice President, Corporate Secretary and Controller
D. E. Gaines, Vice President Finance and Treasurer
J. L. O'Connor, Vice President and General Counsel
B. A. Valdman, Senior Vice President Finance and CFO

PSE Management
W. J. Elsea, Energy Resource Financial Analysis Manager
R. Garratt, Director of Resource Acquisition
K. J. Harris, Vice President Regulatory and Government Affairs
T. R. Hiester, Manager Wind Assets
E. M. Markell, Senior Vice President Energy Resources
W. L. Robinett, Director Resource Planning

being more than a quorum.

Mr. Reynolds presided and Mr. Eldredge kept the records of the meeting.

CALL MEETING TO ORDER

Mr. Reynolds called the meeting to order and explained the purpose of the meeting was for the PSE Board to consider the acquisition of the Wild Horse wind powered electric generating facility.

APPROVAL OF PSE PURCHASE OF WILD HORSE WIND POWER FACILITY

Mr. Reynolds then asked Mr. Markell to give the Board an update on PSE energy resource acquisition matters. Mr. Markell then reviewed and discussed with the Board a report he had prepared on the Wild Horse project. A copy of Mr. Markell's report was furnished the Board in advance of this meeting and is filed with the minutes.

After full discussion, on motion duly made and seconded, the following was unanimously approved,

> WHEREAS, this Board of Directors of Puget Sound Energy, Inc. (the "Company") has determined that it is in the best interests of the Company, its customers, shareholders and other stakeholders to add energy resources into the Company's energy resource portfolio consistent with the Company's 2003 and 2005 Least Cost Plans;
>
> WHEREAS, the Company's review, analyses and evaluation of bids and responses to its Wind Resource and All-Source Requests for Proposal have determined a wind turbine project being developed by Horizon Wind Energy LLC ("Horizon"), formerly known as Zilkha Renewable Energy, Inc. and an affiliate of The Goldman Sachs Group, Inc. ("Goldman"), to be a least cost resource for additional energy resource generation;
>
> WHEREAS, the Company has regularly updated its analyses and has continued to evaluate and update the merits of the Horizon project and competing resource proposals;
>
> WHEREAS, Horizon's project consists of a 228 MW wind powered electric generation facility to be situated on approximately 9,240 acres of land located in Kittitas County, Washington and to consist of 127 1.8 MW wind turbine generators (each, a "WTG") and associated electrical

collection systems, a site substation, interconnecting transmission line, and other interconnection facilities (collectively, the "Wild Horse Project");

WHEREAS, the Company's management has negotiated with Horizon and with Vestas-American Wind Technology, Inc., the WTG supplier, among other counter-parties, the terms and conditions of a series of transactions, including the purchase of the Wild Horse Project assets, the purchase of the WTGs, the terms of necessary land purchase agreements, leases and easements, the construction of the wind farm facility, and the ongoing operation and maintenance of the wind farm, pursuant to the principal definitive transaction documents (the "Principal Transaction Documents") described below:

1. Pursuant to a Membership Interests and Notes Purchase Agreement ("MIPA"), the Company would acquire from two wholly owned affiliates of Horizon all outstanding membership interests and would assume all outstanding liabilities of Wind Ridge Power Partners, LLC ("Wind Ridge"), a single-purpose entity which owns all land leases and other real property rights, final permits and other development assets relating to the Wild Horse Project as of the closing date (estimated to be approximately September 15, 2005). The purchase price under the MIPA is [redacted] of which [redacted] is payable at closing and [redacted] on substantial completion of the Project. In addition under the MIPA, the Company agrees to pay Horizon over the next twenty years a royalty payment, based on and contingent upon the completed Project's energy production, of [redacted] per megawatt hour of energy produced. PSE is not obligated to close until after receipt by Wind Ridge of all permits, consents, authorizations and approvals and satisfaction or waiver of conditions precedent specified in the MIPA. As security for its obligations under the MIPA, Horizon will provide PSE with the guaranty of its parent, Goldman. Immediately upon closing the acquisition of Wind Ridge, PSE will dissolve Wind Ridge and merge it into Company and all of its assets and liabilities will become those of the Company.

TEXT IN BOX IS HIGHLY CONFIDENTIAL

2. Also on the closing date, the Company would exercise an option to buy 6600 acres of private land upon which a majority of the Project will be located (the "Private Land"). Such option, an asset of Wind Ridge to be acquired at closing, will enable PSE to purchase the Private Land for a total of [redacted] payable at closing. All other necessary real property rights for the construction and operation of the Project, including a lease with the Washington State Department of Natural Resources and easements obtained from various private landowners, will inure to the Company upon its acquisition of Wind Ridge.

3. Immediately following closing of the acquisition of Wind Ridge and its dissolution into the Company, Horizon would perform, or cause to be performed, all engineering, procurement and construction relating to the balance of plant for the Wild Horse Project pursuant to a fixed-price Balance of

Plant, Engineering, Procurement and Construction Agreement (the "BOP Agreement"). The contract price to Horizon for performing the work (which consists of the civil and electrical engineering of the Project such as the roads, WTG foundations, the electrical collection system, the project substation, and the project interconnecting transmission line) and performing its duties under the BOP is fixed at [redacted] million, payable by PSE as Horizon reaches certain scheduled milestones on the construction schedule.

TEXT IN BOX IS HIGH CONFIDENTIAL

4. At closing, PSE also will contract with Vestas-American Wind Technology Inc. ("Vestas-American") for the purchase of the 127 WTGs, and for the delivery, erection, installation, testing and commissioning of the WTGs pursuant to a Turbine Supply and Installation Agreement (the "TSIA"). The contract price under the TSIA is [redacted] million, payable by PSE pursuant to a payment schedule tied to the manufacturing, shipment, mechanical completion, electrical completion and final completion of the Project. Because the majority of the purchase price of the WTGs is in euros, within 10 days of closing PSE will enter into a forward hedge contract with a major bank to fix the euro-based amount of the contract in dollars. Consequently all payments to Vestas over the course of the contract will be made in dollars regardless of subsequent exchange rate movements. A guaranty of the obligations of Vestas-American under the TSIA will be provided by its parent, Vestas Wind Systems A/S of Denmark.

5. Once the WTGs are placed into service, Vestas-American would provide a power curve warranty, a five-year availability warranty and a five-year mechanical warranty pursuant to a Warranty Agreement (the "Warranty") and would provide five years of maintenance, operation, spare parts and service of the WTGs under a separate Service and Maintenance Agreement ("Service Agreement") between PSE and Vestas-American.

WHEREAS, the Principal Transaction Documents are described more fully in a memorandum provided to the Board of Directors in advance of this meeting and filed with the minutes (the "Wind Ridge Wild Horse Proposal"); and

WHEREAS, the officers now seek Board approval of and authority to enter into the Principal Transaction Documents and all other contracts and actions described in the Wind Ridge Wild Horse Proposal and relating to the acquisition, construction and operation of the Wild Horse Project;

IT IS, THEREFORE

RESOLVED, that the Board, after full consideration and due deliberation, deems it advisable and in the best interests of the Company, its customers, shareholders and other stakeholders to approve the acquisition, construction and operation of the Wild Horse Project pursuant to the Principal Transaction Documents, and any related agreements and the other transactions described in the Wind Ridge Wild Horse Proposal; and be it further

RESOLVED, that the Board hereby authorizes the Company's Chief Financial Officer, its Senior Vice President Energy Resources, its General Counsel, and any such other officers they deem appropriate (the "Authorized Officers") to execute the Principal Transaction Documents and all other agreements or contracts described in the Wind Ridge Wild Horse Proposal, which may include such further additions, amendments or changes to the terms thereof as are deemed necessary and appropriate by the Authorized Officers; and

RESOLVED, that the Authorized Officers are further authorized to waive any conditions precedent to the closing of any of the Principal Transaction Documents in order to facilitate the closing of such agreement, provided that each of the Authorized Officers agree to such waiver and deem it to be in the best interest of the Company.

GENERAL AUTHORITY

RESOLVED, FURTHER, that any and all actions taken by the officers of the Company, or any of them, as deemed by such officers to be necessary or advisable to effectuate the transactions contemplated by the foregoing resolutions, including the filing of appropriate documentation with the WUTC, whether prior to or subsequent to this action by this Board of Directors, are hereby authorized, approved and ratified, and the taking of any and all such actions and the performance of any and all such things in connection with the foregoing shall conclusively establish such officers' authority therefor from the Company and the approval and ratification thereof by this Board of Directors.

ADJOURNMENT

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

RESOLVED - That this meeting be and hereby is adjourned.

A true record.

ATTEST:

James W. Eldredge
Secretary

Wild Horse Wind Project

A PSE Renewable Energy Project

Board of Directors' Meeting

September 1, 2005

PUGET SOUND ENERGY
pse.com

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Board of Directors' Meeting

Wild Horse Wind Project

A PSE Renewable Project

Eric M. Markell
Senior Vice-President, Energy Resources

September 13, 2005

PUGET SOUND ENERGY

Project Description

Developer:

- Horizon Wind Energy LLC
  (a Goldman Sachs subsidiary – formally Zilkha)

Nameplate Capacity:

- 229 MW
- capacity factor

Wind Turbine Generators:

- 127 - Vestas V80 1.8 MW

Capital Cost:

- ≈$383 million "all in"

REDACTED VERSION

Energy Cost:

- ≈ per MWh (20-yr levelized)
  - Assumes no Renewable Energy Credits (REC) revenue

Location:

- Kittitas County, WA

Land Control:

- ≈6,600 acres (Owned)
- ≈2,640 acres (Leased)

Key Dates:

Letter of Intent	Sept 01, 2004
EFSEC Site Certificate	July 26, 2005
Board Consideration	Sept 13, 2005
Closing / Notice to Proceed	Sept 30, 2005
Commercial Operations Date	Dec 01, 2006

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Commercial Terms

Purchase of AMLC Property
- [redacted] at closing

Acquisition of Development Entity (MIPA):
- [redacted] total
- [redacted] payable at closing
- [redacted] at substantial completion
- Goldman Sachs Parent Guarantee

Turbine Supply & Installation Agreement[1] (TSIA):
- [redacted]
- 15% down payment due at closing
- Supply and install, and commission WTGs
- Vestas Parent Guarantee

Balance of Plant (BOP) EPC Contract:
- [redacted] Firm Price
- Horizon to engage General Contractor: RES Construction
- Goldman Sachs Parent Guarantee
- Performance Bond

Guarantees:
- Turbine performance and availability (Vestas)
- On-line date, delay LDs (Horizon and Vestas)

REDACTED VERSION

Notes:
1. Approximately 70% of the Vestas cost is denominated in Euro, which will be fixed in US$ at closing.
2. 1 US dollar (US$) = 0.7920 Euro (€); estimated forward exchange rate

Wild Horse Wind Project - Capital Expenditures	Costs ($000s)
PSE External Due Diligence & Development Costs	[redacted]
PSE Transaction Costs (Legal)	
PSE Transaction Costs (Legal)	
Zilkha Reimbursement for PSE Transaction Costs	
Development Assets Purchase & Closing Costs	
Membership Interest Purchase Agreement (MIPA)	
Title Reinsurance	
Real Estate, Leases, & Property Taxes	
Purchase of AMLC Property	
Construction Payments for Leases	
Property Taxes During Construction	
Insurance and Performance & Payment Bond	
Builders All Risk Insurance	
Turbine Supply and Installation Agreement (TSIA)	
Balance of Plant (BOP) EPC	
Interconnection and Transmission Upgrades	
IP Line Upgrade & Communications	
Wind Ridge Substation	
IP Line Project Contingency	
PSE Internal Labor & Expenses	
Owner's Engineer / Inspections	
Start-Up	
O&M Mobilization	
Start-up Revenue	
PSE Construction Contingency	
AFUDC	
Total Project	83,411,395

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Operations, Maintenance and Warranties

Turbine Generator Service:

- Vestas for first 5 years
- [redacted] per turbine per year, escalating at CPI + sales tax

Vestas Warranties:

- Power curve
- [redacted] availability for 5 years
- Mechanical for 5 years

O&M Expenditures ($000s)	2006	2011	2016	2021	2024
Plant Operations & Maintenance					
Vestas Service Agreement & Warranty	[redacted]				
PSE Labor					
Consumables					
Parts Replacement					
Site, Tool & Vehicle Expenses					
Outside Services					
Total Plant O&M					
Other Operating Expenses					
Property Tax					
Insurance					
Landowner & Caurus Power Royalty					
Production Payment					
Site, Office, & Asset Management					
Outside Services					
Transmission & Integration					
Operating Expense Contingency					
Total Other Operating Expenses					
Total Operating Expenses	**15,483**	**16,461**	**16,807**	**18,877**	**20,727**

Balance of Plant O&M:

- PSE

Site Management:

- PSE

REDACTED VERSION

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Commercial Challenges

Competitive Challenges

- $10 natural gas creating value chain pricing headroom
- WA wind sites largely under option
- Renewable Portfolio Standards (RPS)
- California demand for renewables is growing rapidly

Production Tax Credits (PTC)

- Current PTC program expires Dec 31, 2007
- Future extensions highly uncertain

Turbine Price & Supply

- Turbine price escalation
  - Market demand
  - Euro exchange rate
  - Commodity cost increases
- Limited North American turbine allocation
  - Global market provides more attractive margins to turbine suppliers
- 2006 turbine supply is sold out; 2007 is limited
- Terms & Conditions
  - Aggressive supplier terms
- Turbine price/supply survey indicated similar commercial conditions for all major manufactures affirming decision to utilize Vestas WTGs

Vestas Open Issues

- Equipment Price (due to currency)
- Payment schedule
- Title transfer date

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Summary of Findings and Next Steps

Findings

- Selected as short listed project and portfolio resource from 2004 RFP evaluation process
- Economic resource
  - Least-cost alternative on levelized-cost basis with Production Tax Credits (PTC)
  - Comparable to new natural gas-fired resource without PTC
- Portfolio benefit of over $50,000,000 compared to existing PSE portfolio plus generic resources
- Project ranked high on all qualitative evaluation criteria
- Most viable opportunities for near-term project

Findings (cont'd)

- Excellent wind resource
- Experienced wind developer with proven track record
- Vestas - proven technology from world's leading wind turbine supplier
- Synergy of RES providing construction
- Local community support

Next Steps

- Finalize negotiations and documentation
- Satisfy Closing conditions
- Start construction in Q4

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Wild Horse Wind Project

Presentation Appendix

Board of Directors' Meeting

September 13, 2005

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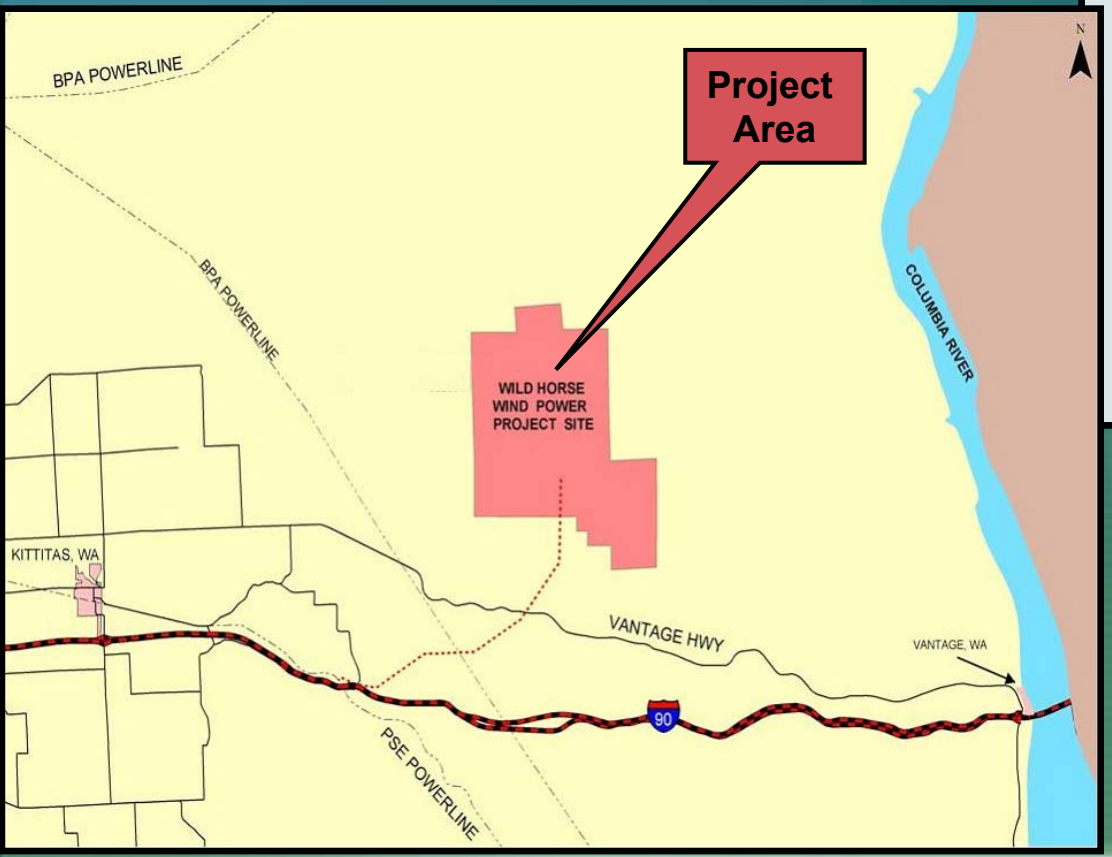
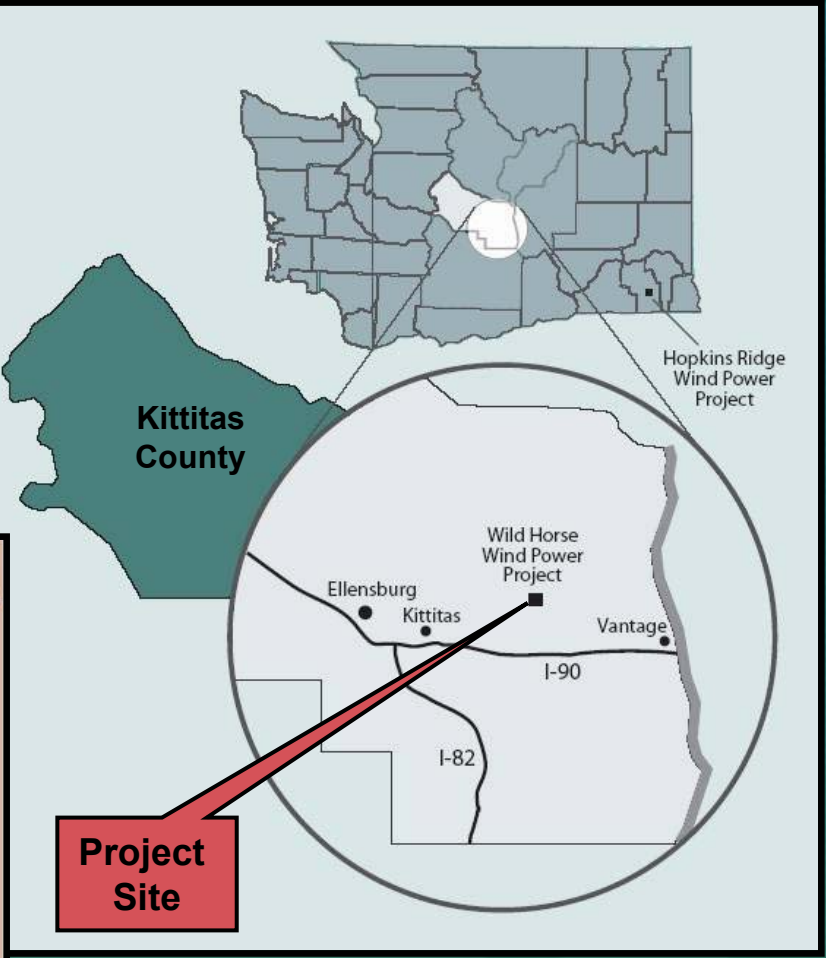
Site Location

- ≈11 miles east of Ellensburg, near Whisky Dick Mountain
- 165-acre project footprint
- Shrub steppe habitat - primarily grazing land
- ≈8-mile 230kV transmission line to PSE IP Line at new Wind Ridge Substation





- Private land to be purchased by PSE
  - ≈5,320 acres (84 WTGs)
  - ≈1,280 acres (site access)
- State land to be leased by PSE
  - DNR ≈2,560 acres (34 WTGs)
  - WDFW ≈80 acres (9 WTGs)
- Four (4) transmission easements

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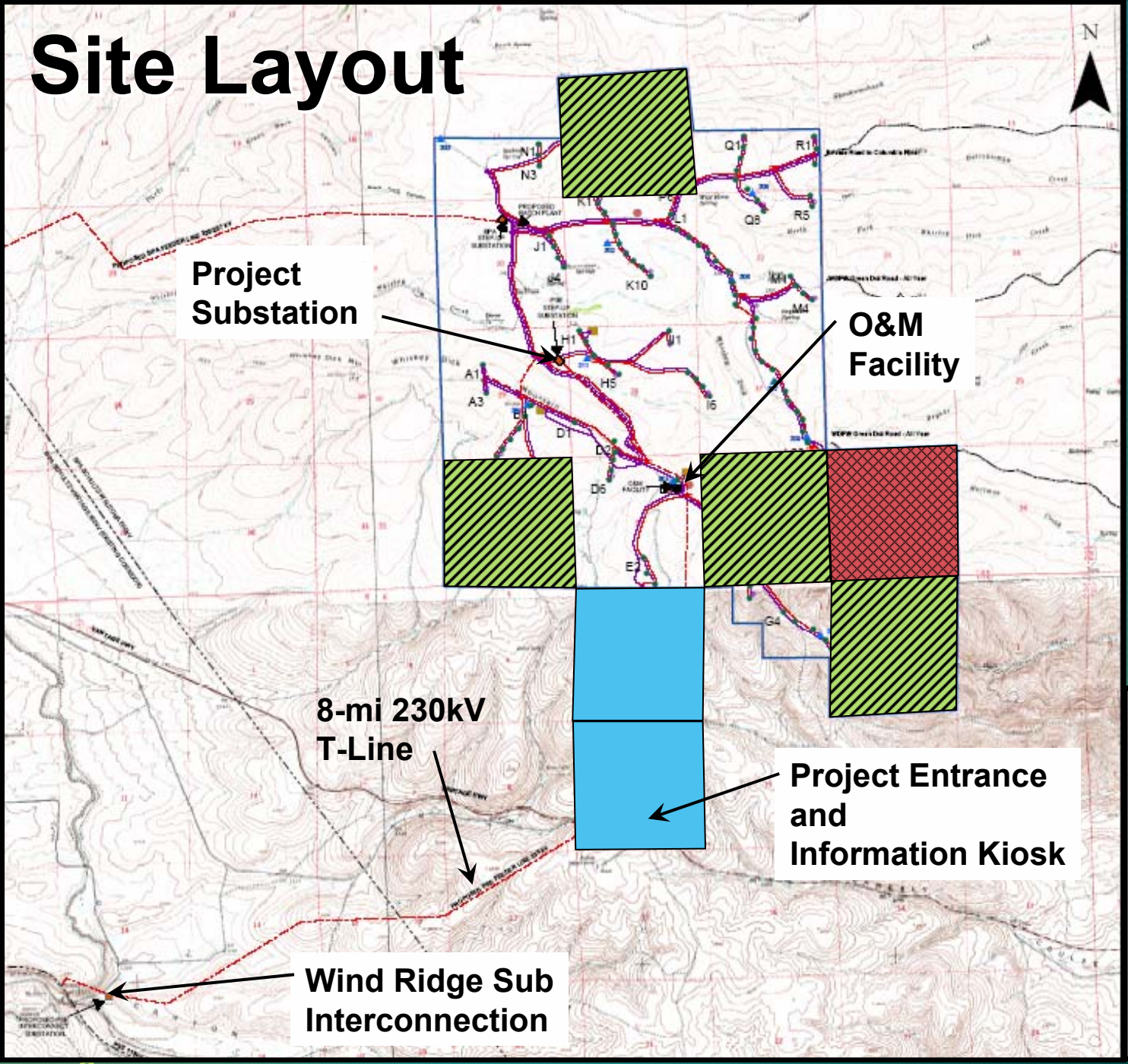
Site Layout



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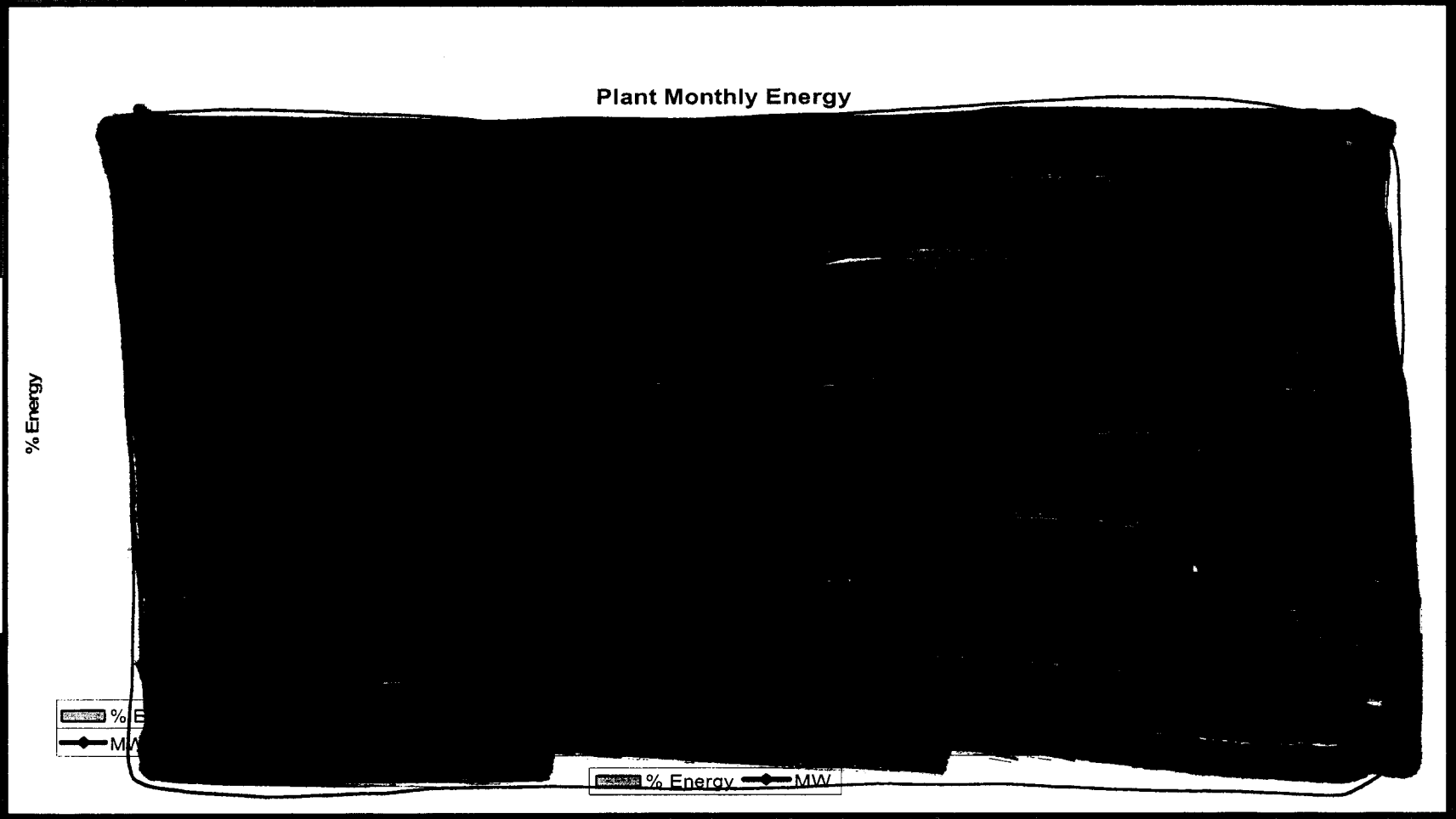
Wind Energy Resource



- 229 MW nameplate capacity
- capacity factor
- aMW January average energy
- aMW annual average energy
- aMW during winter months

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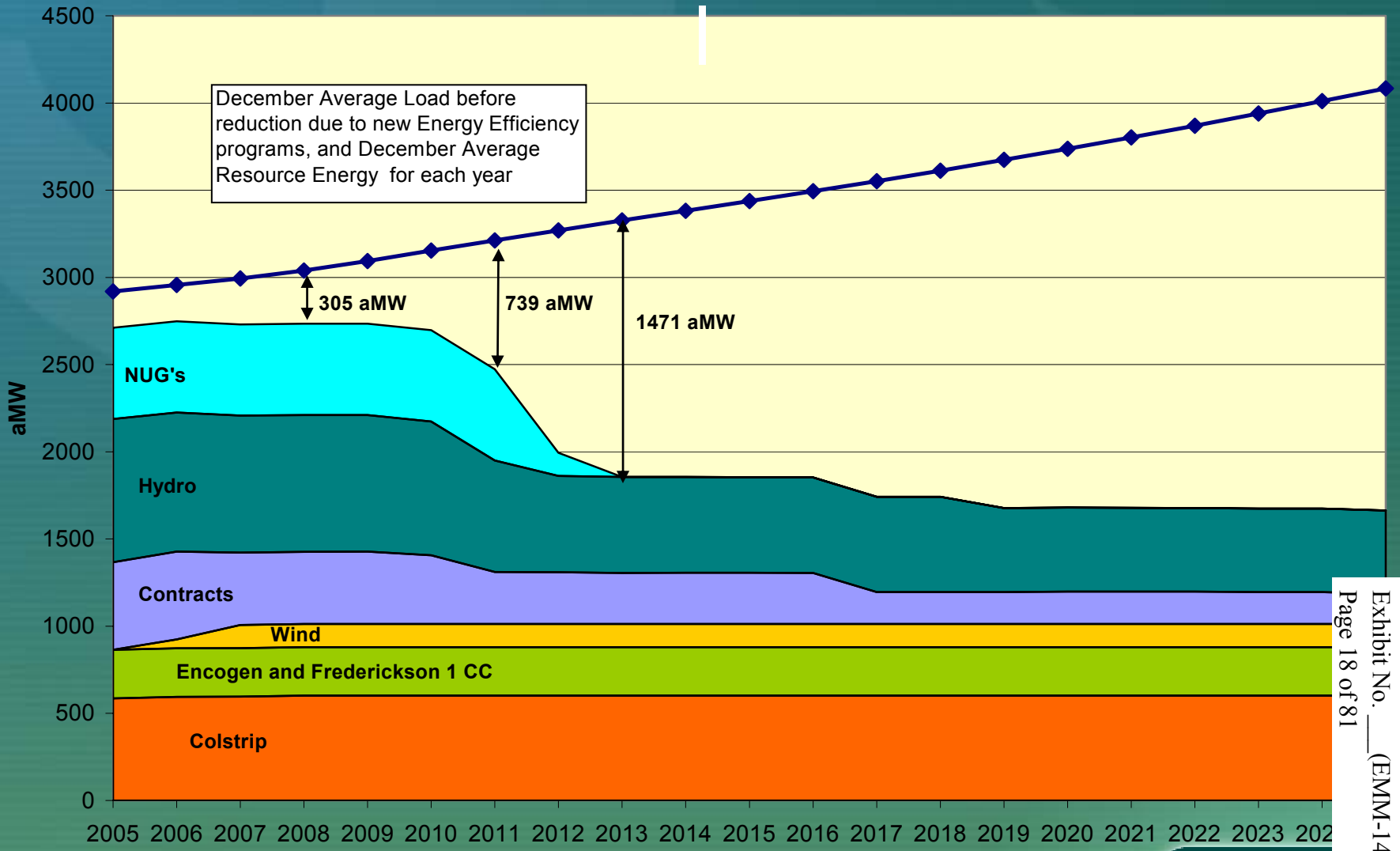
2005 LCP

2006-2025 Load-Resource Balance



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Fits Least Cost Plan Energy Need

2008 Energy Need[1]	373 aMW[2]
Wild Horse Wind Project	**aMW**
Remaining Need	aMW

LEAST COST PLAN

APRIL 2005

Notes:

1. Need is based on the "B2" planning standard energy need as defined in Least Cost Plan.
2. The 2008 Energy Need as projected by the 2005 LCP is 305 MW. The 2005 LCP incorporates both the Hopkins Ridge and Wild Horse Wind Projects into its need projection; therefore, the need was adjusted for Wild Horse for illustrative purposes.
3. All numbers are December average energy; Wild Horse will provide aMW of average winter energy.

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Portfolio Analysis

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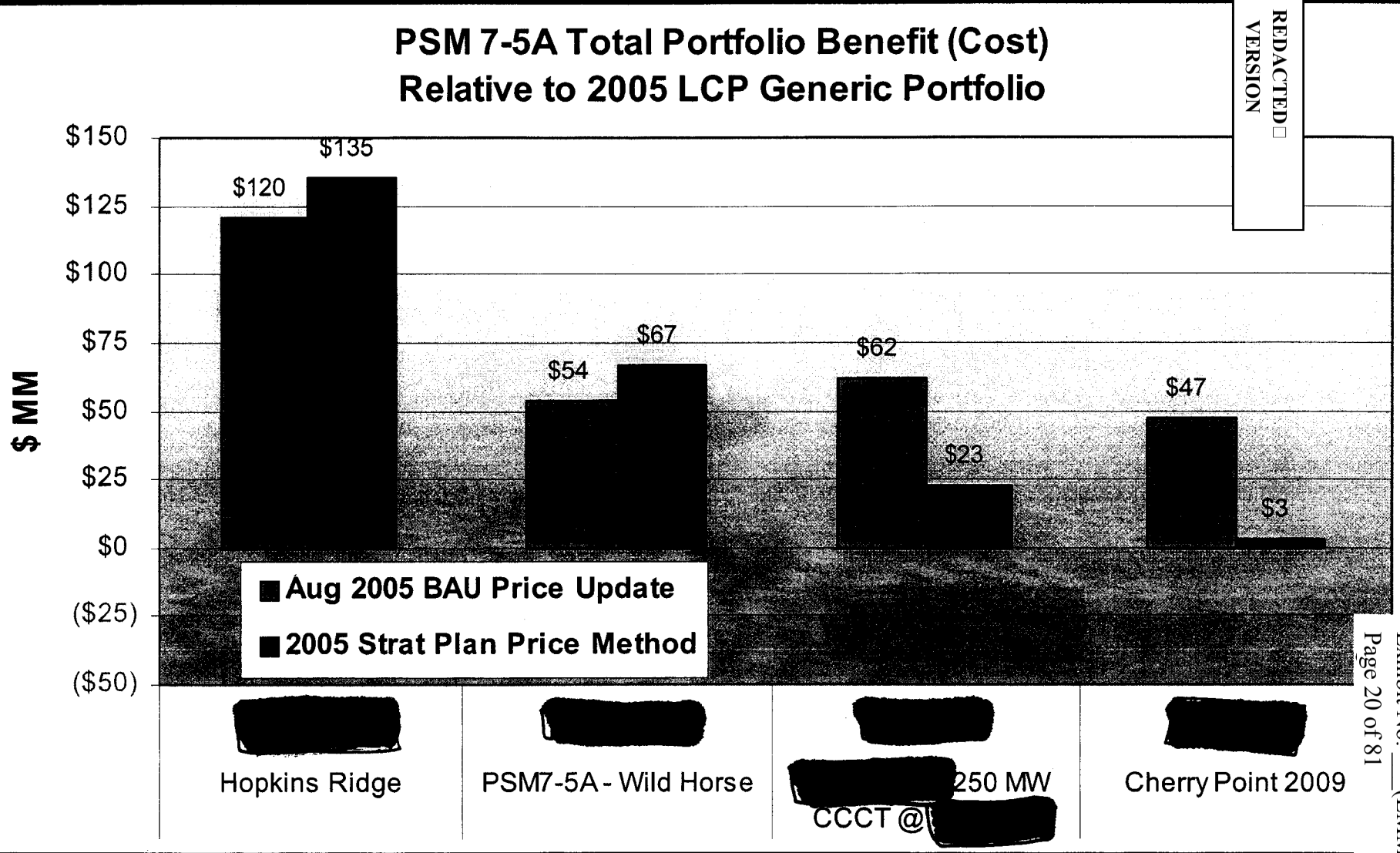

BAU – "Business As Usual" scenario from 2005 Least Cost Plan.

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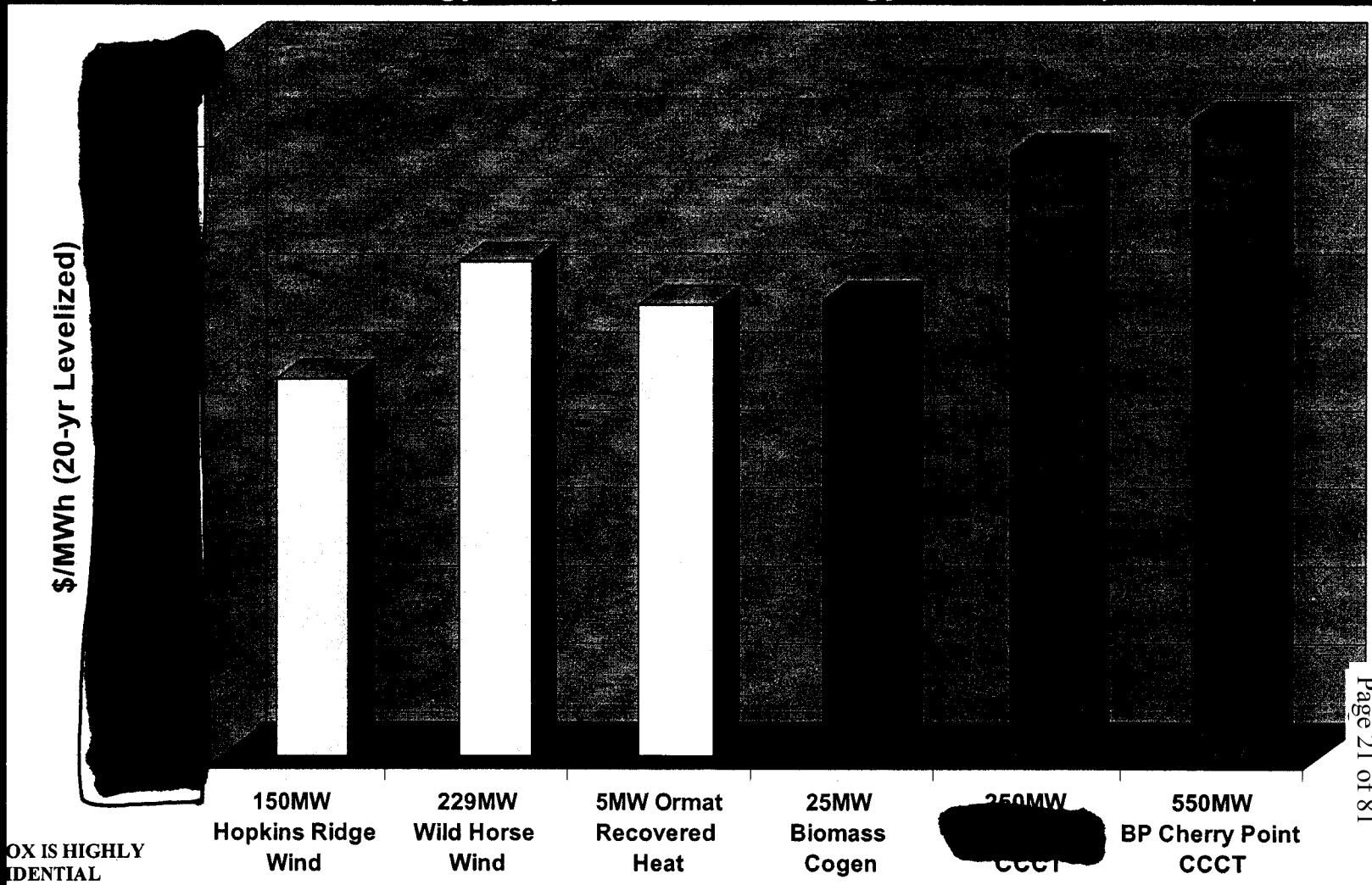
Resource Cost Comparison

Resource and Technology 20-yr Levelized Energy Cost Comparison ($/MWh)

REDACTED VERSION



OX IS HIGHLY
IDENTIAL

Notes:

1. Preliminary cost data from proposal offering. Costs have not been fully vetted nor have serious negotiations begun: cost likely to increase.

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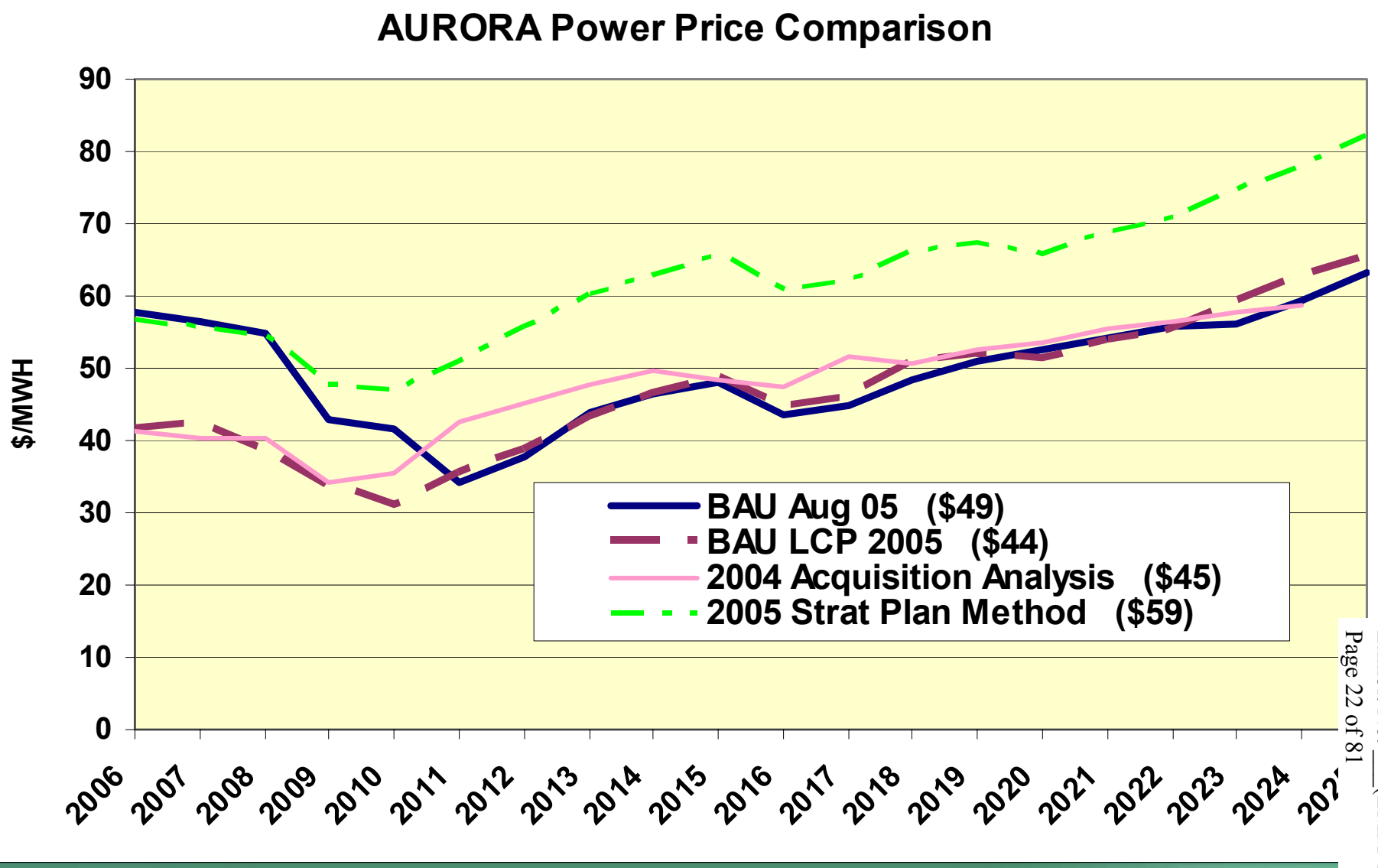
Power Price Comparison



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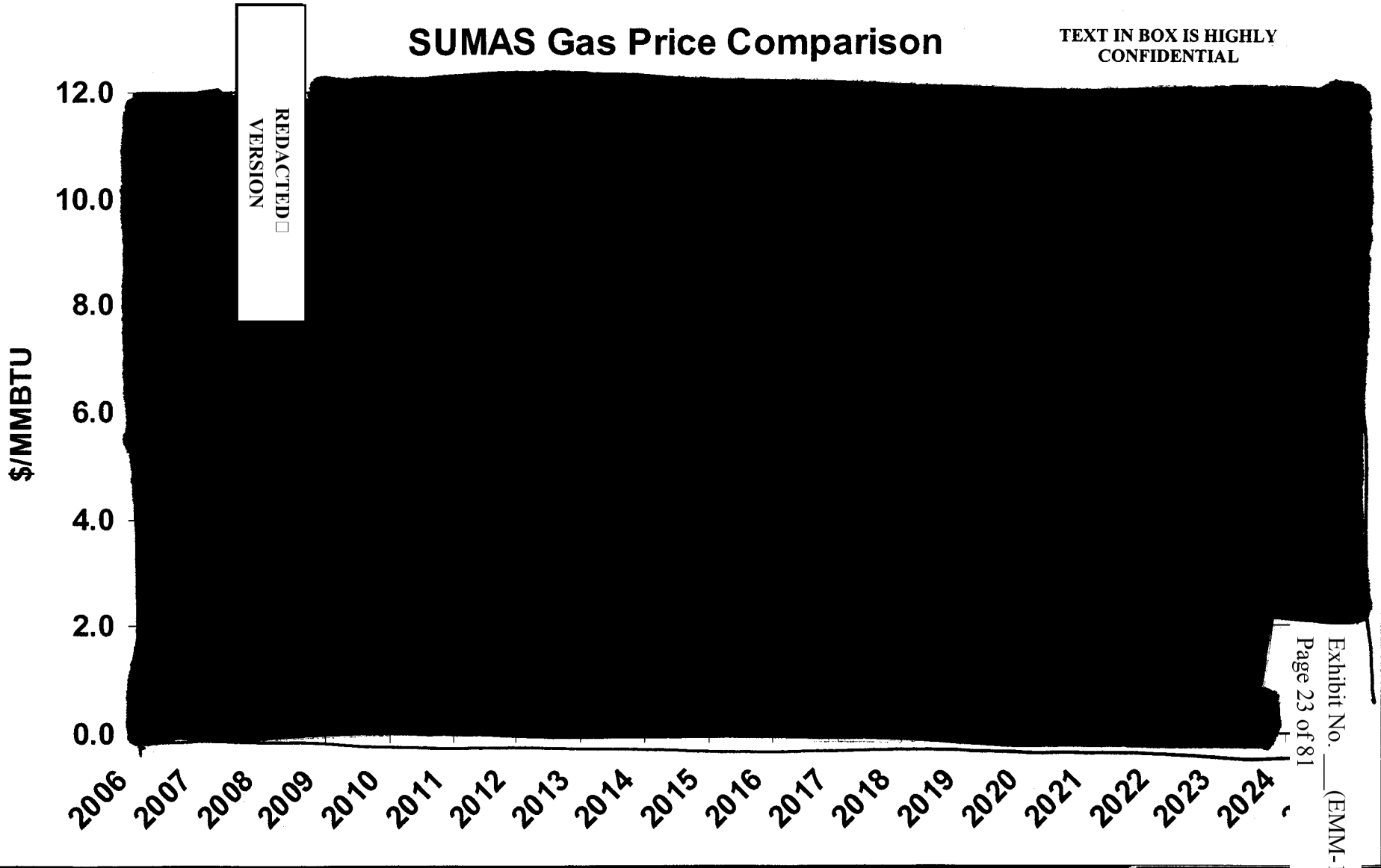
Gas Price Comparison



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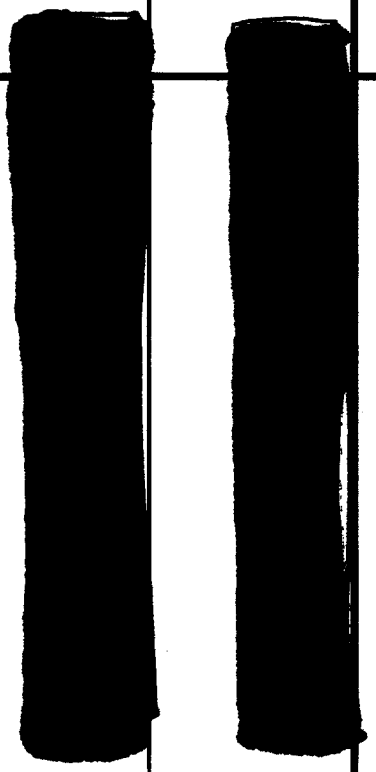
Capital Cost Comparison

Wild Horse costs as compared to Hopkins Ridge

WILD HORSE (WH) vs. HOPKINS RIDGE (HR)	WH ($/kW)	HR ($/kW)	Delta ($/kW)	Delta (%)
TOTAL PROJECT			337	25%
Turbine Supply Installation & Erection			245	26%
Balance of Plant (BOP) EPC			126	79%
AFUDC			24	52%
Real Estate			30	893%
Other			(1)	-35%
Project Contingency			(38)	-46%
Transmission Interconnection			(43)	-65%



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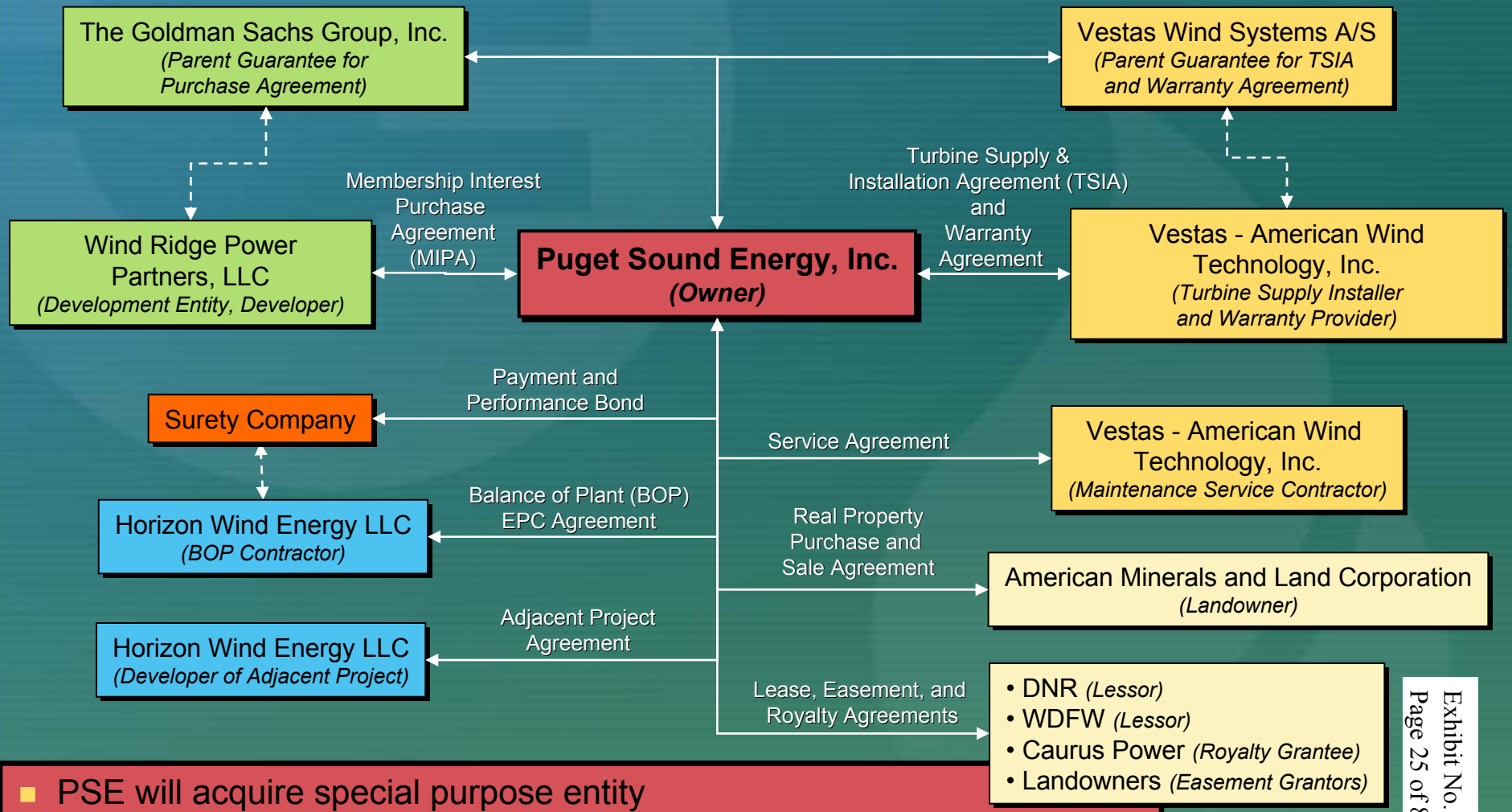
"Other" includes:

- PSE Development Costs
- PSE Labor & Expense
- Owner's Engineer
- Transaction Costs
- Asset Purchase Costs
- Insurance
- Start-up

Entity Transaction Structure



- PSE will acquire special purpose entity
- Upon closing, PSE will dissolve entity and consolidate assets
- Vestas: Turbine Supply and Installation Agreement (TSIA)
- Horizon: Balance of Plant (BOP) EPC Agreement

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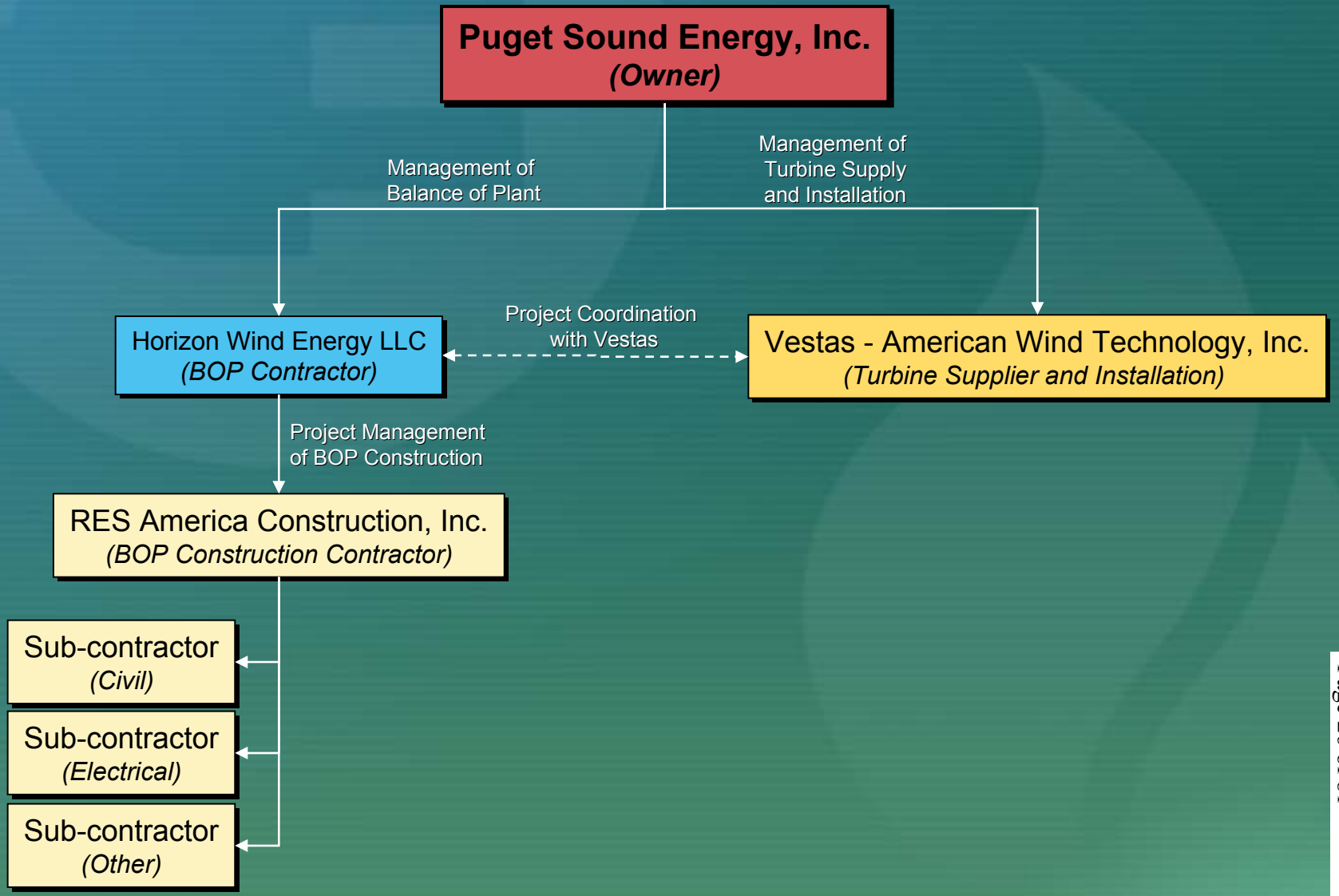
Construction Management



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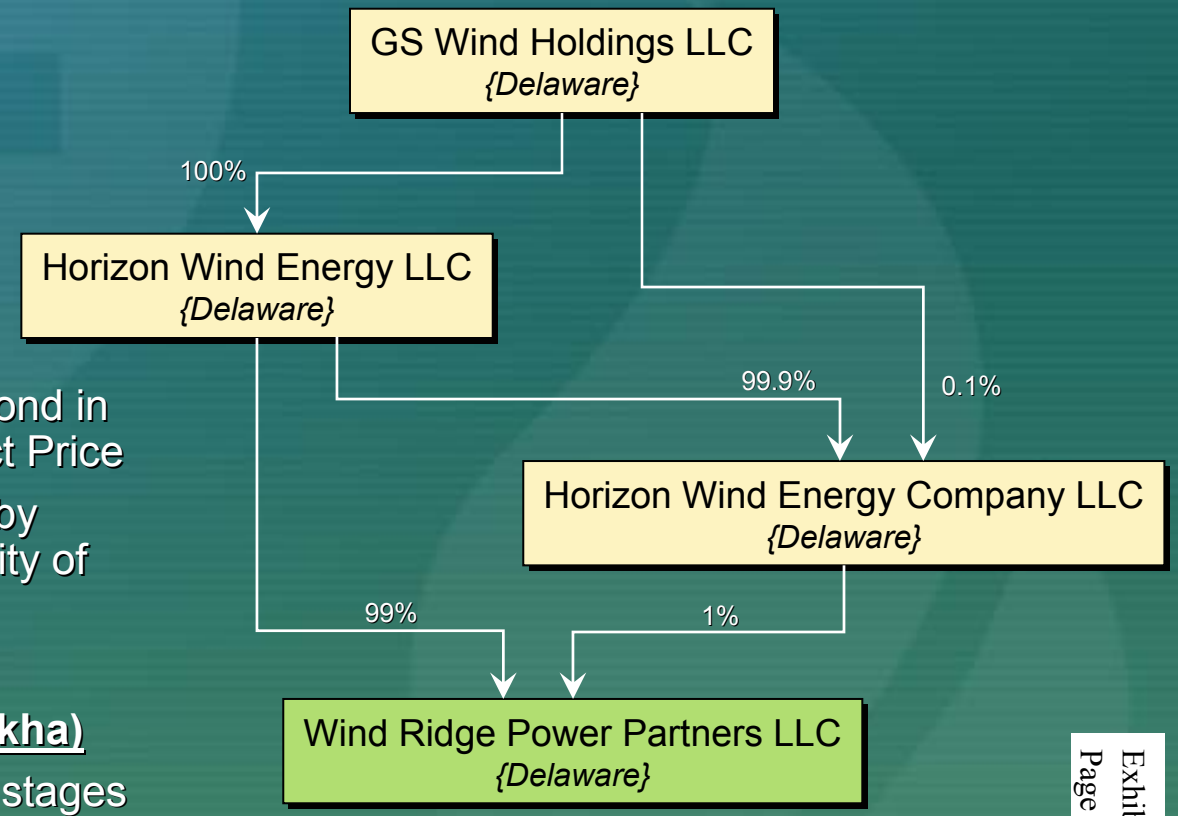
Horizon Corporate Structure

Horizon Wind Energy
Formerly Zilkha Renewable Energy

One of the nation's leading wind energy development companies



Credit Support

- Performance and Payment Bond in value of 20% of BOP Contract Price
- Goldman/Horizon guarantee by entity with Shareholder's Equity of more than $200,000,000

Horizon Experience (formerly Zilkha)

- 4,000+ megawatts in various stages of development
- 200+ megawatts operating
- 350+ megawatts under construction
- 350+ megawatts to begin construction this year

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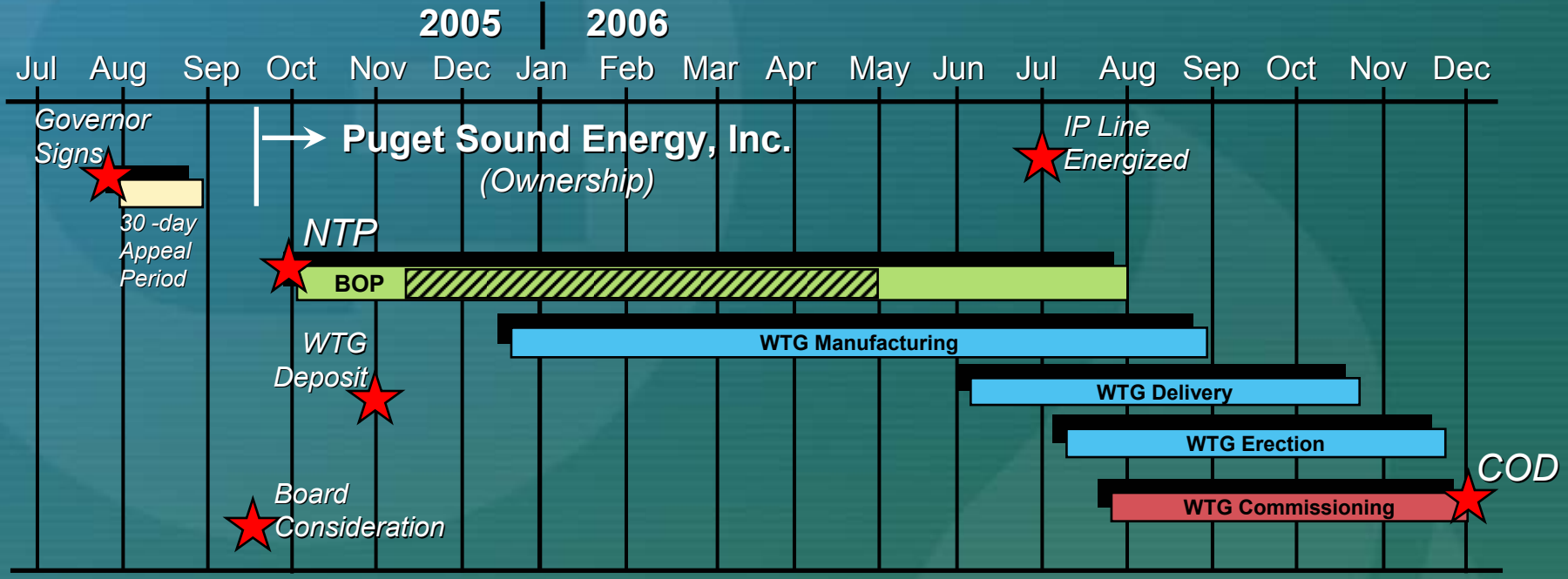
Project Schedule



Non-binding Letter of Intent (LOI)	Sept 01, 2004
Governor Signs Site Certification	July 26, 2005
Expiration of EFSEC appeal period	Aug 26, 2005
PSE Board Consideration	Sept 13, 2005
Definitive Agreements	Sept 15, 2005
Closing / Notice to Proceed	Sept 30, 2005
1st Turbine Delivery	July 01, 2006
IP Line Energized	July 01, 2006
Commercial Operations Date (COD)	Dec 01, 2006

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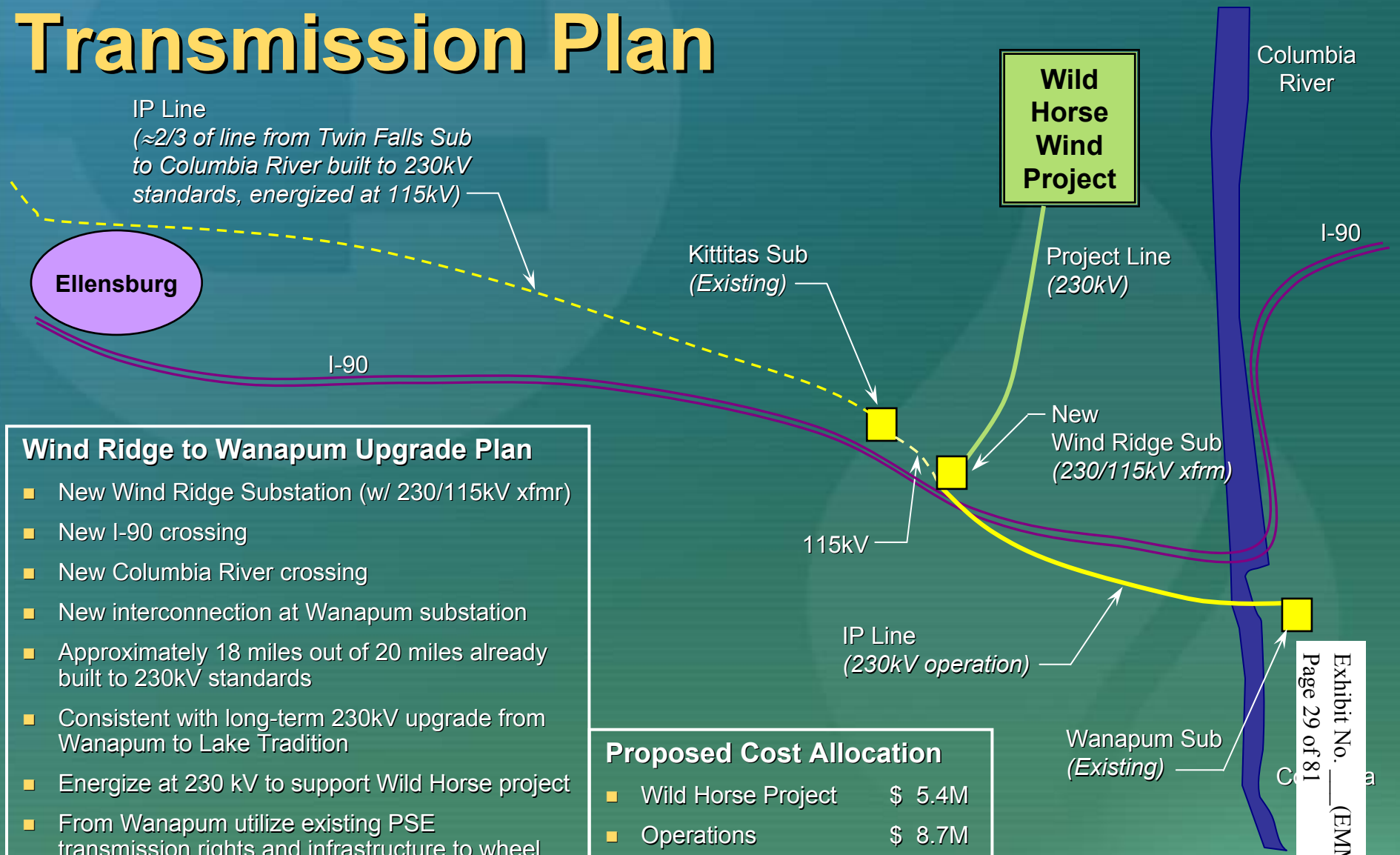
Interconnection and Transmission Plan



Wind Ridge to Wanapum Upgrade Plan

- New Wind Ridge Substation (w/ 230/115kV xfmr)
- New I-90 crossing
- New Columbia River crossing
- New interconnection at Wanapum substation
- Approximately 18 miles out of 20 miles already built to 230kV standards
- Consistent with long-term 230kV upgrade from Wanapum to Lake Tradition
- Energize at 230 kV to support Wild Horse project
- From Wanapum utilize existing PSE transmission rights and infrastructure to wheel power to PSE load center

Proposed Cost Allocation

Wild Horse Project	$ 5.4M
Operations	$ 8.7M
Communications	$ 1.7M

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Wind Integration Strategy

- Short-term operational impact is the minute-to-minute system balancing
- PSE will add real-time staff to manage both wind power and load variability
- Within the hours balancing managed with Mid-C hydro (1,325 MW capacity)
  - Wild Horse requires an average of 135 MW of Mid-C capacity
  - Mid-C can provide required short-term flexibility 92% of the time
  - Estimated incremental operational costs ≈ MWh (≈ per year)
- Other potential sources of system flexibility
  - Baker River hydro, Colstrip and gas turbines
  - Purchase Operating Reserves and/or system control flexibility from third party
  - Spill wind generation

Notes:
1. A 50% reduction in Mid-C capacity in years 2011–2012 reduces flexibility to 69% of time and increases operational costs to ≈ per MWh (≈ per year)
2. Re-negotiation of hydro contracts
3. Improved wind forecasting accuracy decreases operational costs and increases Mid-C short-term flexibility

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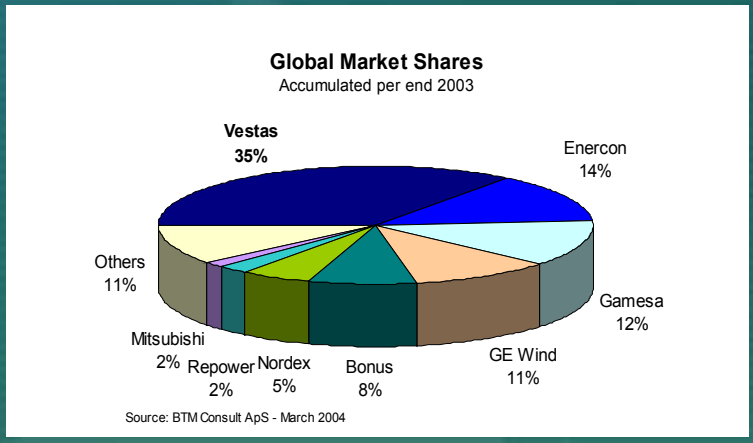
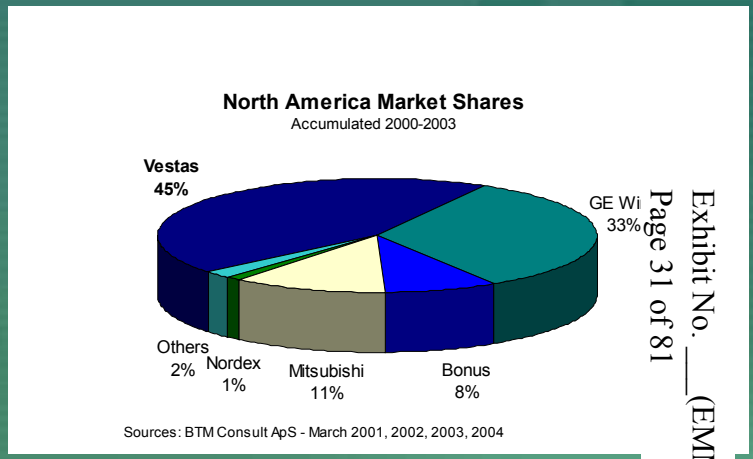
Vestas Wind Systems A/S

Vestas is the world's largest supplier of wind power systems

- 2,784 MW 2004 total installed
- €2.564 Billion 2004 sales
- 17,000+ MW installed worldwide
- Active in 40 countries
- Vestas has installed 35% of global wind turbine capacity
- 30 manufacturing facilities in 10 countries world wide
- 9,300 employees worldwide
- 450 R&D engineers
- 200+ personnel in North America
- 26 service locations in North America
- 24/7 Monitoring Center
- Technical Specialists located in Portland
- After market parts support based in Portland





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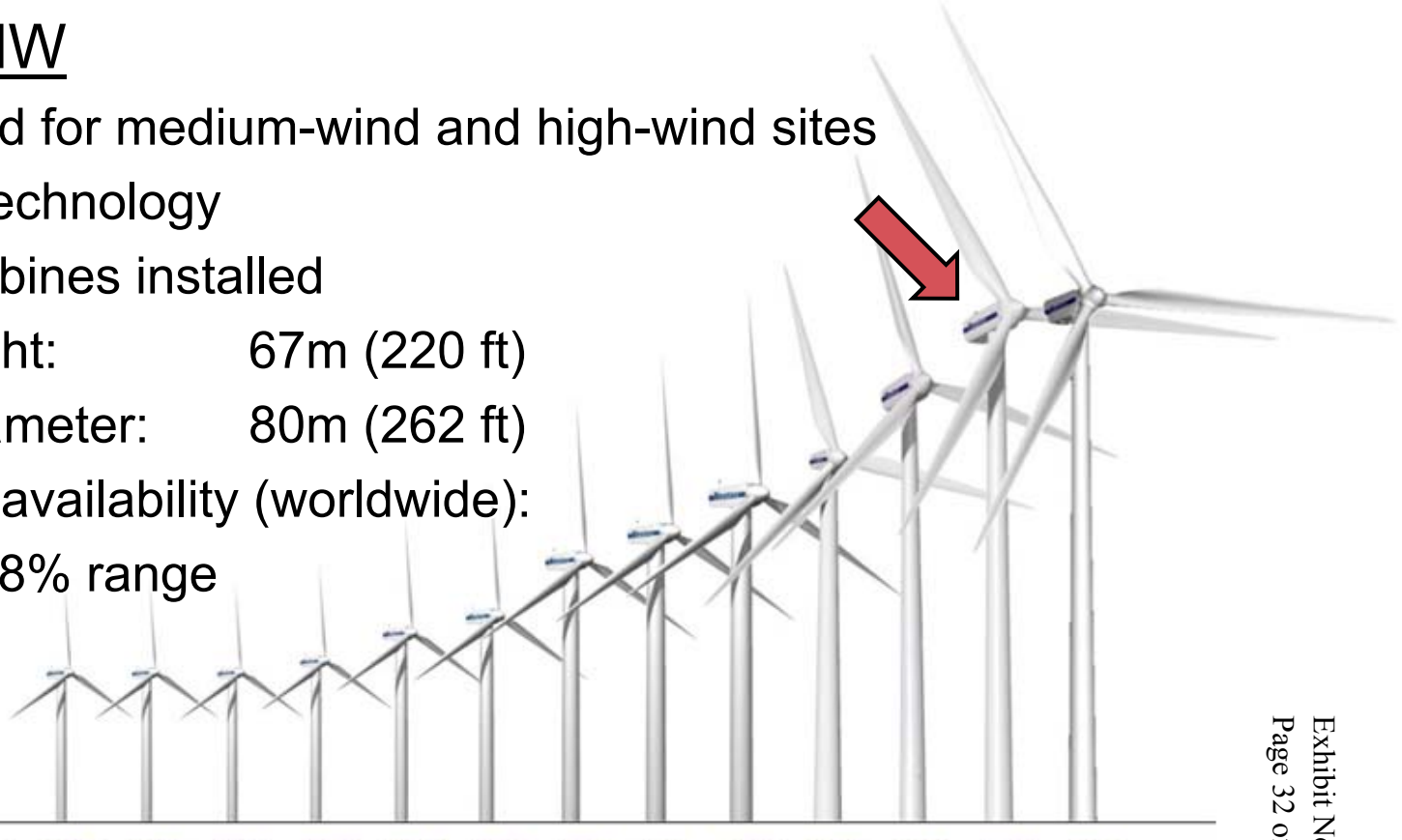
Vestas V80 Turbine Generator

V80 – 1.8MW

- Optimized for medium-wind and high-wind sites
- Proven technology
- 1,372 turbines installed
- Hub height: 67m (220 ft)
- Rotor diameter: 80m (262 ft)
- Average availability (worldwide): 95% to 98% range



Product/Rotor diameter (m)	V15	V17	V19	V20	V25	V27	V39	V44	V47	V52	V66	V80	V90
Year of installation	1981	1984	1986	1987	1988	1989	1991	1995	1997	2000	1999	2000	2002
Capacity (kW)	55	75	90	100	200	225	500	600	660	850	1750	2000	3000
MWh/year	217	265	301	346	481	647	1304	1581	1947	2530	4705	6768	–

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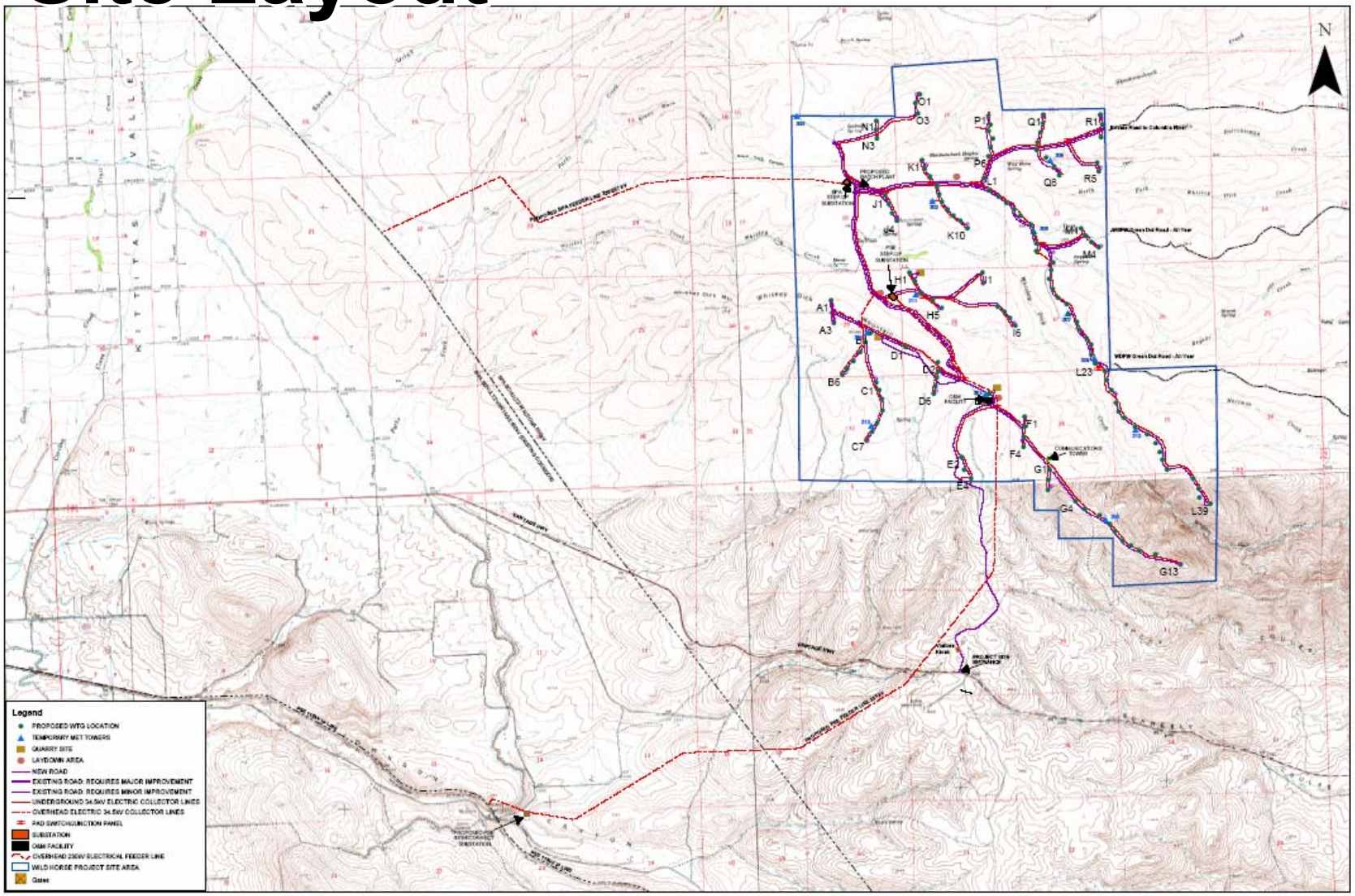
Site Layout



PROJECT SITE LAYOUT
Wild Horse Wind Power Project

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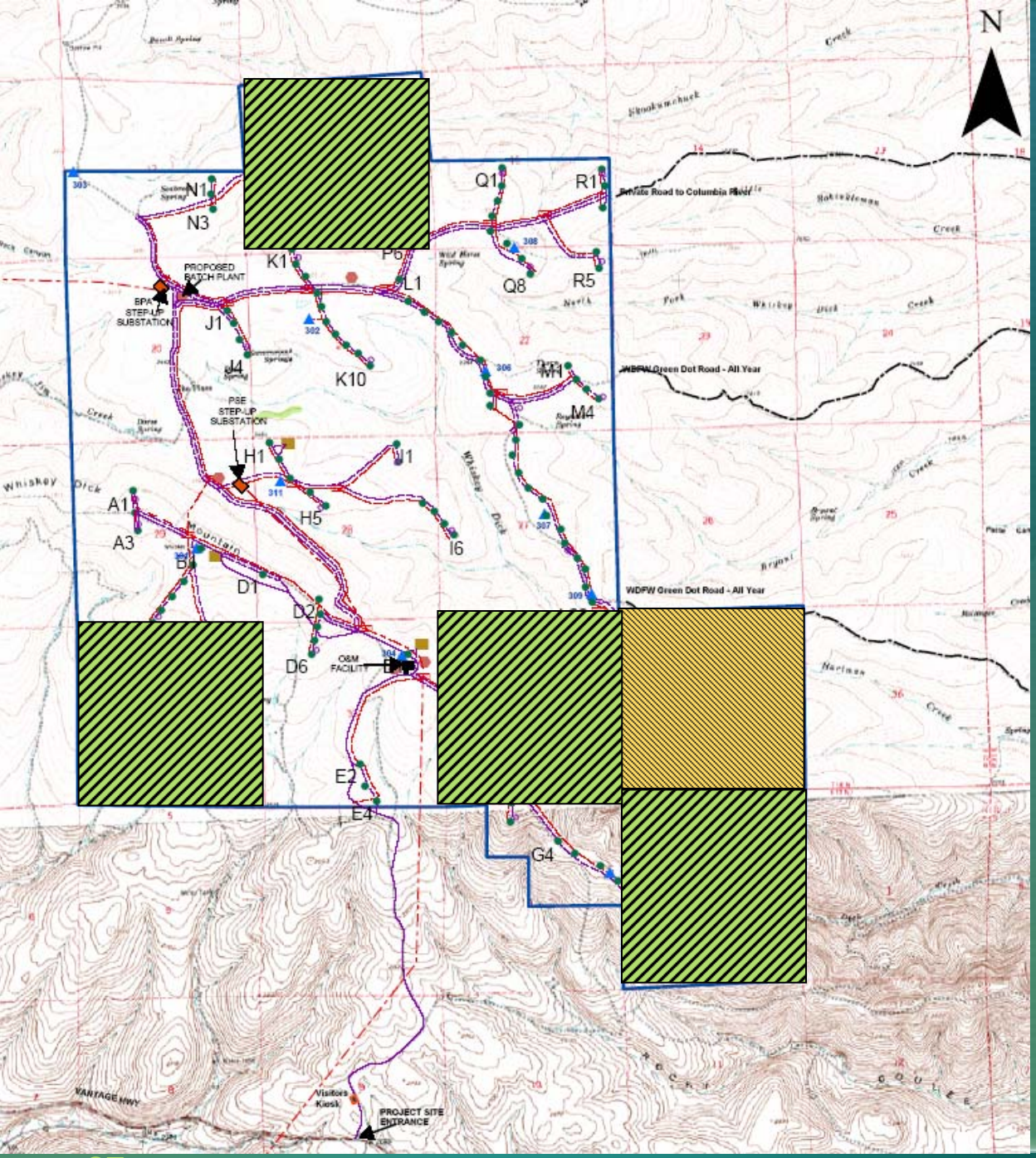
Site Layout



- **WDFW Lease**
  - ≈ 640 acres
  - ≈ 9 WTGs
- **DNR Lease (typ.)**
  - ≈ 2,560 acres
  - ≈ 31 WTGs

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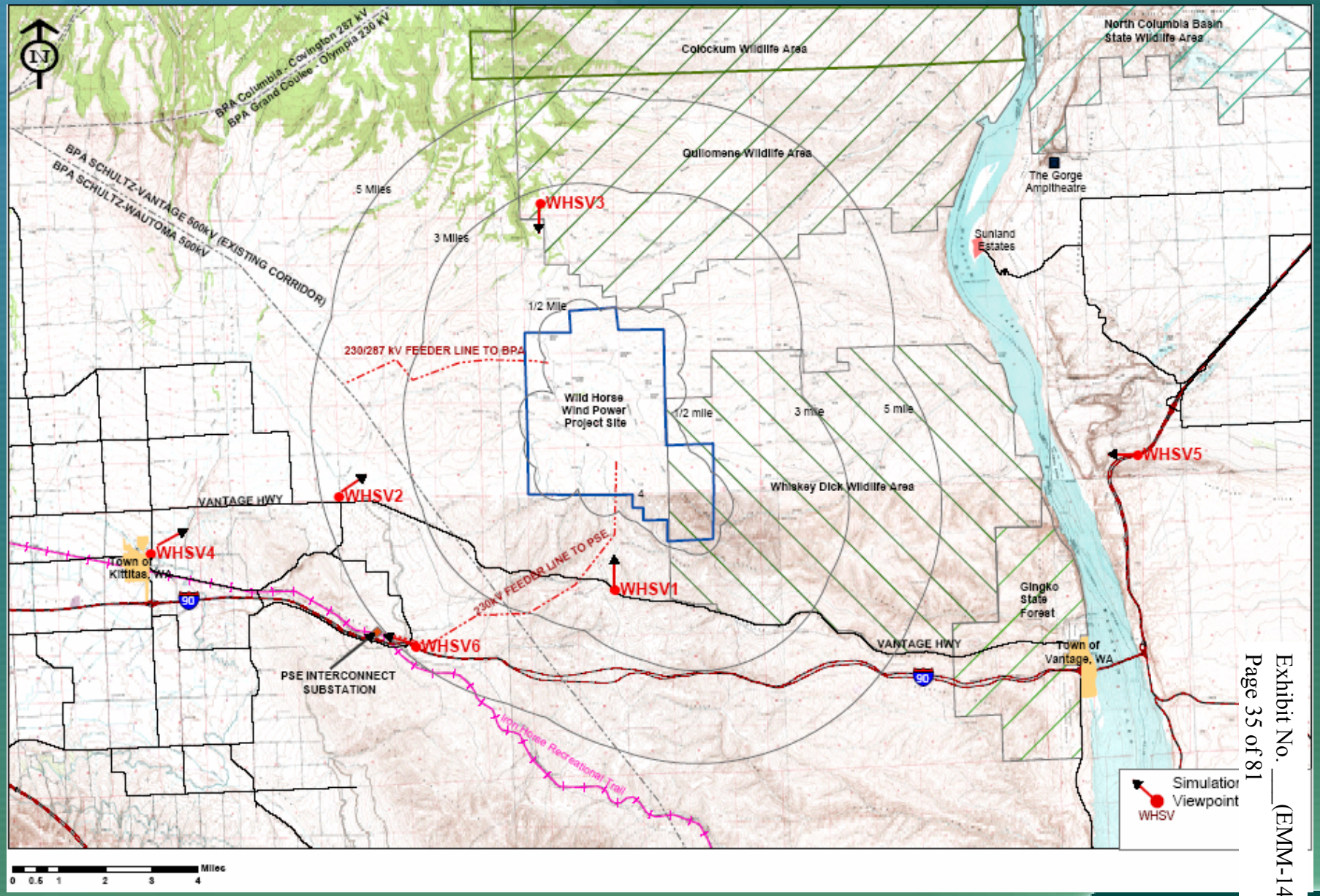
Visual Simulations



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Visual Simulations

SV1 - Vantage HWY East of Beacon Ridge Road looking west

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Visual Simulations

SV2 - Vantage HWY at Parke Creek Road looking east

Visual Simulations

SV3 - Beacon Ridge in T19N, R21E, Section 32 looking south

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Visual Simulations

SV4 - Patrick Ave and Clerf road looking east

Visual Simulations

SV5 - I-90 west of Silica Road exit looking east

M E M O R A N D U M

September 1, 2005

Privileged and Confidential Attorney - Client Communication

To: PSE Board of Directors

cc: LeBoeuf, Lamb, Greene and MacRae, L.L.P.

From: Eric M. Markell

Subject: Proposed Acquisition of 100% of the Membership Interests of Wind Ridge Power Partners, LLC, the Consolidation of those Interests into PSE, and the Construction and Operation of, a 228.6 MW (Nominal) 127 Turbine Wind Generating Facility to be Located in Unincorporated Kittitas County, WA

The purpose of this Memorandum is to describe:

- The proposed transactional program by which PSE would acquire a 100% interest in a proposed 228.6 MW (nominal) wind turbine project (the "Wild Horse Wind Project" or "Project") being developed, and which presently is owned, by Wind Ridge Power Partners LLC ("WRPP"), a Delaware limited liability company owned by Horizon Wind Energy LLC ("Horizon") and Horizon Wind Energy Company LLC ("HWEC"), which, in turn, are subsidaries of GS Wind Holdings LLC, a subsidary of The Goldman Sachs Group, Inc. (See **Exhibit 1,** "Horizon Corporate Structure").

- The need for, and benefits of, the proposed resource acquisition.
- The analyses supporting the selection by PSE of the proposed transaction.
- The principal commercial terms and conditions of the proposed transaction.
- Key risk factors related to the proposed transaction.
- The development, construction and operation plans for the Project.
- The expected tax, accounting and ratemaking treatments for the proposed transaction.
- The projected "stand-alone" financial pro forma[1] for the Project (income statement, cash flows and balance sheet) and the Project's estimated impact on PSE's gross revenue requirements (See **Exhibit 6**).
- The estimated costs of the Project's acquisition, development and construction.
- The estimated costs of operating the Project, inclusive of annual operation and maintenance and asset management costs.
- The plan to finance the costs of asset acquisition and construction.
- Management's recommendation to PSE's Board of Directors for approval to complete due diligence and contract documentation, to execute the definitive agreements and to close the proposed transaction.

[1] The Project will be wholly owned by PSE and consolidated within PSE's financial statements. For clarity of interpretation, the stand-alone pro forma illustrates the financial impacts of the Project separate and

Summary Project Description

When completed, the Project will be a 228.6 MW (nominal) wind-powered generation facility located on an approximately 9,200-acre site in unincorporated Kittitas County, approximately eleven miles east of the City of Kittitas. It will incorporate 127 Vestas V80 1.8 MW wind turbine generators (the "WTGs"), an operations and maintenance building and a small visitor center. The Project site is virtually uninhabited shrub steppe habitat currently used for cattle grazing and owned by three landowners.[2]

The Project has been developed by WRPP.[3] WRPP's parent, Horizon[4], is a leading developer of wind energy projects. WRPP commenced development of the Project in 2002 and, subsequently, secured purchase options, leases and easements with landowners to construct the Project and conducted all environmental studies necessary to obtain the required permits. Wind has been measured at fourteen sites since

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apart from PSE's financial statements, similar to the presentation were the Project held by a wholly-owned subsidiary of PSE.

[2] Two of the landowners are the Washington Department of Natural Resources ("DNR") and the Washington Department of Fish and Wildlife ("WDFW"). The Project will enter into leases with these State agencies that will give the Project the right to place turbines on this property in exchange for a quarterly royalty payment based on energy production. These leases are discussed in greater detail, later in this memorandum. The Project is configured such that nine of the WTGs would be sited on the WDFW property. WRPP is currently negotiating a lease with WDFW, which requires the approval of the United States National Park Service ("Park Service"). If WDFW is unable to obtain Park Service approval, these nine WTGs will be eliminated and will cause the elimination of four additional WTGs along the same string that are located on DNR property. The terms of the leases with the DNR have largely been negotiated. The remaining (and largest) landowner is a private party, American Minerals and Land Corporation ("AMLC"). WRPP has an option to purchase approximately 6,600 acres owned by AMLC. In addition to the three landowners associated with the project site, there are five additional landowners for the transmission easements.

[3] WRPP is a special purpose entity created to own the development assets of the Wild Horse Wind Project. WRPP has no employees; the management responsibility for the development of the Project is being performed under the direction of its parent, Horizon.

[4] Until its recent acquisition by The Goldman Sachs Group, Inc., Horizon was known as Zilkha Renewable Energy LLC.

December 2002. WRPP commenced the site certification process with the Washington Energy Facility Site Evaluation Council ("EFSEC") by filing a Request for Potential Site Study on July 2, 2003. The Potential Site study was completed by EFSEC on November 18, 2003. WRPP submitted its Application for Site Certification to EFSEC on March 9, 2004. EFSEC held a public informational meeting, Land-Use Hearing, and SEPA Scoping Meeting on April 22, 2004. On April 30, 2004, EFSEC issued a Determination of Significance and on August 4, 2004 issued its Draft Environmental Impact Statement. On March 4, 2005, Kittitas County approved an amendment to the County's Comprehensive Plan to designate the Project area as a Wind Farm Resource District, approved a zoning reclassification for the Project area to a Wind Farm Resource Overlay Zone, entered into a Development Agreement with WRPP to set the County's conditions of approval for the Project, and approved a wind farm resource development permit for the Project. These County approvals, cleared the way for EFSEC approval of the Project and Adjudicative Hearings for the Project took place on March 7-8, 2005. On May 16, 2005, EFSEC issued and adopted its Final Environmental Impact Statement and on May 25, 2005 held a special meeting to vote on a recommendation to the Governor with respect to the Site Certificate. On June 8, 2005, after a unanimous vote and the expiration of a statutory 12-day reconsideration period where no requests for reconsideration were filed, EFSEC forwarded the draft Site Certificate to the Governor's office. The Governor signed the Site Certificate on July 26, 2005. The 30-day statutory appeal period for this permit expired on August 26, 2005. On August 30, 2005, EFSEC approved the transfer of the site certificate to PSE. The transfer will take effect automatically at the closing as a result of a notice provided to EFSEC by the parties. With the receipt of the Site Certification, there are no other necessary, material project permits. Finally, WRPP has applied for an interconnection of the Project with PSE's transmission system and expects to enter into a large generator interconnection upon the closing of the Project.

At closing, PSE will purchase WRPP from Horizon and HWEC, dissolve WRPP, such that all such development rights will be owned directly by PSE. PSE will further contract with Horizon to construct the Project's balance of plant ("BOP") facilities under a fixed price, turnkey contract. Horizon will deliver at the closing, for the benefit of PSE to guaranty Horizon's performance of its construction obligations, a Goldman Sachs parent guarantee and a payment and performance bond to be issued by a surety meeting specified standards as set forth in the definitive agreements. PSE will also contract with Vestas - American Wind Technology, Inc. ("Vestas American"), a subsidiary of Vestas Wind Systems A/S ("Vestas") for the supply and installation of the 127 WTGs. Vestas will deliver at the closing, for the benefit of PSE, a Vestas parent guarantee. Upon substantial completion of the Project, PSE will assume responsibility for operating the Project. PSE will contract with Vestas American to service and maintain the WTGs during their five-year warranty period. Vestas American will manufacture, deliver, erect, install, and commission the WTGs, guarantee their performance, and warrant their availability and mechanical performance. Closing is expected to occur on or around September 30, 2005 and substantial completion (i.e., commercial operation) is expected to occur before the end of 2006.

Summary of the Program of Acquisition, Construction and Operation

A non-binding Letter of Intent and Term Sheet was executed on September 1, 2004 with WRPP and formed the general commercial basis for the definitive agreements. A detailed summary of these agreements is attached as **Exhibit 12**. The principal commercial terms of the proposed transaction are briefly summarized below:

- Pursuant to a ***Membership Interest Purchase Agreement ("MIPA")***, PSE will acquire on the closing date (estimated to be approximately September 30, 2005) a 100% ownership interest in WRPP, which owns the Project assets, including but not limited to a land purchase option, land leases and easements, final permits,

environmental studies, surveys, wind resource data and analysis, and other development assets (the "Project Development Assets"). PSE's purchase price for the Project Development Assets is [redacted] payable in two installments as follows: (i) [redacted] payable upon closing and (ii) [redacted] payable upon substantial completion of the Project. Additional consideration will be paid in the form of a production royalty equal to [redacted] MWh for all energy generated by the Project for the 20-year period following substantial completion. This portion of the Project purchase price was structured in this way so that WRPP would share operational and availability risk with PSE, including wind resource risk, as compared to a structure whereby WRPP realized all of its compensation at closing. Additional consideration in the form of a royalty is becoming increasingly common within the industry. A competitor of Horizon offered their project to PSE under a similar structure, although at a higher royalty level, with a resulting higher 20-year levelized cost. The closing will occur after receipt by WRPP of all permits, consents, authorizations and approvals and satisfaction or waiver of conditions precedent specified in the MIPA.

- Also pursuant to the MIPA, Horizon will pay [redacted] to PSE to defray PSE's third-party costs of negotiating and documenting the transaction, payable at closing.

- PSE will, in addition to the BOP EPC Agreement, contract with Vestas American for the supply, transportation, erection, installation, and commissioning of the 127 V80 WTGs pursuant to a ***Wind Turbine Supply & Installation Agreement*** (the ***"TSIA"***). The turbine contract price will be fixed in dollars at closing by Vestas executing a currency hedge. Working with Vestas, we currently estimate this to be [redacted]

- Immediately following closing of the purchase of the Project Development Assets by PSE, Horizon, will perform, or cause to be performed, all engineering, procurement

and construction for the BOP scope of the Project pursuant to a fixed-price turnkey ***Balance of Plant Engineering, Procurement and Construction Agreement Contract*** (the ***"BOP EPC Agreement"***). Horizon will, in turn, subcontract with various entities for the construction of the major facets of the Project, such as the roads, WTG foundations, the electrical collection system, the site substation, and the interconnecting transmission line. The BOP EPC Agreement contract price will be fixed prior to closing. Working with Horizon, we currently estimate this to be [redacted]

- The closing date will depend upon, among other things, the time needed to obtain all necessary, final permits and to satisfy other conditions precedent for the closing. Management will consider opportunities to accelerate closing, if feasible.

- To guarantee the performance of Horizon under the MIPA and the BOP EPC Agreement, a ***parent guarantee*** will be by provided The Goldman Sachs Group, Inc. In addition, for the BOP EPC Agreement, a ***payment and performance bond*** in the amount of 20% of the contract price will be issued in favor of PSE as partial security for the performance and payment of Horizon's obligations. Horizon will pay the premium for the payment and performance bond.

- Vestas will guarantee Vestas American's contractual obligations, including the power curve warranty, under the TSIA and under the Warranty Agreement. Under the power curve warranty, Vestas American will guarantee that the measured power curve is at least [redacted] of the warranted power curve. Once the WTGs are placed into service, Vestas American will provide a five-year mechanical warranty pursuant to the ***Warranty Agreement*** and five years of maintenance, spare parts and service of the WTGs, and a five-year availability warranty pursuant to the ***Service and Maintenance Agreement*** (the ***"Service Agreement"***). Under the availability guarantee, Vestas American will guarantee that measured average availability is at

least [redacted] during the first six months of operation and [redacted] during the remainder of the five-year service period. The agreements provide for financial compensation to PSE in the event that there are shortfalls in the power curve or the availability.[5]

- At closing, pursuant to the terms of the ***Option and Real Estate Purchase and Sale Agreement and Assignment*** (the ***"Private Land Option"***), PSE will purchase from American Minerals and Land Corporation approximately 6,600 acres of private land at a purchase price, including closing costs, of approximately [redacted]. Ultimately, 84 of the Project's WTGs will be located on this land.

- At closing, pursuant to the terms of the **State DNR Land Lease** (the ***"DNR Lease"***) and the **WDFW Land Lease** (the "**WDFW Lease**"), PSE will make payments during construction and afterwards to these two public landowners upon whose property Project WTGs will be located. During the estimated fourteen-month construction period of the Project, PSE will be obligated to pay each public landowner [redacted] per megawatt of installed nameplate capacity on their land, one-half of which shall be due on the commencement of construction, and the balance of which shall be due upon the commercial operation date for such WTG. Once the WTGs are placed into service and for the remainder of the leases' terms, PSE will be obligated to pay royalties to the lessors at a rate of approximately [redacted] MWh actually produced, escalating annually from January 1, 2001. Landowner royalties for the Project are estimated, in the aggregate, to be approximately [redacted] per year, in 2007 dollars. Based on advice PSE has received from its wind consultant, Garrad Hassan Americas, Inc. ("Garrad Hassan"), such terms are "market" in the industry.

[5] Financial compensation is calculated per defined formulae contained within the agreements.

- Pursuant to the terms of the ***Transmission Easements*** acquired by PSE upon the closing, PSE will obtain the right to construct an approximately eight-mile interconnecting transmission line from the Project substation to the interconnecting substation.

Need for Additional Supply Resources and Resource Solicitation Process

PSE published its Least Cost Plan ("LCP") in May 2005 as part of PSE's efforts to analyze and document its projected load and resource needs. The LCP incorporated a comprehensive assessment of available conservation resources and a fully-integrated portfolio analysis that evaluated both conservation and supply resources. The LCP identified a need for additional electric energy resources based upon the "B2" planning standard as adopted by PSE's Board of Directors. That standard requires that energy be added to meet PSE's highest deficit month. In the winter of 2006-2007, an energy need of 283 aMW[6] was identified. In determining this need, PSE assumed both Hopkins Ridge, which is currently under construction, and Wild Horse would be part of its resource supply portfolio.

Following its 2003 LCP, PSE described its resource needs in the Wind Resource and All-Generation Sources Requests for Proposals dated November 17, 2003, and February 3, 2004 (respectively the "Wind RFP" and the "All-Source RFP", and collectively the "RFPs"). These RFPs were reviewed and approved by the Washington Utility and Transportation Commission ("WUTC") in orders issued on November 13, 2003 and on January 28, 2004. PSE then issued the RFPs and evaluated the responses it received. In the case of the proposed transaction, PSE evaluated the

[6] The 283 aMW need is before conservation.

transaction relative to the other responses it received to the RFPs, including the non-wind proposals.

Energy Market Context

Two market themes have dominated the resource acquisition activity since the adoption of the Company's 2003 LCP. These are: (1) rising market prices throughout the value chains of all energy types and technologies, and (2) increasing public policy momentum for environmentally-friendly energy sources.

Oil, gas and coal prices have risen to new record levels. Some industry observers believe prices will go higher still, driven by fundamental supply and demand forces in the new global economy in which the already huge and growing economies of China and India vie aggressively for scarce energy supplies. Likewise, the prices of commodities such as steel, aluminum, copper and concrete critical to new power project construction have risen dramatically in this period. Moreover, developers holding key resource development rights, such as land positions for good wind resources and permit positions for good hydro sites, are now exerting significant leverage when negotiating for access to such resources. The on-again off-again nature of the federal production tax credit extension has exacerbated such pricing power, empowering some option holders with permits ready to build and disadvantaging others. Many believe that the recent extension of the PTC through December 31, 2007 could be the last extension and this has created additional demand for renewable projects ready today. Finally, the emergence of a valuable multi-state market for renewal energy credits ("RECS") has created a potential additional source of revenue and value for option holders and adds to the new-found pricing leverage of developers.

As a result of those market forces, the global and US wind turbine market has tightened considerable in 2005. Suppliers have rationed turbine allocation to the US market to take advantage of higher prices in European markets. In June 2005, Vestas eliminated the transfer pricing discount it offered to the US market via Vestas American. The 2006 turbine supply is now sold out and delivery in 2007 is limited and shrinking. In addition to commodity cost increases that drive up suppliers' costs, the weakening of the dollar, as compared to the euro, has resulted in a foreign exchange driven price increase in the US market.[7] In summary, increased demand, less supply, increased commodity costs, a weakened dollar, rising natural gas prices, and no viable coal alternatives have resulted in wind turbine price increases of 25 to 30 percent over levels of late last year. Similarly, WTG suppliers are offering less attractive non-price commercial terms.

Overlaid on these powerful market forces have been governmental actions that have had the effect of creating new demand for and prices pressures on limited renewable resources. Specifically, 20 states have now adopted renewable portfolio standards ("RPS") for utilities. Further, in response to a perceived lack of national policy with respect to power plant emissions, especially carbon dioxide, the governors from multiple eastern and western states are reportedly banding together to fix rules that may require utility plant emissions to be constrained not merely to current levels, but actually reduced in the face of significant load growth and limited resource options.

In short, it has become a great challenge to pursue process intensive integrated resource planning and lengthy competitive procurements while still being opportunistic and agile enough in the marketplace to maintain a degree of commercial leverage over developers and equipment vendors.

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[7] Even GE, which manufactures wind turbines in the US, has experienced increased costs as a result of the declining dollar, due to the significant European content of their product.

The Cost of Wind Generation is Competitive

The Project ranked among the lowest evaluated cost of all evaluated proposals from the 2004 RPPs when considering an integration of all evaluation criteria.[8] In addition the proposed transaction's commercial terms cause the Project to be one of the top-ranked resources with attractive 20-year project levelized costs, among the group of seven short-listed proposals[9], assuming PTCs of approximately $19/MWh escalated and qualification of the Project for such PTCs.

No respondent to the RFPs, whether proposing a new or an existing project or a power purchase agreement, provided a "hard money" fixed-price offer with a guaranteed project schedule. The nature of the competitive solicitation process is that non-binding proposals from respondents are constantly subject to change and that evaluations and negotiations occur in the midst of a dynamic market. As mentioned previously, market conditions over the past several months have resulted in new-found pricing leverage for respondents and this leverage plays out as projects evolve from proposals to ready-to-execute deals.

PSE Current Market Assessment Affirms Wild Horse

The Wild Horse Project was one of the leading generation resource opportunities identified through PSE's 2004 RFP evaluation process. Since the selection and

[8] In addition to quoting the ownership option, which is the transaction described herein, Horizon also quoted the Project to PSE as a long-term power purchase agreement ("PPA"). The long-term PPA option resulted in a higher levelized cost of electricity.

[9] Of the seven short-listed proposals, PSE has entered into a two-year power purchase agreement ("PPA") with Arizona Public Service for 85 MW flat with delivery commencing January 1, 2005 and closed on an acquisition of the 150 MW Hopkins Ridge Wind Project, which is currently under construction in Columbia County, Washington. One other proposal is in active negotiation: a purchase of 100% of the ownership interests from ORMAT in the approximate 5 MW heat recovery project in Whatcom County, Washington. Consideration of the other three proposals has been discontinued for commercial and economic reasons as described in previous presentations to the Board.

investigation of the RFP short list, PSE has continued to meet with developers and to accept and evaluate proposals for other projects and power purchase agreements. With respect to wind resources, PSE has met with and investigated the following projects:

Developer	Project	Location	Status
PPM Energy	Bighorn 150 MW	Klickitat County, WA; Columbia River Gorge	Recently permitted; seeking transmission routes; discussing deal structure with PSE; PSE awaiting revised term sheet offer.
PPM Energy	Klondike III 75 MW	Wasco, OR; Columbia River Gorge	Seeking permits from OR EFSEC; PSE awaiting revised term sheet offer.
Columbia Energy Partners	Ta-My-Y-Slah Phase 2 80 MW	Arlington, OR; Columbia River Gorge	Permitted; seeking transmission solution; discussing with PSE and PacifiCorp. PSE awaiting revised term sheet offer.
RES	Hopkins Ridge Phase 2 80 MW	Columbia CO., WA; Hopkins Ridge	RES seeking transmission solutions to deliver power to PSE. PSE awaiting revised term sheet offer.
Windtricity Ventures	Imrie Wind 80-500 MW	Klickitat County, WA; Columbia River Gorge	Permitted; seeking transmission routes to PSE; discussing deal structure with PSE. PSE awaiting revised term sheet offer.
Orion Energy	Bigalow Canyon 150-450 MW	Sherman County, OR; Columbia River Gorge	In OR EFSEC permit process; seeking transmission routes to PSE. PSE awaiting revised term sheet offer.

All of these projects, except for Hopkins Ridge Phase 2, were originally proposed in the Wind RFP and All Source RFP, and none were placed on the short list because of various project deficiencies. The developers have continued to advance these projects since that time. In some cases, permits have been achieved and/or interconnection studies have been completed. In all cases, project economics have deteriorated from that of the original proposal due to recent increases in turbine supply and erection costs as well as increased warranty and maintenance fees. No project has a firm turbine price commitment or delivery schedule and none have placed turbine deposits to secure

a place in the manufacturing queue. None of the projects yet have firm transmission to PSE but this is not unexpected. (Until PSE provides a commitment, it is not feasible for the project developer to make a transmission or turbine commitment.) PSE will continue to investigate these projects and work with the developers to determine if a transaction acceptable to both parties can be achieved, in which case, PSE would initiate further due diligence on a variety of subjects, including the wind resource, real estate, and environmental matters.

Generally speaking, all of these other wind projects are considered to be much earlier in the development process than the Wild Horse Project. As noted above, none have a contractual commitment for wind turbines. Furthermore, each project developer's current proposal is based upon preliminary cost data that has not been fully vetted nor has serious negotiations begun with key suppliers and contractors; therefore, the true costs are likely to increase. Finally, these uncertainties, taken together, raise serious concerns that such projects would be completed in time to take advantage of the PTC, which expires December 31, 2007. The Wild Horse Project will be completed in time to gain the benefit of PTCs. The rising cost of the turbines give way to additional price risk when dealing with less developed/negotiated proposals due to the developers not having locked in a turbine supply price. PSE's turbine price supply survey indicates that all major wind turbine manufacturers are now quoting significantly higher prices and more aggressive terms than the turbine supply agreement negotiated for the Hopkins Ridge Project.

Based on the resource evaluation criteria used in the 2004 RFP process, the other wind projects that have been proposed and evaluated since the selection of the short list have not been found to be equal or superior to Wild Horse, and have, therefore, not replaced Wild Horse in PSE's portfolio resource stack as the next least cost generation resource.

Additional generation resource opportunities

PSE has also continued to look to other resource opportunities other than wind. Some of these resources included natural gas-fired combine-cycle combustion turbine ("CCCT") projects, wood-fired biomass cogeneration projects, short-term power purchase agreements, and long-lead time coal generation and hydro projects.

In June 2005, PSE participated in an auction process conducted by [redacted] to divest their [redacted] natural gas plants. PSE submitted an offer to purchase [redacted] 245-MW [redacted] combined cycle gas plant and was selected by [redacted] to further pursue a potential transaction. A Letter of Intent ("LOI") was executed by PSE and [redacted] in August 2005. The LOI allows for an exclusive due diligence period of ninety days and such activities are currently underway.

PSE is currently developing a non-binding term sheet with [redacted] for a 28 MW wood-fired biomass cogeneration facility. Since the completion of the 2004 RFP process, PSE has received several unsolicited short-term power purchase agreement proposals from independent power producers. With the exception of the [redacted] newly proposed power purchase offer,[10] none of the proposals were economically attractive. PSE is pursuing a potential short-term transaction with [redacted] however, credit issues that have encumbered such deals in the past remain unresolved.

Additionally, PSE is continuing to look toward the future, developing a long-term strategy for implementing long-lead time generation projects. PSE has identified and is investigating potential coal-fired generation projects throughout the Northwest and new run-of-river hydropower developments in British Columbia and Southeast Alaska.

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[10] [redacted] has presented an indicative offer for 25 to 100 MW flat for a two to three-year term.

Conclusion

The Wild Horse Project remains among the lowest in evaluated cost of all evaluated proposals and ranks highly on all of the qualitative evaluation criteria used in the 2004 RFP process. Wild Horse is the best among all alternatives available to PSE at the present time, considering the risks inherent in other less fully developed projects. The Project is a [redacted] aMW (average Winter energy) step in meeting a 1,471 aMW indentified need[11] in 2013. As a result of this large need, this acquisition would not preclude PSE from acquiring other wind energy projects, or other alternatives, that are now in consideration or that might result from the forthcoming RFP. Additionally, PSE continues to implement its aggressive conservation efforts to help supplement the need. PSE fully intends to acquire additional resources that may prove, following appropriate due diligence and risk mitigation strategies, to be of comparable value and risk as the Project.

Portfolio Analysis Demonstrates Project Benefits

PTCs apply to the energy produced from a wind generation facility for a 10-year period, commencing with the date each WTG is placed into service. As presently configured, but subject to certain contingencies (including the length of time to closing), the Project's 20-year levelized cost delivered to, and integrated into, the PSE supply portfolio is estimated to be approximately [redacted] MWh, including the benefits of PTCs. As illustrated in the following table, the net present value of the portfolio benefits of the Project ranges from $54 to $67 million, depending upon two different gas price forecasts, as compared to the generic portfolio. The portfolio evaluation indicated that the addition of the Project to the portfolio both reduced cost and slightly lowered the

[11] The 1,471 aMW need is taken from the 2005 Least Cost Plan and is before conservation, but does assume that the Project will be completed and become part of the PSE resource portfolio.

expected variability of portfolio costs. Two scenarios, which were set up to measure the impact of the difference in future gas prices,[12] were evaluated:

Scenario #1) Updated 2005 LCP using current market gas prices through 2010 and CERA Rear View Mirror dated Q4 2004 for gas prices 2011 through 2025. Levelized gas price is [redacted] mmbtu.

Scenario #2) 2005 Strategic Plan Gas Price Methodology Scenario that included current market gas prices through 2010 and then assumed a continuing trend of higher gas prices. Levelized gas price is [redacted] mmbtu.

The results follow:

	Scenario #1	Scenario #2
Levelized Gas Price	[redacted] / mmbtu	[redacted] / mmbtu
Portfolio generic resources	Like 2005 LCP	Like 2005 LCP
Portfolio Benefit (Cost) of Specific Projects - $ Millions		
Wild Horse Project	$54	$67
Hopkins Ridge	$120	$135
Gas plant in 2006 purchased at distressed price	$62	$23
Gas plant in 2009 purchased at full price	$47	$3

[12] A third scenario was developed to test the benefit, or cost, of the Project if the future thermal plants were limited to natural gas only and not an equal mix of gas and coal. Under the assumptions of the third scenario, the portfolio benefits of the Project and other generation alternatives are $1 million to $3 million greater; i.e., not materially different than the results for scenario #1.

The portfolio benefit shown in the table above does not include any Project residual value that will exist since PSE will own the "wind rights" and be able to re-develop another wind project at the end of the Project's 20- or 25-year useful life. Likewise, the benefit of future gas plants will be lower due to the credit costs of hedging if fuel costs are fixed on a forward basis. Even with only partial PTCs, wind presently appears competitive with new combined cycle natural gas-fired plants due to the high cost of gas and associated credit required to hedge such gas costs. However, management has been exceedingly careful not to disclose this competitive comparison to avoid giving additional negotiating leverage to developers and turbine suppliers. Finally, in addition to its attractive cost profile, the Project would further diversify PSE's supply portfolio.

Development of the Project

WRPP, a limited liability company owned by Horizon and HWEC, was formed to develop the Project. WRPP has developed the Project to date and will continue to develop and permit the Project at its cost and risk until closing. The proposed transaction is structured so that PSE will not be required to purchase the membership interests in WRPP until final non-appealable permits are in place and the Project's development phase has been completed.

Through and until the closing of the MIPA, WRPP will continue to develop the Project and obtain all development rights necessary to permit construction and operation of the Project. After the closing date under the MIPA and the issuance of the "notice to proceed" ("NTP"), Vestas American will supply, transport, erect, install and commission the WTGs pursuant to the TSIA and Horizon will construct the BOP scope of the Project pursuant to the BOP EPC Agreement so as to achieve commercial operation within the prescribed deadlines. Key development assets include, but are not limited to:

- Real estate rights, including rights to access, install, operate, and move power from the WTGs to the Project interconnection with PSE's IP transmission line;

- Environmental permits and licenses granting authority to construct and operate the Project subject to specified conditions, including an EFSEC Site Certificate approved by Governor Gregoire on July 26, 2005.

- An interconnection agreement detailing the specifications, construction, and payment requirements for interconnection facilities, including network upgrades, required to deliver the Project power;

- BOP EPC Agreement wherein Horizon will undertake the turnkey construction of the BOP scope of the Project, incorporating other subcontracts as appropriate to construct this infrastructure;

- Turbine Supply and Installation Agreement wherein Vestas will supply, transport, erect, install and commission the WTGs;

- Service and Maintenance Agreement wherein Vestas American will provide long term service and maintenance of the WTGs during the five-year service period pursuant to specified standards of performance;

- Warranty Agreement wherein Vestas American warrants the WTGs to meet specified performance criteria;

- Consents and agreements to transfer all Project assets to PSE.

The Project's development will generally be concluded once these assets are in place and the Project can enter the construction phase. The parties could, however, agree to

waive certain minor development conditions, in which case Horizon would have some ongoing development responsibility during the construction period.

The Project is part of a larger project site that Horizon is developing in Kittitas County. Horizon will retain the development assets for an adjacent expansion project of approximately 100 MW. PSE will have a first right of refusal to purchase the expansion project and a first right of offer to purchase its output under a PPA, if Horizon wishes to retain ownership. If PSE does not exercise either option, power from that adjacent project potentially could be sold under a PPA to another regional utility or power marketer. With respect to the adjacent project, Horizon has agreed that if the future construction or operation of that project has a material adverse effect on the Wild Horse Project, Horizon will propose mitigation to keep PSE whole. Such mitigation could be financial remuneration for lost energy production or additional WTGs so that energy generation capability remains constant.

A number of real estate matters must be completed before closing can occur. These fall into two broad categories: (1) securing certain remaining real estate interests required for the construction, ownership, interconnection and operation of the Project by PSE and (2) completing the necessary real estate due diligence review.

The majority of the Project site will be owned in fee. Approximately, 6,600 acres will be purchased by PSE at the closing from AMLC. Of this PSE-owned land, PSE intends to locate 84 WTGs upon 5,320 acres. The remainder of the land will be used to site the Project's O&M building and buffer the across road off Vantage highway. In addition to the PSE-owned land, PSE will acquire at the closing a Wind Power Development Amended and Restated Lease with the State of Washington Department of Natural Resources (the "DNR Lease"). The DNR lease covers approximately 2,560 acres upon which PSE intends to locate up to 34 WTGs. Under the term of the DNR Lease, PSE

will be allowed to construct, maintain and operate the WTGs and related transmission improvements on the DNR property.

In addition to the DNR Lease, PSE expects to enter into a substantially-identical lease with the Washington State Department of Fish and Wildlife ("WDFW"), for a parcel of approximately 80 acres upon which PSE expects to locate 9 WTGs (the "WDFW Lease"). Although the WDFW has indicated its willingness to execute the WDFW Lease, it is obligated to undertake an appraisal and approval process requiring it to obtain the prior consent of other state and federal agencies. PSE anticipates such approval process concluding by November 2005. Because it is possible that the WDFW will not obtain such consent (or will not obtain it in a timely manner) and thus will not ultimately execute the WDFW Lease, the scope of the overall Project could be reduced by the nine WTGs proposed to be located on the WDFW Lease's subject property as well as another four WTGs accessible only via WDFW land. If executed, the WDFW Lease will have a term of 35 years.

In addition to the property rights discussed above, PSE will acquire from WRPP as part of the Project Development Assets, at the closing, transmission line easements with five landowners. Collectively, these agreements govern PSE's relationship with the landowners who own land upon which the Project's approximately 8-mile interconnecting transmission line will be located. The easements also have 35-year terms.

Additional property interests must also be secured from parties other than the underlying landowners. The Project transmission lines will cross existing rights-of-way held by Kittitas County for roads, by Kittitas County PUD for electrical distribution lines, by BPA for an electrical transmission line and other holders of right-of-way easements. Accordingly, the rights for the Project's interconnecting transmission line to cross these existing rights-of-way must be obtained. Also, as an element of the Project

interconnection, a substation site is being obtained and conveyed to PSE at the closing. In addition, ***Non-Disturbance Agreements*** must be obtained from all holders of mortgages or other pre-existing real estate interests in the Project site, recognizing and consenting to PSE's rights as a result of its purchase and under the leases and easements. WRPP is in the process of obtaining these consents and other items.

The EFSEC site certificate will be transferred to PSE at closing. A hearing was held on August 30, 2005 whereby EFSEC approved the transfer request.[13] There is a 30-day appeal period following the transfer decision. An appeal of the transfer is highly unlikely.

Construction of the Project

The notice to proceed under the TSIA and the BOP EPC Agreement would be issued at closing. Vestas American and Horizon will commence their performance immediately thereafter. Pursuant to the TSIA, Vestas American will supply, transport, erect, install and commission 127 V80 WTGs. The contract price is estimated to be [redacted] The contract price includes an amount fixed in euros for which Vestas American will arrange for a currency hedge to lock in dollars. PSE has the option to instruct Vestas American to execute the hedge any time in the first ten days after closing. PSE is monitoring forward market rates relative to those offered by Vestas to ensure the most attractive hedge rate. A delay in closing may cause a material increase in the cost of turbines. Pursuant to the BOP EPC Agreement, PSE will pay to Horizon a fixed, turnkey price for the construction of the BOP scope of the Project, subject to adjustment if Horizon and PSE agree to changes in scope. The current estimated price is [redacted] Horizon is working with its subcontractors to finalize this price and

[13] The EFSEC decision allows that the transfer is effective upon closing by simply providing notice to EFSEC that the closing of the transaction has occurred.

expects some reductions prior to closing. See **Exhibit 3,** "Diagram of Transaction and Principal Contractual Relationships."

Management and Operation of the Project

Effective as of the date on which Project substantial completion has been achieved, Vestas American will provide the day-to-day service, maintenance and warranty coverage for the WTGs pursuant to the Service Agreement and the Warranty Agreement. Both agreements will be for five-year terms and will contain terms customary for such agreements in the electric industry for wind energy facilities. The scope of services under this agreement includes maintenance services, the supply of consumables, and parts replacement for the WTGs. The annual cost payable to Vestas American under this contract is [redacted] per turbine, escalated with inflation starting in 2007, or approximately [redacted] million in 2007, including Washington State sales tax. During the term of the Service Agreement, PSE will be responsible for site management and the O&M of the BOP systems (i.e., the portion of the facility excluding the WTGs), including the collection system, Project roads, the site substation, and the interconnecting transmission line. PSE may provide some of its O&M services via subcontract. The Project will include an on-site O&M building that will house the PSE project manager and the Vestas American employees as well as the parts and consumable supplies stored on site, and an on-site visitor center from which asset management activities and community and tourism-related events would be managed. Such office will have space available to host meetings for community briefings and provide PSE with increased visibility in the local area and throughout the Puget Sound.

The TSIA and Service Agreement provide for both penalties and incentives for Vestas American. The principal penalty would be with respect to any shortfall of performance of the WTGs below a level of [redacted] of the warranted power curve. Three WTGs will be tested over a period that may take several months to accumulate data to create a

measured power curve. If these curves, when applied to the projected site wind speed distribution, indicates a shortfall in performance, Vestas American will be able to repeat the test one time. If after a retest, a shortfall persists, liquidated damages will be assessed on all of the WTGs in the wind farm. The amount of the liquidated damages is determined such that with reduced energy capture over the twenty-year design life, PSE is made economically whole for lost power.[14]

During the five-year term of the Service Agreement, there will also be an availability warranty. During the first six months of operation, the warranted average availability is [redacted] and for the remainder of the five-year period, the warranted average availability is [redacted] Should the actual availability fall below this level, liquidated damages will be paid to PSE, calculated based on a defined formulae within the Service Agreement. Likewise, Vestas American is paid an incentive if availability exceeds [redacted] during any twelve-month period.

Subsequent to the five-year term of the Service Agreement, it is likely that PSE will assume responsibility for the O&M of the entire Project, including the WTGs. At the time of transition from the Service Agreement to PSE-provided O&M, PSE will staff the facility, possibly by hiring staff trained by Vestas American. During that initial period of PSE-provided O&M, it is estimated that the staff will include 17 employees, comprised of a Project manager, a supervisor, two administrative assistants, and 13 field technicians. It is further assumed that WTG maintenance requirements will increase over time, so that the staff size and costs are projected to grow over the life of the Project.

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[14] Financial compensation is calculated per defined formulae contained within the TSIA and was calculated to keep the levelized cost of the Project unchanged in the event of a shortfall.

Likewise, subsequent to the five-year term of the Service Agreement, PSE will assume responsibility for replacement parts as necessary. The attached financial pro forma assumes that the cost of parts replacement escalates annually with inflation. This assumption, along with labor, tools and other related expenses likely to rise commensurate with this assumption, is consistent with commonly-projected cost estimates. Based upon consultations by PSE employees with three other investor-owned utilities regarding units of property for accounting purposes, PSE expects to resolve such units into towers, foundations, roads and trails, drive units, blades, and generators. Since these units of property are large in scope and value, it is likely that most replacement parts will be expensed rather than capitalized.

Estimates of future Project expenses are reflected in the financial pro forma in **Exhibit 6**.

Interconnection, Transmission and Integration Arrangements

The Project will be interconnected directly with PSE's transmission system to the upgraded IP line via a new interconnection substation (the "Wind Ridge Substation") to be owned and constructed by PSE. As part of the Project, there will be a 34.5 kV/230 kV site substation (the "Wild Horse Substation") and an eight-mile 230 kV interconnecting transmission line between the Wild Horse Substation and Wind Ridge Substation. The Wild Horse Substation and interconnecting transmission line will be constructed by Horizon as part of its scope of work under the BOP EPC Agreement.

In addition to the Wild Horse Substation, PSE has identified other network upgrades required to interconnect the Project to its transmission system. These upgrades include 230 kV shunt reactors; a 230/115 kV step-down transformer, to enable the portion of the IP line located to the west of the point of interconnection to continue to operate at 115 kV; a new crossing at the Columbia River; a new interconnection with Grant PUD's

Wanapum Substation; and related communications infrastructure. The total cost for the Wind Ridge Substation and the IP upgrades is estimated to be approximately $15.8 million, including contingency. A portion of these upgrades equal to $5,419,200 (including contingency) has been allocated to the Project. The remaining costs will be allocated to Operations and Communications and covered by those respective departments from their 2006 Capital Budget.[15]

A more detailed discussion on transmission and a map showing the location of the Project relative to the regional transmission system is attached as **Exhibit 13.**

As part of PSE's overall effort to evaluate wind resources, Golden Energy Services was retained to assist PSE personnel in evaluating the short-term operating impacts of integrating wind generation into the PSE system. An initial study was completed in August 2003, a Phase II study was completed in January 2004, and a Phase III study was completed in November 2004. These studies estimated integration costs based on using PSE's contracted Mid-Columbia hydro resources and related transmission assets. Such costs are estimated to be approximately [redacted]MWh for hour-ahead and day-ahead integration. Both the hour-ahead and day-ahead costs have been included in the estimates of 20-year project levelized costs cited previously. See **Exhibit 15** for a summary of wind integration matters.

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Summary of Project Benefits

Together with the acquisition of conservation resources, the interest in the Frederickson 1 facility, and the Hopkins Ridge Wind Project, PSE's acquisition of its second wind energy resource would be a valuable step in acquiring the necessary electric supply

[15] It is estimated that an amount equal to approximately $1,392,000 will be expensed by Operations. This amount is included in the $15.8 million figure.

resources to meet the planning standard for supply adequacy. This acquisition of approximately 230 MW of wind resources will reduce the Company's projected energy shortfall such that a shortfall of 305 aMW[16] remains in 2008. The principal benefits of this new resource would be as follows:

- The Wild Horse Project is next least cost generation resource emerging from the 2003 Wind RFP and 2004 All Source RFP;

- Project generation and projected power costs add portfolio value of over $50 million, as compared to PSE's portfolio. PSE's portfolio includes existing owned and contract resources as well as the 2005 LCP generic resources of PPAs, CCCTs and coal plants, as dispatched in the current high gas price environment;

- Incremental addition that leaves open options for additional renewable and thermal resources;

- State-of-the-art WTGs and control technology provided by a world-class manufacturer (Vestas) with substantial experience and a worldwide commitment to wind energy resources;

- Avoids the liquidity and credit requirements that may accompany many long-term power purchase agreements, market power purchases, and natural gas supply arrangements;

- Zero emission technology with minimum impacts on the natural environment;

[16] The 305 aMW figure comes from the 2005 Least Cost Plan and is before conservation is taken into account. It assumes the inclusion of the Wild Horse Project in the PSE portfolio.

- Engages the largest world-wide manufacturer of WTGs as the service contractor for the first five years of operation, coupled with the manufacturer's extensive West Coast support and parts inventory capability;

- Construction and completion risks guaranteed by financially-responsible and proven entities and adequately secured by parent guarantees and a payment and performance bond;

- Proven and improving technology to monitor real-time wind resource conditions and to estimate hour-ahead and day-ahead Project output to make integration both manageable and economical.

Wind Resource Assessment

The Project is an excellent wind resource with an average annual wind speed in excess of 18 mph[17] and strong winds in every month of the year. Wind has been measured at fourteen sites since December 2002. Horizon analyzed these data, as did PSE's independent consultants, 3Tier Environmental Forecast Group, Inc. ("3Tier") and Garrad Hassan. 3Tier is a Seattle-based firm with expertise in wind energy and atmospheric analysis. Garrad Hassan is a world-renowned expert in wind energy resource and technology assessment. Garrad Hassan independently estimated the expected long-term energy output from the Project. Adjusting Garrad Hassan's estimate to take into account electrical losses in accordance with the specifications contained in the BOP EPC Agreement, an annual energy output of [redacted] MWh was confirmed. This is an annual capacity factor of [redacted] making it one of the best wind resources in

[17] It should be noted that available wind energy is dependent upon wind speed, and air density. Wind speeds at Wild Horse are higher than at Hopkins Ridge. However, due to the higher elevation of Wild Horse, and the resultant lower air density, the wind power at Wild Horse is not quite as great as that at Hopkins Ridge.

Washington State. The analysis includes consideration of topographical effects on the wind field, interference of WTGs upon another, electrical system losses, and other effects. Wind varies from year-to-year and the standard deviation of such variations is estimated to be approximately 58,000 MWh per year. The 3Tier analysis also helped PSE to better understand the seasonal and inter-annual volatility of the wind resource. 3Tier provided an analysis of what the energy production of the Project would have been over the last several decades, based on historical weather data and the most modern numerical modeling techniques. This volatility can be correlated to historical hydroelectric production, load patterns, and climate cycles (such as El Nino) to obtain a view on how energy production will fit into future portfolio operations.

Environmental Matters

An environmental due diligence review was conducted of all required local, state and federal government notices, authorizations, approvals, licenses, and permits required for construction and operation of the Project, and corresponding applications, notices, studies and other information, as provided by WRPP. A detailed explanation of the environmental regulatory requirements is provided in **Exhibit 8**. Of these, the major environmental requirements were made conditions precedent to the MIPA as described previously.

Other Due Diligence

Real Estate

The real estate due diligence to be completed prior to closing will include title review and a survey of the entire site to confirm the site is contiguous, without significant encroachments, and that there are not any additional real property interests needed for

the Project. In addition, Phase I environmental site assessments[18], subject to PSE's review and approval, have been obtained for the entire Project site that provide PSE important 'safe harbor' protection under CERCLA with respect to any pre-existing adverse environmental conditions.

Wind Turbine Generators

PSE retained Garrad Hassan to provide a due diligence review of the Vestas V80 wind turbine generator, and of Vestas. Garrad Hassan confirmed that Vestas is the world's leader in wind turbine market share and is considered the leader in technology as well. The V80 WTG began production in 2001. Like most wind turbines, the first machines experienced some performance problems. These problems included some mechanical and electrical systems issues, which Vestas has addressed through warranty programs. Vestas has a program to incorporate lessons learned into future editions of their machines, and the PSE turbines will benefit from these lessons implemented on a more robust platform. The V80 wind turbine has earned a "Type Certificate" from Germanischer Lloyd ("GL"), an industry recognized certification agency, that certifies the V80 to have a design life of at least 20 years. The V80 fleet has achieved over 97% availability, and thus Garrad Hassan concluded PSE should expect to achieve its operational and financial goals with this WTG. Nevertheless, Garrad Hassan recommends PSE take advantage of the five-year warranty offered by Vestas as protection against any serial defects which might show up after the expiration of the standard two-year warranty. Vestas, though the world leader, has experienced downward margin pressure due to steel and fuel prices (which affects transportation costs) and market pressure now that Siemens has purchased Vestas' Danish

[18] Phase I environmental site assessments are performed by a qualified environmental professional and are intended to provide a review of known and observable conditions that allow for an evaluation of the environmental conditions on a site.

competitor, Bonus. In addition to the Garrad Hassan due diligence, PSE has made an inspection of the Vestas factories in Denmark, including the machine shops that manufacture major components, the nacelle assembly factory, the blade production factory, and the executive offices.

Technical Support

PSE intends to retain Global Energy Concepts ("GEC"), a Kirkland-based wind energy consultant, and R.W. Beck ("Beck") to provide engineering services during the construction phase of the Project. GEC and Beck will provide critical review of certain preliminary engineering, such as the design of the Project electrical collection system, to assure maximum availability of the wind turbines at minimum electrical or other losses and will provide owner's engineering services by providing critical design reviews, for example with respect to wind turbine foundations. In addition, PSE staff engineers have reviewed, negotiated and accepted the technical specifications included in the EPC contract.

The principal findings of PSE's due diligence investigations are summarized in **Exhibit 8**.

Tax Benefits/Considerations

The proposed transaction has been structured to reduce revenue requirements of customers by minimizing PSE's cash income tax costs. PSE will claim the PTCs created by the Wild Horse Project and flow-through the PTCs on energy actually produced during the ten-year period following the tax in-service date, resulting in reduced customer revenue requirements. In addition, a significant portion of the investment in the Project will qualify for accelerated depreciation benefits over a five-year recovery period, thereby resulting in a significant reduction in PSE's otherwise-applicable federal income tax liabilities. A substantial portion of the equipment and

services acquired by PSE pursuant to the TSIA and the BOP EPC Agreement will not be subject to Washington sales tax, thus lowering the all-in cost of the Project. Also, PSE has received a favorable IRS ruling with respect to PSE's qualification to claim the PTCs for the output of the Project.

Renewable PTCs cannot be used by a company to reduce its corporate income taxes below a floor of 75% of the company's regular tax liability or the amount it would owe under the alternative minimum tax. Any credits that go unused in any one year because of this limitation can be carried back one year and forward for 20 years. The average amount of the PTCs expected from the Project is approximately $12.2 million in 2007 and escalated annually for 10 years. Use of this credit requires an annual amount of income taxes payable of approximately $49 million over and above approximately $35 million of taxes payable necessary to support the $8.8 million of PTCs expected in 2007 from the Hopkins Ridge Project. The Company's 2005 Strategic Plan predicts adequate taxable income over the 10-year period beginning in 2006 to utilize the PTCs resulting from both the Hopkins Ridge and the Wild Horse Project, although in some individual years, PSE may need to carry over the credits.

On August 8, 2005, a two-year extension (through December 31, 2007) of PTCs for wind projects was signed into law by President Bush. The credit was first created by the passage of the Energy Policy Act of 1992 and applied to electricity produced by a qualified wind facility placed in service after December 31, 1992. The PTCs represents a 1.5 cent per kilowatt-hour federal income tax credit that is adjusted annually for inflation. The current value of the credit is 1.9 cents per kilowatt-hour (or $19.00/MWh).

Assets acquired and/or constructed as part of the proposed transaction will have book lives and tax lives that will differ, in certain cases significantly. Such differences will give rise to a deferred tax liability and a Schedule M adjustment on PSE's corporate income tax return. For rate-making purposes, such deferred tax liability will cause PSE to have

a somewhat lower earnings base than book basis in the acquired assets as the accelerated cash flow benefit of the shorter tax lives of the acquired assets reduce PSE's earnings base for rate-making purposes. Such difference will reverse by the end of the book life of the assets. The revenue requirement effects of such book/tax differences over the Project's life are reflected in PSE's estimate of the Project's 20-year levelized costs.

The financial effects of the Hopkins Ridge Project, the Wild Horse Project, and other prospective resource acquisitions are reflected in the Company's 10-year Financial Forecast.

Accounting Treatment

The proposed transaction will be accounted for pursuant to the applicable accounting rules of the FERC and WUTC. For conservative modeling purposes and valuation the overall useful book life of the Project is estimated to be 20 years.

A 20-year life with no residual value was the basis used for evaluating the Hopkins Ridge Project. However, the Company continues to monitor industry practices with respect to book life and has determined that lives of 25 years or more are being adopted. The Company will make a final determination about book life prior to filing for rate recovery.

Rate-Making Treatment

PSE anticipates that, after closing, it would request recovery of its investment costs in a General Rate Case ("GRC") to be filed in February 2006, such that the case would be completed shortly before the Project achieves Substantial Completion and with the rates for the Project going into effect around January 1, 2007.

As with Hopkins Ridge, PSE will seek to have the Project's asset acquisition costs, development costs, due diligence costs, start-up costs, construction costs, AFUDC and all related transactions costs capitalized and recovered in rates over a 20-year period (or longer if appropriate) together with an authorized return on rate base. The authorized rate of return in a GRC would likely be litigated. PSE will request that all projected costs associated with the operation and maintenance of the Project be recovered in rates.

PSE will also request an accounting order to accrue a return on 1) the regulatory asset created by the difference in timing between when PTCs are earned and when PTCs are booked as tax credits; and 2) the balance of deferred tax created by the timing difference between when deferred tax credits are booked and when they can be used to reduce actual tax payments.

A preliminary estimate of the net effect on electric rates would be an increase of less than 1%, based on the 20-year levelized cost of the Project of approximately [redacted]MWh. However, if a 25-year life is used for the WTGs, the 20-year levelized cost is reduced to approximately [redacted]MWh. Along the same lines, it is expected that the Project would have considerable value at the end of its depreciable life; i.e., positive end effects. This is especially true since the land owned in fee gives PSE the "wind rights" in perpetuity. In addition, 10 to 15 years remain under the DNR and WDFW leases. If approximately $27.6 million of residual value is assumed, the 20-year levelized cost falls further to approximately [redacted]MWh. The actual impact on customer rates at the end of 2006 is expected to be an increase that depends upon: (1) the outcome of the PCORC, (2) the market price of power in 2007 that is replaced by Project generation, (3) the first year cost of the Project compared to the levelized Project cost, and (4) the outcome of the 2006 General Rate Case.

A discussion of rates and accounting issues is contained in **Exhibit 9**.

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Financing Program

The cash requirements are included in PSE's 2006 Capital Budget and 10-year Financial Forecast, and will be funded as a component of the Company's overall 2005/2006 financing program. It is expected that the Company will fund the initial cash requirements with its existing short-term credit facilities and then refund those borrowings using the proceeds of permanent long-term financing when conditions for issuing such financing are favorable in the capital markets. The permanent financing will most likely consist of senior secured notes (secured by a mortgage on electric and/or gas property) and/or common equity.

Insurance Program

Construction Period Insurance Program

During the construction period, builder's risk coverage (physical damage to the plant during construction) can be provided in one of two ways: (1) PSE can endorse coverage on its existing property insurance policy or (2) PSE can purchase a separate policy. Once PSE has obtained construction period insurance premium estimates, the following factors will be considered:

(1) Since losses would be paid by PSE's property insurance carrier, this could affect the future premium rate charged for all of PSE's insured facilities. An on-site PSE representative would monitor the construction physical damage exposures and deal with any insurance related matters that may arise.

(2) PSE's current property insurance deductible is $1,000,000 and the insurer is unlikely to reduce the construction phase deductible for this project below $250,000. Lower deductibles would be available through other insurers at additional cost.

PSE anticipates purchasing a separate policy with a $250,000 deductible.

Operating Period Insurance Program

Once construction is complete and the Project commences operation, it will be added to PSE's existing (1) general liability insurance coverage – $100,000,000 excess of a $2,000,000 per occurrence self-insured retention, and (2) all risk property insurance program for replacement value, subject to a $1,000,000 per occurrence deductible. In addition, the Service Agreement will require that Vestas American obtain the following insurance coverage:

(1) Workers' Compensation;

(2) Comprehensive General Liability;

(3) Automobile Liability;

(4) Transit and Off-Site Coverate; and

(5) Excess Liability.

Risk Factors

PSE's risks associated with the Project vary in nature and extent based on the phase of the Project. The phases are:

- Pre-Closing
- Construction
- Operation

PSE has prepared a detailed description of the principal risks and identified mitigation plans (See **Exhibit 10**). A summary description of these risks follows:

- The Pre-Closing Phase extends from now until the closing of the proposed transaction. Principal risks are that the proposed transaction will not close due to failure to resolve the few outstanding commercial terms open among the parties. The financial exposure to PSE in the event of a failure to close is principally the risk that transaction costs incurred to date in the approximate amount of [redacted] million would be expensed. The principal mitigation against these risks is PSE's careful negotiation of the definitive agreements, completion of due diligence activity and regular communication with the key counterparties.

- The Construction Phase commences at the closing of the MIPA and the issuance of the NTP under the TSIA and BOP EPC Agreement. At closing, PSE will purchase the development assets of the Project for [redacted] payable in two installments as follows: (i) [redacted] payable upon closing and (ii) [redacted] upon Substantial Completion of the Project. The primary responsibility during this phase is Vestas American's obligation to supply, transport, erect, install and commission the WTGs according to a fixed price, guaranteed schedule, and such that the Project meets certain performance guarantees, and Horizon's obligation to build the BOP scope of the Project according to agreed-upon technical specifications at a fixed price and guaranteed schedule. The principal mitigation is PSE's right to assess liquidated damages on the responsible parties. In addition to parent guarantees from Goldman Sachs and Vestas, PSE will obtain a payment and performance bond to secure Horizon's performance of the BOP EPC Agreement. Under the TSIA, PSE will fully mitigate the currency risk of the portion of the contract price quoted by Vestas by entering into a currency hedge at the time of closing, which will result in the price being fixed in US dollars.

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- The Project enters the Operating Phase once substantial completion is achieved. The principal risks in this phase relate to the Project not meeting performance expectations. The reasons the Project might fall short include poor wind conditions over the long term, the Project not being capable of meeting initial performance projections, or mechanical availability problems with the equipment. The risks are proportional to the loss of production. Performance of the equipment, both initial and ongoing, is subject to warranty by Vestas American during the defined, five-year warranty period and subject to incentives and penalties in the Service Agreement. With respect to the long-term wind resource, PSE's mitigation is thorough due diligence on the wind resource projection by independent industry experts.

Closing and Schedule

PSE, Horizon and Vestas American desire to execute definitive agreements and close this transaction as soon as possible. Execution of key definitive agreements (the MIPA, the TSIA, the BOP EPC Agreement, the Service Agreement and the Warranty Agreement) is currently targeted to occur on or before September 30, 2005, following Board consideration.

At closing, PSE will issue an NTP to Horizon for the BOP scope and to Vestas American for the WTGs. Construction is expected to take approximately fourteen (14) months, which would (i) permit the Project to achieve substantial completion by December 1, 2006 and (ii) allow PSE to take advantage of the PTCs.

See **Exhibit 11** for the Project Schedule.

Recommendation

Based on the described benefits of the proposed transaction, management recommends that the Board of Directors approve the transaction as proposed.

GUIDE TO ACRONYMS AND SHORTENED TERMS

Abbreviation/Term	Meaning
AMLC	American Minerals and Land Corporation
Beck	R.W. Beck
BOP	Balance of Plant
BOP EPC Agreement	The Balance of Plant Engineering, Procurement and Construction Agreement
CCCT	Combined-Cycle Combustion Turbine
DNR	Washington State Department of Natural Resources
DNR Lease	State DNR Land Lease
EFSEC	Washington Energy Facility Site Evaluation Council
Garrad Hassan	Garrad Hassan Americas, Inc.
GEC	Global Energy Concepts
GIA	Generation Interconnection Agreement
GL	Germanischer Lloyd AG
GL Wind	Germanischer Lloyd WindEnergie GmbH
GRC	General Rate Case
Horizon	Horizon Wind Energy LLC
HWEC	Horizon Wind Energy Company LLC
IRS	Internal Revenue Service
LCP	Least Cost Plan
Mid-C	Mid-Columbia
MIPA	Membership Interest Purchase Agreement
NTP	Notice to Proceed
O&M	Operation and maintenance
Project	The Wild Horse Project
Service Agreement	Service and Maintenance Agreement
PCORC	Power Cost Only Rate Case
PLR	Private letter ruling
PPA	Power Purchase Agreement

Private Land Option	The Option and Real Estate Purchase and Sale Agreement and Assignment
PTCs	Production Tax Credits
RECs	Renewable Energy Credits
RPS	Renewable Portfolio Standards
TSIA	Turbine Supply and Installation Agreement
Vestas	Vestas Wind Systems A/S
Vestas American	Vestas - American Wind Technology, Inc.
WDFW	Washington Department of Fish and Wildlife
WDFW Lease	WDFW Land Lease
Wind Leases and Easements	Wind Energy Ground Leases and Transmission and Access Easements
WRPP	Wind Ridge Power Partners LLC
WTG	Wind turbine generator
WUTC	Washington Utility and Transportation Commission
3Tier	3Tier Environmental Forecast Group, Inc.

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