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July 10, 2000

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

HAND-DELIVERED

Ms. Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

**Re: Docket No. UE-991779
Application of PSE for Approval of Corporate Reorganization**

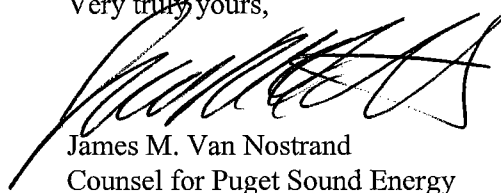
Dear Ms. Washburn:

Enclosed for filing in the above docket are an original and nineteen (19) copies of a Stipulation among Puget Sound Energy, Commission Staff, Public Counsel, and Industrial Customers of Northwest Utilities. The Stipulation recommends that the Commission issue an order approving the proposed corporate reorganization to form a holding company, Puget Energy, Inc., subject to the conditions set forth in the Stipulation.

Puget Sound Energy's Application in this proceeding was filed with the Commission on November 16, 1999. Thereafter, the parties had several meetings to discuss the Application and to develop appropriate conditions that could be incorporated into a Commission order approving the Application. These discussions resulted in the enclosed Stipulation. In the event the Commission determines that a hearing on this matter is necessary, paragraph 14 of the Stipulation provides that each party will make available a witness in support of the Stipulation. The parties propose that the Commission include the Stipulation on the agenda for its July 31 public meeting, at which time the parties would have representatives available to answer any questions the Commission may have regarding the Stipulation.

Thank you for your assistance.

Very truly yours,



James M. Van Nostrand
Counsel for Puget Sound Energy

Enclosure

cc: Bob Cedarbaum
Simon J. fitch
Melinda Davison
Kimberly J. Harris
Steve Secrist

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

In the Matter of the Application of

PUGET SOUND ENERGY, INC.

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

Docket No. UE-991779

STIPULATION

STATE OF WASH.
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REGISTRATION DIVISION

On November 16, 1999, Puget Sound Energy, Inc. ("PSE") filed an Application with the Commission requesting an Order disclaiming jurisdiction or, in the alternative, approving a corporate reorganization to create a holding company, Puget Energy, Inc. Subsequent to the filing, representatives from PSE, the Commission Staff, the Office of Public Counsel, and Industrial Customers of Northwest Utilities ("ICNU") (collectively, the "Parties") met to discuss the Application and to attempt to develop appropriate conditions to incorporate into a Commission order approving the Application.

The Parties have reached agreement on conditions to be recommended to the Commission to be incorporated into an order approving the Application, and wish to present their recommendation to the Commission for its consideration. The Parties enter into this Stipulation voluntarily to resolve issues in connection with the Application and to expedite the orderly disposition of this proceeding.

STIPULATION

The Parties recommend that the Commission approve the Application in this docket, subject to the conditions of this Stipulation.

1. PSE and Puget Energy, Inc. shall exclude from all ratemaking treatment the transaction costs associated with the corporate reorganization to create a holding company, Puget Energy, Inc. Transaction costs include corporate organizational and filing fees and any fees paid for legal, accounting, consulting, and financial advisory services related to the formation of Puget Energy, Inc.

2. PSE shall provide Staff and Public Counsel access to books and records (including those of Puget Energy, Inc., or any affiliate or subsidiary companies) required

to be accessed to verify or examine transactions affecting PSE's regulated utility operations. The reorganization shall not result in reduced access to the necessary books and records, and the corporate structure created by this reorganization shall not be used by PSE as a basis to oppose requests for such books and records made by the Commission, its Staff or Public Counsel.

3. PSE and Puget Energy, Inc. shall maintain the necessary books and records so as to provide an audit trail for all corporate, affiliate, or subsidiary transactions that impact PSE's regulated utility operations. Nothing in this stipulation shall limit or affect the Commission's rights with respect to inspection of accounts, books, papers and documents of PSE or Puget Energy, Inc. pursuant to RCW 80.04.070 or RCW 80.16.030.

4. PSE's customers shall be held harmless from the liabilities of any nonregulated activity of PSE or Puget Energy, Inc. In any proceeding before the Commission involving the rates of PSE, the Parties agree that the fair rate of return for PSE will be determined without regard to any adverse consequences that are demonstrated to be attributable to the corporate reorganization approved in this Application. Any new nonregulated subsidiary shall be established as a subsidiary of Puget Energy, Inc. rather than as a subsidiary of PSE. Measures providing for separate financial and accounting treatment will be established for each nonregulated activity.

5. If and when any subsidiary of PSE becomes a subsidiary of Puget Energy, Inc., PSE will so advise the Commission within thirty (30) days and will submit to the Commission a written document setting forth PSE's proposed corporate and affiliate cost allocation methodologies. The Commission shall be notified of any change in corporate structure which affects the corporate and affiliate cost allocation methodologies, and PSE's proposed revisions to such cost allocation methodologies to accommodate such changes. (The Parties will not argue that compliance with this provision constitutes approval by the Commission of a particular methodology for corporate and affiliate cost allocation.) Notification shall also be provided upon any public announcement of any acquisition of a regulated or non-regulated business representing 5% or more of the market capitalization of Puget Energy, Inc.

6. With respect to the ratemaking treatment of affiliate transactions, PSE and Puget Energy, Inc. will comply with the Commission's then-existing practice. Nothing in this Stipulation shall limit PSE from also proposing a different ratemaking treatment for the Commission's consideration or limit the positions any other Party may take with respect to ratemaking treatment.

7. PSE shall not assert in any future Washington proceeding that the provisions of the Public Utility Holding Company Act of 1935 or the related *Ohio Power v. FERC* case results in preemption by the SEC of the Commission's jurisdiction over affiliated interest transactions. In the event that PUHCA is repealed or modified, PSE and Puget Energy, Inc. agree not to seek any such preemption under any subsequent modification or repeal of PUHCA.

8. All existing orders issued by the Commission with respect to PSE or its predecessors, Puget Sound Power & Light Company and Washington Natural Gas Company, will remain in effect, and are not modified or otherwise affected by the order in this proceeding.

9. PSE does not contest that the Commission has jurisdiction to authorize the proposed reorganization to create a holding company, Puget Energy, Inc. PSE and Puget Energy, Inc. shall not assert in any future proceedings that, by virtue of the presence of Puget Energy, Inc., the Commission is without jurisdiction over any transaction that results in a change of control of PSE.

10. Nothing in this Stipulation relieves PSE or Puget Energy, Inc. of their requirement to comply with all applicable provisions of title 80 RCW, including those pertaining to transfers of property under chapter 80.12 RCW, affiliated interests under chapter 80.16 RCW, and securities and the assumption of obligations and liabilities under chapter 80.08 RCW.

11. PSE and Puget Energy, Inc. affirm that PSE, in a general rate case, bears the burden to prove that any corporate and affiliate cost allocation methodology it proposes is reasonable for retail ratemaking purposes. Neither PSE nor Puget Energy, Inc. contests the Commission's authority to disallow, for retail ratemaking purposes in a

general rate case, unsupported, unreasonable, or misallocated costs from nonregulated or affiliate business to PSE's regulated utility operations.

GENERAL PROVISIONS

12. This Stipulation is a negotiated settlement of the issues identified by the parties in this proceeding. By executing this Stipulation, no party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving at such a Stipulation, and, except as set forth in this Stipulation, no party shall be deemed to have agreed that any method, theory or principle of regulation employed in this Stipulation is appropriate for resolving any issue in any other proceeding. Nothing in this Stipulation shall be deemed to change the Commission's existing practice with respect to the ratemaking treatment of affiliate interest transactions, or to approve a particular methodology for corporate and affiliate cost allocation.

13. The Parties recommend that the Commission issue an order approving the proposed corporate reorganization to form a holding company, Puget Energy, Inc., subject to the conditions set forth in this Stipulation. The Parties agree that this Stipulation is consistent with the public interest and that all of its terms are fair, just and reasonable.

14. The Parties shall cooperate in submitting this Stipulation promptly to the Commission for acceptance, and shall support adoption of this Stipulation in any proceedings before the Commission in connection with the Application. No Party to this Stipulation or their agents, employees, consultants or attorneys will engage in any advocacy contrary to the Commission's adoption of this Stipulation as resolution of the issues included within this Stipulation. Each Party shall make available a witness in support of this Stipulation, in the event the Commission determines that a hearing on this matter is necessary. In the event the Commission rejects all or any material portion of this Stipulation, or imposes additional, material conditions, each Party reserves the right to withdraw from this Stipulation. In such case, no Party to this Stipulation shall be bound or prejudiced by the terms of this Stipulation, and each Party shall be entitled to

seek reconsideration of the Commission Order, file any testimony it chooses, to cross-examine witnesses, and in general put on such case as it deems appropriate.

15. This Stipulation shall not become effective unless and until (1) the Commission enters an Order approving this Stipulation, and (2) the closing of the transaction creating the holding company Puget Energy, Inc. If this Stipulation does not become effective according to its terms, it shall be null and void.

16. This Stipulation may be executed by the Parties in counterparts and as executed shall constitute one agreement. Copies sent by facsimile are as effective as original documents.

DATED this 7th day of July, 2000.

Puget Sound Energy, Inc.

**Staff of the Washington Utilities and
Transportation Commission**

By: 
Kimberly J. Harris
Assistant General Counsel

By: _____
Robert D. Cedarbaum
Assistant Attorney General

**Public Counsel Section
Attorney General Of Washington**

**Industrial Customers of Northwest
Utilities**

By: _____
Simon J. Fitch
Assistant Attorney General

By: _____
Melinda J. Davison
Duncan, Weinberg, Genzer &
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Puget Sound Energy, Inc.

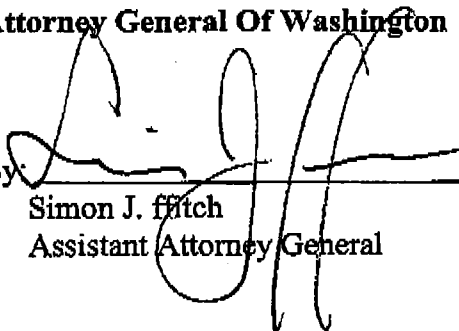
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DATED this 11 day of July, 2000.

Puget Sound Energy, Inc.

**Staff of the Washington Utilities and
Transportation Commission**

By: _____
Kimberly J. Harris
Assistant General Counsel

By: _____
Robert D. Cedarbaum
Assistant Attorney General

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