



PUGET
SOUND
ENERGY

UE-030003

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

February 19, 2003

Ms. Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

Re: Petition for an Order Establishing Compliance with WUTC Reporting Requirements Regarding Refunding of Pollution Control Bonds

Dear Ms. Washburn:

Enclosed for filing are an original and three copies of Puget Sound Energy's ("PSE's") Request for an Order Establishing Compliance with RCW 80.08.040 with respect to refunding its pollution control bond obligations. Also enclosed, are Exhibits including a Proposed Order granting PSE's request.

The transaction will lower the borrowing rate and extend the term of its current pollution control bond obligations. The Company's customers will benefit as a result of the lower costs and lower resultant rates. The savings also enable the Company to achieve the equity targets approved by the Commission in Docket No. UE-011570.

The Company requests that the Commission waive the requirement of WAC 480-146-200 which states that the minimum time required for commission order is 15 working days prior to the date when an order of the Commission is desired. The Company requests expedited treatment regarding this matter in order for it to be addressed at the February 28, 2003 WUTC open meeting. The purpose of the expedited treatment is to allow the Company to issue securities in early March 2003.

Very truly yours,

PUGET SOUND ENERGY, INC.

By


Donald E. Gaines

Vice President Finance & Treasurer

Enclosures
cc: Simon J. ffitc

RECEIVED
 RECORDS MANAGEMENT
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 STATE OF WASH.
 UTIL. AND TRANSP.
 COMMISSION

BEFORE THE
 WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the matter of the request of)
 Puget Sound Energy, Inc.)
 for an order establishing compliance)
with Chapter 80.08 RCW)

Application
 Docket No. 03-0223

Puget Sound Energy, Inc. (hereinafter called "PSE" or "the Company") has the opportunity to refinance its existing pollution control bonds at a considerable savings. As a result, the Company hereby requests the Washington Utilities and Transportation Commission to (1) enter a written order authorizing the Company to enter into a loan agreement with the City of Forsyth, Montana ("City") pursuant to which PSE will incur the obligation to make payments equal to the interest on and principal of \$161,860,000 of Pollution Control Revenue Refunding Bonds to be issued by the City pursuant to an Indenture of Trust to be entered into between the City and a trustee that has yet to be named ("Trustee"), and (2) to issue \$161,860,000 aggregate principal amount of First Mortgage Bonds ("FM Bonds") as security for the Pollution Control Revenue Refunding Bonds.

Background

PSE has outstanding four series of Pollution Control Bonds. Amounts outstanding were borrowed from the City of Forsyth, Montana ("the City"). The City obtained the funds from the sale of Customized Purchase Pollution Control Refunding Bonds issued to finance pollution control facilities at Colstrip Units 3 and 4. Each series of bonds is collateralized by a pledge of PSE's First Mortgage Bonds, the terms of which match those of Pollution Control Bonds. These bonds have call provisions that enable the Company to refinance them on economically favorable terms. No payment is due with respect to the related series of First Mortgage Bonds so long as payment is made on the Pollution Control Bonds. The principal balance of such Bonds, as of January 31, 2003, is:

Series	Due	Balance
1991 Series-7.05%	2021	\$ 27,500,000
1991 Series-7.25%	2021	\$ 23,400,000
1992 Series-6.80%	2022	\$ 87,500,000
1993 Series-5.875%	2020	<u>\$ 23,460,000</u>
Total		\$161,860,000

Proposed Refunding

Under this proposal, PSE will assume obligations and issue securities in connection with the refunding of the 1991, 1992, and 1993 Series Customized Purchase Pollution Control Revenue Refunding Bonds ("Prior Bonds") shown above.

The City will issue \$161,860,000 of its pollution Control Revenue Refunding Bonds (Puget Sound Energy Project) consisting of two separate series in aggregate principal amounts as follows: (1) \$138,460,000 Pollution Control Revenue Refunding Bonds (Puget Sound Energy Project) Series 2003A; and (2) \$23,400,000 Pollution Control Revenue Refunding Bonds (Puget Sound Energy Project) Series

2003B. The Series 2003A Bonds and the Series 2003B Bonds (collectively, the “ New Bonds”) will be issued under an Indenture of Trust dated as of March 1, 2003, between the City and the Trustee..

The principle terms and conditions relating to the issuance of the New Bonds by the City and the First Mortgage Bonds by PSE are set forth in the attached Preliminary Offering Memorandum, attached as Exhibit . This application will be supplemented with the resolutions approved by the Company’s Board of Directors which will contain essentially the pricing and related final terms of the transaction.

In order to improve the credit rating on the New Bonds to higher ratings awarded by Moody’s Investor Services and Standard and Poors, Aaa and AAA, respectively, PSE will obtain a municipal bond insurance policy for the New Bonds. Under the Policy, a bond insurance company will guarantee the payment of interest and principal on the New Bonds.

To obtain a favorable insurance premium and to evidence PSE’s obligation to repay the loans made to it by the City under the Loan Agreement, PSE will issue and deliver to the Trustee Pledged Bonds issued pursuant to its existing electric and/or gas mortgages . The principal terms of the Pledged Bonds will be identical to those of the New.

The Company is requesting an order establishing that the transaction is in compliance with RCW 80.08.

Request for Order Establishing Compliance

The following information is furnished in support of this application, in accordance with the requirements of RCW 80.08.040:

1) A Description of the Purposes for Which the Issuance is Made, Including a Certification By an Officer Authorized To Do So That the Proceeds From Any Such Securities Are For One Or More of the Purposes Allowed By Chapter 80.08 RCW.

PSE will issue the bonds for the purpose of refunding the Prior Bonds, the proceeds of which were used to refund certain revenue obligations issued to finance or refinance a portion of the Company’s share of the costs of acquiring and improving its facilities. The stated purpose of the refunding is to capture significant economic savings and is accordance with Chapter 80.08, Paragraph 1, (d) regarding discharge or refunding of obligations.

2) A Description of the Proposed Issuance Including the Terms of Financing.

As stated above, the terms and conditions relating to the issuance of the New Bonds are set forth in the documents attached hereto.

3) Statement As To Why The Transaction Is In the Public Interest.

Through the refunding, the Company will lower the borrowing rate and extend the term of its current pollution control bond obligations. The Company’s customers will benefit as a result of the lower costs and lower resultant rates. In the interim, the savings further enables the Company to achieve the equity targets approved by this Commission in its order related to PSE’s rate settlement.

4) Text of a Draft Order Granting PSE's Request for an Order, Including A Disk Containing the Proposed Language in a Format Acceptable to the Commission.

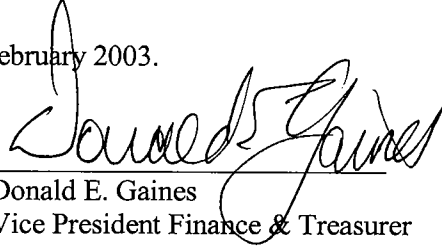
See Exhibit B.

CERTIFICATION

The undersigned certifies under penalty of perjury under the laws of the State of Washington that he has read the foregoing and knows the contents thereof and that the same are true to the best of his own knowledge or belief.

Done at Bellevue, Washington this 19th day of February 2003.

By:


Donald E. Gaines

Vice President Finance & Treasurer

**In the matter of the application of Puget Sound Energy For an Order Establishing Compliance with
RCW 80.08.040, with Respect to its Proposal for Bond Refunding**

Index of Exhibits

**Exhibit A
Exhibit B**

**Preliminary Official Statement
Proposed Order**

Exhibit A
Preliminary Official Statement

Chapman and Cutler
Draft of 01/29/03
02/07/03

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2003

TWO NEW ISSUES

BOOK-ENTRY ONLY FORM

Subject to compliance by the Issuer and the Company with certain covenants, in the opinion of Chapman and Cutler, Bond Counsel, under present law (i) interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes, except for interest on any Bond for any period during which such Bond is owned by a person who is a substantial user of the Facilities or any person considered to be related to such person (within the meaning of Section 147(a) the Internal Revenue Code of 1986 and the Internal Revenue Code of 1954, as applicable), (ii) interest on the Series 2003A Bonds is **not** included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations, and (iii) **interest on the Series 2003B Bonds is included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations**, all as more fully discussed under the heading "TAX EXEMPTION" herein. Bond Counsel is also of the opinion that, so long as interest on the Bonds is excluded from gross income for federal tax purposes, interest on the Bonds is exempt from the individual income tax imposed by the State of Montana. See "TAX EXEMPTION" herein for a more complete discussion.

\$138,460,000

**CITY OF FORSYTH,
ROSEBUD COUNTY, MONTANA
Pollution Control Revenue Refunding Bonds
(Puget Sound Energy Project)
Series 2003A (Non-AMT)**

\$23,400,000

**CITY OF FORSYTH,
ROSEBUD COUNTY, MONTANA
Pollution Control Revenue Refunding Bonds
(Puget Sound Energy Project)
Series 2003B (AMT)**

Dated: March 1, 2003

Due: _____

The Series 2003A Bonds and Series 2003B Bonds (collectively, the "Bonds") are limited obligations of the City of Forsyth, Rosebud County, Montana (the "Issuer"), payable, except to the extent payable from Bond proceeds and certain other moneys pledged therefor, solely from and secured by a pledge of payments to be made under a Loan Agreement between the Issuer and

PUGET SOUND ENERGY, INC.

The Bonds of each series are to be issued pursuant to a Trust Indenture between the Issuer and _____, as Trustee.

The Bonds will be issuable as fully-registered bonds and will be registered in the name of a nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Purchases will be made in book-entry form through DTC participants only in the principal amount of \$5,000 or any integral multiple thereof and no physical delivery of Bonds will be made to purchasers, except as otherwise described herein. Payments of principal and premium, if any, and interest will be made to purchasers by DTC through its participants. See "THE BONDS—Book-Entry System" herein. The Bonds will bear interest from the date of the first authentication and delivery thereof. Interest on the Bonds will be payable on each _____ 1 and _____ 1, commencing _____ 1, 2003.

As described herein, the Bonds of each series will be subject to optional and mandatory redemption prior to maturity.

**\$138,460,000 _____% Series 2003A (Non-AMT)
\$23,400,000 _____% Series 2003B (AMT)**

All Prices 100%

Payment of the principal of and interest on the Bonds when due will be insured by municipal bond insurance policies to be issued by _____ simultaneously with the delivery of the Bonds. See "BOND INSURANCE" herein.

[INSURER LOGO]

The Bonds are offered when, as and if issued and received by the Underwriters subject to the approval of legality by Chapman and Cutler, Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the Company by Perkins Coie LLP, counsel to the Company, for the Issuer by Gary Ryder, Esq., City Attorney, and for the Underwriters by Skadden, Arps, Slate, Meagher & Flom LLP. It is expected that delivery of the Bonds will be made on or about March 11, 2003.

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other change without any notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Goldman, Sachs & Co.

M.R. Beal & Company

This Official Statement is dated _____, 2003, and the information contained herein speaks only as of that date.

No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the City of Forsyth, Rosebud County, Montana (the “*Issuer*”), Puget Sound Energy, Inc. (the “*Company*”), Goldman, Sachs & Co. or M.R. Beal & Company (collectively, the “*Underwriters*”). Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, other than that relating to the Issuer under the caption “THE ISSUER.”

TABLE OF CONTENTS

	PAGE
INTRODUCTORY STATEMENT	1
THE ISSUER	2
THE BONDS	2
THE LOAN AGREEMENT	8
THE INDENTURE	11
BOND INSURANCE	15
CONTINUING DISCLOSURE	16
BOND RATINGS	16
LITIGATION	16
UNDERWRITING	17
TAX EXEMPTION	17
CERTAIN LEGAL MATTERS	19
MISCELLANEOUS	19
APPENDIX A — Puget Sound Energy, Inc.	A-1
APPENDIX B — Specimen Municipal Bond Insurance Policy	B-1
APPENDIX C — Form of Opinion of Bond Counsel	C-1
APPENDIX D — Form of Continuing Disclosure Undertaking	D-1

OFFICIAL STATEMENT

\$161,860,000

CITY OF FORSYTH, ROSEBUD COUNTY, MONTANA

Pollution Control Revenue Refunding Bonds

(Puget Sound Energy Project)

\$138,460,000 Series 2003A

\$23,400,000 Series 2003B

INTRODUCTORY STATEMENT

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the sale by the City of Forsyth, Rosebud County, Montana (the "Issuer") of its Pollution Control Revenue Refunding Bonds (Puget Sound Energy Project) consisting of two separate series in aggregate principal amounts as follows: (i) \$138,460,000 Pollution Control Revenue Refunding Bonds (Puget Sound Energy Project) Series 2003A (the "Series 2003A Bonds"); and (ii) \$23,400,000 Pollution Control Revenue Refunding Bonds (Puget Sound Energy Project) Series 2003B (the "Series 2003B Bonds"). The Series 2003A Bonds and the Series 2003B Bonds (collectively, the "Bonds") will be issued under an Indenture of Trust dated as of March 1, 2003 (the "Indenture"), between the Issuer and _____, as trustee (the "Trustee").

The proceeds from the sale of the Bonds will be loaned to Puget Sound Energy, Inc. (the "Company") pursuant to the terms of a Loan Agreement dated as of March 1, 2003 (the "Loan Agreement") between the Issuer and the Company and used to refund (the "Refunding") all of the Issuer's \$27,500,000 Pollution Control Revenue Refunding Bonds (Puget Sound Power & Light Company Colstrip Project) Series 1991A (the "1991A Bonds"), \$23,400,000 Pollution Control Revenue Refunding Bonds (Puget Sound Power & Light Company Colstrip Project) Series 1991B (the "1991B Bonds"), \$87,500,000 Pollution Control Revenue Refunding Bonds (Puget Sound Power & Light Company Colstrip Project), Series 1992 (the "1992 Bonds"), and \$23,460,000 Pollution Control Revenue Refunding Bonds (Puget Sound Power & Light Company Colstrip Project), Series 1993 (the "1993 Bonds"), which were issued to refinance a portion of the Company's share of the costs of acquiring and improving certain pollution control and solid waste facilities located in Rosebud County, Montana (the "Facilities"). The 1991A Bonds, 1991B Bonds, the 1992 Bonds and the 1993 Bonds are hereinafter collectively referred to as the "Prior Bonds."

The Bonds will be limited obligations of the Issuer giving rise to no pecuniary liability of the Issuer nor any charge against its general credit or taxing powers, and will be payable solely from the receipts and revenues received from the Company as payments under the Loan Agreement and other moneys pledged therefor. Such receipts and revenues and all of the

Issuer's rights and interests under the Loan Agreement (except as noted under "THE INDENTURE—Pledge and Security") will be pledged and assigned to the Trustee as security, equally and ratably, for the payment of the Bonds. The payments required to be made by the Company under the Loan Agreement will be sufficient, together with other funds available for such purpose, to pay the principal of, premium, if any, and interest on the Bonds.

Concurrently with the issuance of the Bonds, _____ (the "Insurer") will issue a Municipal Bond Insurance Policy with respect to each series of the Bonds (collectively, the "Municipal Bond Insurance Policy"). Under the Municipal Bond Insurance Policy, the Insurer will unconditionally guarantee the payment of the principal of the Bonds at the stated maturity thereof, as well as the payment of interest on the Bonds on the regular interest payment dates therefor, which principal and interest shall have so become due but shall be unpaid by reason of nonpayment by the Issuer. The Insurer will not guarantee the payment of the principal of the Bonds payable prior to the stated maturity thereof (whether upon the mandatory or optional redemption thereof or the acceleration thereof upon the occurrence of an Event of Default) or the payment of interest other than on a regular interest payment date. The Insurer will not guarantee the payment of any premium payable upon the redemption of the Bonds. See "BOND INSURANCE" below and APPENDIX B hereto.

Brief descriptions of the Issuer, the Bonds, the Loan Agreement and the Indenture are included in this Official Statement. Information regarding the business, properties and financial condition of the Company is included in and incorporated by reference into APPENDIX A attached hereto. The descriptions herein of the Loan Agreement and the Indenture are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the principal corporate trust office of the Trustee in _____.

THE ISSUER

The Issuer is a municipal corporation and political subdivision duly organized and existing under the Constitution and the laws of the State of Montana. The Issuer is authorized by Sections 90-5-101 through 90-5-114, inclusive, of the Montana Code Annotated, as amended (the "Act"), to issue the Bonds for the purpose of refunding all or a portion of the Prior Bonds, to enter into the Indenture and the Loan Agreement and to secure the Bonds by a pledge of the receipts and revenues from the Company as payments under the Loan Agreement.

THE BONDS

GENERAL

The issue date of the Bonds will be March 1, 2003, and the Bonds of each series will bear interest at the respective rates set forth on the cover page of this Official Statement. Interest on

the Bonds of each series will be paid on each _____ 1 and _____ 1, commencing _____ 1, 2003, and will be computed on the basis of a 360-day year consisting of twelve 30-day months. Bonds authenticated prior to the first interest payment date shall bear interest from the date of first authentication and delivery of the Bonds. Bonds authenticated on or after the first interest payment date shall bear interest from the interest payment date next preceding the date of authentication thereof unless such date of authentication shall be an interest payment date to which interest on the Bonds has been paid in full or duly provided for, in which case the Bonds shall bear interest from such date of authentication; *provided, however*, that if, as shown by the records of the Trustee, interest on the Bonds shall be in default, Bonds issued in exchange for or upon the registration of transfer of Bonds shall bear interest from the date to which interest has been paid in full or duly provided for or, if no interest has ever been paid on the Bonds or duly provided for, from the date of first authentication and delivery of the Bonds. Each Bond shall bear interest on overdue principal and, to the extent permitted by law, on overdue premium, if any, and interest at the respective rates borne by the Bonds.

The Bonds will be issuable as fully-registered Bonds without coupons in the denomination of \$5,000 or any integral multiple thereof. Exchanges and transfers may be made at the office of the Registrar without charge to the Owners (as defined below) of the Bonds, *provided* that in each case the Registrar will require the payment by the Owner of a Bond requesting exchange or transfer of any tax or governmental charge required to be paid with respect thereto.

Principal of and premium, if any, on the Bonds will be payable upon surrender of such Bonds at the principal office of the Paying Agent. Interest on the Bonds will be payable by check mailed to the persons in whose names they are registered ("*Owners*").

_____ is the Trustee under the Indenture and has also been appointed as the Paying Agent and Registrar. The principal office of _____ is located in _____. The Paying Agent and the Registrar may be removed or replaced by the Issuer at the direction of the Company.

The Bonds will be initially issued in book-entry only form through the facilities of The Depository Trust Company, New York, New York ("*DTC*").

BOOK-ENTRY SYSTEM

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each series of the Bonds, each in the aggregate principal amount of such series, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered

pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to

Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Company as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Issuer, the Company or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer, the Company or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Company, the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered to the Beneficial Owners thereof.

The Company or the Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to the Beneficial Owners thereof.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the Issuer believes to be reliable, but the Company and the Issuer take no responsibility for the accuracy thereof.

SECURITY

The Issuer will be obligated to pay the principal of and premium, if any, and interest on the Bonds solely from the receipts and revenues received from the Company as payments under the Loan Agreement and other moneys pledged therefor. The Bonds will be limited obligations of the Issuer giving rise to no pecuniary liability of the Issuer nor any charge against its general credit or taxing powers, and will be payable solely from the receipts and revenues received from the Company as payments under the Loan Agreement and other moneys pledged therefor. The Bonds will not be secured by a mortgage of, or security interest in, the Facilities.

BOND INSURANCE

Concurrently with the issuance of the Bonds, the Insurer will issue the Municipal Bond Insurance Policy. Under the Municipal Bond Insurance Policy, the Insurer will unconditionally guarantee the payment of the principal of the Bonds at the stated maturity thereof, as well as the payment of interest on the Bonds on the regular interest payment dates therefor, which principal and interest shall have so become due but shall be unpaid by reason of nonpayment by the Issuer. The Insurer will not guarantee the payment of the principal on the Bonds payable prior to the stated maturity thereof (whether upon the mandatory or optional redemption thereof or the acceleration thereof upon the occurrence of an Event of Default) or the payment of interest other than on a regular interest payment date. The Insurer will not guarantee the payment of any premium payable upon the redemption of the Bonds. See "BOND INSURANCE" below and APPENDIX B hereto.

EXERCISE OF CERTAIN RIGHTS AND REMEDIES BY THE INSURER

The Indenture provides for the exercise of certain rights and remedies thereunder by the Insurer. The consent of the Insurer is required in addition to the consent of the Owners of the Bonds for any action under the Indenture that requires the consent of the Owners of the Bonds. In addition, upon the occurrence or continuance of an Event of Default under the Indenture, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the Bonds under the Indenture, including any acceleration of the Bonds or any annulment of such acceleration.

OPTIONAL REDEMPTION

The Bonds of each series are subject to redemption by the Issuer, at the direction of the Company, on any date on and after _____ 1, 2013, in whole at any time or in part on any interest payment date, at the redemption prices (expressed as percentages of the principal amount of each Bond or portion thereof to be redeemed) set forth below plus accrued interest to the redemption date:

REDEMPTION PERIOD	REDEMPTION PRICE
_____ 1, 2013, through _____ 31, 2014	101%
_____ 1, 2014, and thereafter	100%

EXTRAORDINARY OPTIONAL REDEMPTION

The Bonds of each series are subject to redemption by the Issuer, at the direction of the Company, in whole (but not in part) at the principal amount thereof plus accrued interest to the redemption date, but without premium, if:

- (a) the Company shall have determined that the continued operation of Units 1, 2, 3 and 4 of the Colstrip Generating Station (the "*Project*") or the Facilities is impracticable, uneconomical or undesirable for any reason;
- (b) all or substantially all of the Facilities or the Project shall have been condemned or taken by eminent domain; or
- (c) the operation of the Facilities or the Project shall have been enjoined or shall have otherwise been prohibited by, or shall conflict with, any order, decree, rule or regulation of any court or of any federal, state or local regulatory body, administrative agency or other governmental body.

EXTRAORDINARY MANDATORY REDEMPTION

The Bonds of each series are subject to mandatory redemption by the Issuer, at the principal amount thereof plus accrued interest to the redemption date, on the 180th day (or such earlier date as may be designated by the Company) after a final determination by a court of competent jurisdiction or an administrative agency, to the effect that, as a result of a failure by the Company to perform or observe any covenant, agreement or representation contained in the Loan Agreement, the financing agreements relating to the Prior Bonds or any similar agreements between the Issuer and the Company relating to bonds of the Issuer which were refunded, directly or indirectly, by the Prior Bonds, the interest payable on the Bonds is included for federal income tax purposes in the gross income of the Owners thereof, other than as a result of any Owner of a Bond being a "substantial user" of the Facilities or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "*Code*"), or Section 103(b) of the Internal Revenue Code of 1954, as amended (the "*1954 Code*"), as applicable. No determination by any court or administrative agency will be considered final unless the Company has been given the opportunity to participate in the proceeding which resulted in such determination, either directly or through an Owner, to a degree it deems sufficient and until the conclusion of any appellate review sought by any party to such proceeding or the expiration of the time for seeking such review. The Bonds will be redeemed either in whole or in part in such principal amount that the interest payable on the Bonds remaining outstanding after such redemption would not be included in the gross income of any Owner thereof, other than an Owner who is a "substantial user" of the Facilities or a "related

person” within the meaning of Section 147(a) of the Code or Section 103(b) of the 1954 Code, as applicable. If less than all the Bonds are to be redeemed, there will be delivered to the Trustee an opinion of Bond Counsel as to the matters set forth in the preceding sentence.

PROCEDURE FOR AND NOTICE OF REDEMPTION

If less than all of the Bonds, or less than all of the Bonds of any series, are called for redemption, the particular Bonds or portions of Bonds to be redeemed will be selected by the Trustee, in such manner as the Trustee in its discretion may deem proper, from the series and in the principal amounts designated by the Company or otherwise as required by the Indenture. In selecting Bonds for a partial redemption, the Trustee shall treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by \$5,000. Any Bonds or portions of Bonds selected for redemption which are deemed to be paid in accordance with the provisions of the Indenture will cease to bear interest on the date fixed for redemption. Upon presentation and surrender of such Bonds at the place or places of payment, such Bonds will be paid and redeemed. Notice of redemption will be given by mail, to the extent provided in the Indenture, at least 30 days prior to the redemption date, *provided* that the failure to duly give notice by mailing, or defects therein, will not affect the validity of the proceedings for redemption of Bonds with respect to which no such failure or defect occurred.

With respect to notice of any optional or extraordinary optional redemption of the Bonds, as described above, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed has been received by the Trustee prior to the giving of such notice, such notice will state that said redemption will be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for such redemption. If such moneys have not been so received, such notice will be of no force and effect, the Issuer will not redeem such Bonds and the Trustee will give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

THE LOAN AGREEMENT

ISSUANCE OF THE BONDS; LOAN OF PROCEEDS

The Issuer is issuing the Bonds for the purpose of refunding the Prior Bonds, the proceeds of which were used to refund certain revenue obligations issued to finance or refinance a portion of the Company's share of the costs of acquiring and improving the Facilities. The proceeds of the sale of the Bonds will be deposited with the trustees for the Prior Bonds and invested in government obligations pursuant to the Act to provide for the payment of the principal of the Prior Bonds upon the redemption thereof.

LOAN REPAYMENTS

To repay the loan made to the Company under the Loan Agreement, the Company is obligated to make payments to the Trustee for the account of the Issuer sufficient, together with other funds available for such purpose, to pay when due the principal of, premium, if any, and

interest on the Bonds. Because such payments are not due until the stated interest and principal payment dates on the Bonds, in the event that the Company ever failed to make timely payments to the Trustee under the Loan Agreement, the Trustee would be unable to give notice of Nonpayment (as defined in the Municipal Bond Insurance Policy) to the Insurer until the stated payment date on the Bonds. Under such circumstances, the Insurer would not be required under the terms of the Municipal Bond Insurance Policy to make payments to the Owners of the Bonds in respect of the principal of or interest on the Bonds until the next business day succeeding the stated payment date on the Bonds. See "BOND INSURANCE" below.

The payments to be made by the Company pursuant to the Loan Agreement will be pledged under the Indenture by the Issuer to the Trustee, and the Company is to make all payments thereunder directly to the Trustee.

The Company's obligation to make payments under the Loan Agreement will be absolute, irrevocable and unconditional and will not be subject to any defense other than payment or to any right of set-off, counterclaim or recoupment arising out of any breach by the Issuer or the Trustee of any obligation to the Company.

MAINTENANCE; REMODELING; OPERATION; TAXES; EXPENSES

The Company will at all times exercise all of its rights, powers, elections and options under the Inter-Company Agreements (as defined in the Indenture) to cause the Facilities, and every element or unit thereof, to be maintained, preserved and kept in good repair, working order and condition; *provided* that the Company may cause the discontinuance of the operation or a reduction in the capacity of the Facilities, or any element or unit thereof, if in the judgment of the Company it is no longer economic to operate the same or to operate the same at its former capacity or if the Company intends to sell or dispose of its interest of the same.

The Company may at its own expense exercise any of its rights, powers, elections and options under the Inter-Company Agreements to cause the Facilities to be remodeled or cause such substitutions, modifications and improvements to be made as it deems desirable, all of which will be included under the terms of the Loan Agreement as part of the Facilities.

So long as the Company owns an interest in the Facilities, the Company will exercise all of its rights, powers, elections and options under the Inter-Company Agreements to cause the Facilities are to be used for the purposes of pollution control or sewage or solid waste disposal.

The Company will pay or cause to be paid all lawful taxes and assessments and governmental charges levied or assessed upon the Facilities or any part thereof, or upon payments due under the Loan Agreement.

The Company is obligated to pay certain expenses of the Issuer, including the compensation and reimbursement of expenses and advances of the Trustee, the Paying Agent and the Registrar.

INSURANCE; CONDEMNATION

The Company will exercise all of its rights and powers and will perform all of its duties under the Inter-Company Agreements to cause insurance to be taken out and continuously maintained with respect to the Facilities against such risks and to the extent specified in the Inter-Company Agreements. All proceeds of such insurance will be for the account of the Company.

The Company will be entitled to the entire proceeds of any condemnation award or portion thereof made for damage to or takings of the Facilities or other property of the Company, to the extent of the interest of the Company therein.

ASSIGNMENT; MERGER

The Company's interest in the Loan Agreement may be assigned as a whole or in part to another entity, under certain conditions set forth in the Loan Agreement.

The Company may consolidate with or merge with or into another corporation incorporated under the laws of the United States of America, any state thereof or the District of Columbia, or sell, transfer or otherwise dispose of all or substantially all of its assets to any other entity, if (a) no Event of Default under the Loan Agreement shall have occurred and be continuing, and (b) the surviving, resulting or transferee corporation (if other than the Company), as the case may be, assumes all the obligations of the Company under the Loan Agreement, and in the case of a merger or consolidation where the Company is not the surviving or resulting corporation or in the case of such a sale, transfer or disposition, the Company shall have furnished to the Trustee an opinion of counsel that such sale, transfer or disposition complies with the Loan Agreement.

DEFAULTS

Each of the following events will constitute an "Event of Default" under the Loan Agreement:

(a) a failure by the Company to pay when due any amounts required to be paid under the Loan Agreement, which failure results in (i) a default in the payment of the interest on the Bonds and the continuance of such default for a period of thirty (30) days, or (ii) a default in the payment of the principal of or premium, if any, on the Bonds when due; or

(b) a failure by the Company to pay when due any amount required to be paid under the Loan Agreement (other than a failure described in (a) above) or to observe and perform any other covenant, condition or agreement under the Loan Agreement, which failure continues for a period of 90 days after written notice given by the Issuer or the Trustee, unless such period is extended by the Issuer and the Trustee; *provided, however*, that the Issuer and the Trustee will be deemed to have agreed to an extension of such period if corrective action is initiated by the Company within such period and is being diligently pursued; or

(c) certain events of dissolution, liquidation, bankruptcy or reorganization of the Company; or

(d) an “event of default” under the Indenture (see “THE INDENTURE—Defaults” below).

The Loan Agreement provides that if by reason of acts of God, strikes, orders of political bodies, certain natural disasters, civil disturbances, and certain other events, or any cause or event not reasonably within the control of the Company, the Company is unable in whole or in part to carry out one or more of its agreements or obligations contained in the Loan Agreement (other than its obligations to make when due payments required under the Loan Agreement, to pay certain expenses and taxes, to discharge liens and to maintain its corporate existence) the Company shall not be deemed in default by reason of not carrying out such agreement or performing such obligation during the continuance of such inability.

REMEDIES

Upon the occurrence and continuance of any Event of Default under the Loan Agreement, the Trustee, as the Issuer’s assignee, may take any action at law or in equity to collect any payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Loan Agreement.

Any amounts collected upon an Event of Default under the Loan Agreement will be applied in accordance with the Indenture.

AMENDMENTS

The Loan Agreement may be amended subject to the limitations contained in the Indenture. See “THE INDENTURE—Amendment of the Loan Agreement.”

THE INDENTURE

PLEDGE AND SECURITY

Pursuant to the Indenture, the Issuer will pledge and assign to the Trustee to secure the payment of the principal of and interest on the Bonds all of its rights and interests under the Loan Agreement (other than its rights to indemnification and reimbursement of expenses and certain other rights) and has pledged to the Trustee all moneys and obligations deposited or to be deposited in the Bond Fund established with the Trustee; *provided* that the Trustee will have a prior claim on the Bond Fund for the payment of its compensation and expenses and for the repayment of any advances (plus interest thereon) made by it to effect performance of certain covenants in the Indenture.

APPLICATION OF PROCEEDS AND THE BOND FUND

The proceeds from the sale of the Bonds, excluding accrued interest, if any, will be deposited with the trustees for the Prior Bonds and used in connection with the Refunding. Payments made by the Company under the Loan Agreement in respect of the principal of, premium, if any, and interest on the Bonds and certain other amounts specified in the Indenture are to be deposited in the Bond Fund. While any Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal of and premium, if any, and interest on the Bonds, subject to the prior claim of the Trustee referred to in "Pledge and Security" above.

INVESTMENT

The moneys in the Bond Fund will, at the direction of the Company, be invested in securities or obligations specified in the Indenture.

DEFAULTS

Each of the following events will constitute an "Event of Default" under the Indenture:

(a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall become due and payable at maturity, upon redemption, by declaration or otherwise;

(b) a failure to pay an installment of interest on any of the Bonds when the same shall become due and payable, and a continuance of such failure for a period of thirty (30) days;

(c) an "Event of Default" under clauses (a), (b) or (c) under the Section entitled THE LOAN AGREEMENT—Defaults; or

(d) a failure by the Issuer to observe and perform any other covenant, condition or agreement contained in the Bonds or the Indenture, which failure shall continue for a period of 90 days after written notice given to the Issuer and the Company by the Trustee, which notice may be given in the discretion of the Trustee and shall be given at the written request of the Owners of not less than 25% in principal amount of Bonds then outstanding, unless such period is extended by the Trustee, or by the Trustee and the Owners of a principal amount of Bonds not less than the principal amount of Bonds the Owners of which requested such notice, as the case may be; *provided, however,* that the Trustee, or the Trustee and the Owners of such principal amount of Bonds, as the case may be, will be deemed to have agreed to an extension of such period if corrective action is initiated by the Issuer, or the Company on behalf of the Issuer, within such period and is being diligently pursued.

REMEDIES

Upon the occurrence and continuance of an Event of Default described in clause (a), (b) or (c) above, and further upon the condition that there shall have been filed with the Trustee a written direction of the Insurer (unless an Insurer Default shall have occurred and be continuing, in which event no direction of the Insurer shall be required), the Bonds will, without further action, become immediately due and payable.

Upon the occurrence of any Event of Default under the Indenture, the Trustee, with the written consent of the Insurer (unless an Insurer Default shall have occurred and be continuing, in which event no consent of the Insurer shall be required), may pursue any available remedy to enforce the rights of the Owners of the Bonds and require the Issuer or the Company to carry out its agreements, bring suit upon the Bonds, or enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds. The Trustee is not required to take any action in respect of an Event of Default or to enforce the trusts created by the Indenture except upon the written request of the Owners of not less than 25% in principal amount of the Bonds then outstanding and with the written consent of the Insurer. The Owners of a majority in principal amount of Bonds then outstanding will have the right to direct the time, method and place of conducting all remedial proceedings under the Indenture or exercising any trust or power conferred on the Trustee, *provided*, that, the Trustee has received security or indemnity to its satisfaction, and *provided, further*, that (a) such direction is not in conflict with any law or the Indenture, (b) the Trustee may take other action which is not inconsistent with such direction, (c) the Trustee has the right to decline to follow any such direction if it, in good faith, determines that the proceeding so directed would involve the Trustee in personal liability, and (d) the Insurer has consented to such direction. See "THE BONDS—Exercise of Certain Rights and Remedies by the Insurer" above.

No Owner of any Bond will have any right to institute suit to execute any trust or power of the Trustee unless such Owner has previously given the Trustee written notice of an Event of Default and unless also the Owners of not less than 25% in principal amount of the Bonds then outstanding have made written request of the Trustee so to do, and unless satisfactory security and indemnity has been offered to the Trustee and the Trustee has not complied with such request within 60 days' time. In addition, upon the occurrence or continuance of an Event of Default under the Indenture, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the Bonds under the Indenture, including any acceleration of the Bonds or any annulment of such acceleration.

Notwithstanding any other provision in the Indenture, the right of the Owner of any Bond to receive payment of the principal of and premium, if any, and interest on such Bond on or after the respective due dates expressed or redemption dates provided for therein, or to institute suit for the enforcement of any such payment on or after such respective date, will not be impaired or affected without the consent of such Owner.

DEFEASANCE

All or any principal amount of outstanding Bonds will be deemed to have been paid and will cease to be entitled to any lien, benefit or security under the Indenture if the following, among other, conditions are met: (a)(i) in the case of the provision for payment or redemption of less than all the Bonds, such Bonds have been selected in accordance with the Indenture and (ii) in the case of a redemption, the Company has given to the Trustee irrevocable instructions to publish the notice of redemption therefor, (b) there have been deposited with the Trustee either (i) moneys in an amount which are sufficient or (ii) in the case of a deposit prior to the redemption date or maturity date, as the case may be, of such Bonds or portions thereof, obligations of or guaranteed as to principal and interest by the United States of America ("*Government Obligations*") the principal of and the interest on which, when due, will provide moneys which, together with any moneys also deposited, are sufficient, to pay when due the principal of and premium, if any, and interest due or to become due on such Bonds, and (c) in the event such Bonds do not mature and are not to be redeemed within the next succeeding 60 days, the Company has given the Trustee irrevocable instructions to give, as soon as practicable, a notice to the Owners of such Bonds that the above deposit has been made with the Trustee and that the Bonds are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the principal of and premium, if any, and interest on the Bonds. If the payment of less than all the Bonds, or less than all of the Bonds of any series is to be provided for, the Trustee will select such Bonds and \$5,000 units of Bonds, in such manner as the Trustee in its discretion may deem proper, from the series and in the principal amounts, designated to the Trustee by the Company.

REMOVAL OF TRUSTEE

The Trustee may be removed, and a successor Trustee appointed, (a) by the Insurer, if no Insurer Default shall have occurred and be continuing, or (b) by the Owners of not less than a majority in principal amount of Bonds at the time outstanding and, if no Insurer Default shall have occurred and be continuing, the Insurer.

MODIFICATIONS AND AMENDMENTS

The Indenture may be modified or amended by supplemental indentures without the consent of or notice to the Owners of the Bonds for any of the following purposes: (a) to cure any formal defect, omission, inconsistency or ambiguity in the Indenture; (b) to grant to or confer or impose upon the Trustee for the benefit of the Owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or duties not contrary to or inconsistent with the Indenture; (c) to add other covenants, agreements, limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the Indenture; (d) to further confirm the lien or pledge created by the Indenture; (e) to modify the Indenture to authorize different denominations of Bonds; (f) to comply with the Trust Indenture Act of 1939, as amended; (g) to effect changes in the Indenture so as to secure or maintain certain ratings on the Bonds, subject to certain limitations set forth in the Indenture; (h) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Owners of the Bonds, which does not involve a change described in clause (a), (b), (c) or (d) in the next

succeeding paragraph, and (i) with the consent of the Insurer (unless an Insurer Default shall have occurred and be continuing, in which case no consent of the Insurer is required under this subparagraph (i)), to modify, alter, amend or supplement this Indenture in any respect which does not result in a reduction in the then-current rating on the Bonds from any Rating Agency that, at the time, has a rating on the Bonds.

Any provision of the Indenture expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer under the Indenture without the prior written consent of the Insurer.

Except for supplemental indentures entered into for the purposes described in the preceding paragraph, the Indenture will not be modified or amended without the consent of the Insurer (unless an Insurer Default shall have occurred and be continuing, in which event no consent of the Insurer shall be required) together with the Owners of at least a majority in aggregate principal amount of Bonds at the time outstanding; *provided* that, unless approved in writing by the Owners of all Bonds then outstanding and adversely affected thereby, there will not be permitted (a) a change in the times or currency of payment of the principal of or premium, if any, or interest on any outstanding Bond or a reduction in the principal amount or redemption price of, or rate of interest on, any outstanding Bond, (b) the creation of a claim or lien upon or a pledge of the receipts and revenues of the Issuer from the Company under the Loan Agreement ranking prior to or on a parity with the claim, lien or pledge created by the Indenture, (c) a preference or priority of any Bond over any other Bonds or (d) a reduction in the aggregate principal amount of Bonds the consent of the Owners of the Bonds of which is required to approve any such supplemental indenture or which is required to approve any amendment to the Loan Agreement.

AMENDMENT OF THE LOAN AGREEMENT

Without the consent of or notice to the Owners of the Bonds, the Issuer and the Company may modify, alter, amend or supplement the Loan Agreement, and the Trustee may consent thereto, (a) as may be required by the provisions of the Loan Agreement and the Indenture, (b) for the purpose of curing any formal defect, omission, inconsistency or ambiguity, (c) in connection with any other change therein which is not materially adverse to the Owners of the Bonds, (d) in connection with any change therein which does not result in a reduction in the then-current rating from any Rating Agency which, at the time, has a rating on the Bonds, or (e) to secure or maintain certain ratings on the Bonds, subject to certain limitations set forth in the Indenture. The Issuer will not enter into, and the Trustee will not consent to, any other amendment, change or modification of the Loan Agreement without the written approval or consent of the Insurer (unless an Insurer Default shall have occurred and be continuing, in which event no approval or consent of the Insurer shall be required) and the Owners of a majority in aggregate principal amount of the Bonds at the time outstanding.

BOND INSURANCE

[To Come.]

CONTINUING DISCLOSURE

The Company is subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), as described in APPENDIX A. The Company also will deliver certain continuing disclosure information satisfying the requirements of the Rule 15c2-12 (the "*Rule*") adopted by the Securities and Exchange Commission (the "*Commission*") under the Exchange Act.

The Company has entered into a Continuing Disclosure Undertaking (the "*Undertaking*") for the benefit of the beneficial owners of the Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of the Rule. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and other terms of the Undertaking, including termination, amendment and remedies, are set forth in APPENDIX D — Form of Continuing Disclosure Undertaking.

A failure by the Company to comply with the Undertaking will not constitute an Event of Default under the Indenture or the Loan Agreement and Beneficial Owners of the Bonds are limited to the remedies described in the Undertaking. A failure by the Company to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

BOND RATINGS

Moody's Investors Service and Standard & Poor's Corporation have assigned municipal bond ratings of "Aaa" and "AAA," respectively, to the Bonds with the understanding that, upon delivery of the Bonds, municipal bond insurance policies insuring the payment when due of the principal of and interest on the Bonds will be issued by the Insurer. See "BOND INSURANCE" above.

LITIGATION

THE ISSUER

There is no pending or, to the knowledge of the Issuer, threatened litigation against the Issuer that in any way questions or materially affects the validity of the Bonds, the validity or enforceability of the Loan Agreement or the Indenture or any proceedings or transaction relating to the issuance, sale or delivery of the Bonds or that may materially adversely affect the refunding of the Prior Bonds.

THE COMPANY

Except as set forth or incorporated by reference in APPENDIX A hereto, there is no pending or, to the knowledge of the Company, threatened litigation against the Company, (i) that in any way questions or materially affects the validity of the Bonds, the validity or enforceability of the Loan Agreement or the Indenture or any proceedings or transactions relating to the issuance, sale or delivery of the Bonds or that may materially adversely affect the Refunding of the Prior Bonds; or (ii) in which management believes an adverse determination would have a materially adverse effect on the financial position of the Company.

UNDERWRITING

The Bonds are being purchased by Goldman, Sachs & Co. and M.R. Beal & Company, jointly and severally, as underwriters (the "*Underwriters*"), at a price of 100% of the principal amount thereof. The Company will pay to the Underwriters a fee of \$_____ plus out-of-pocket expenses as the Underwriters' compensation. Each Underwriter may offer and sell the Bonds to certain dealers and others at a price lower than the public offering price stated on the cover page hereof, and the public offering price set forth on the cover page may be changed after the initial offering by the Underwriter.

[The Bond Purchase Agreement among the Issuer, the Company and the Underwriters provides that the Underwriters will purchase all of the Bonds to be purchased if any Bonds are purchased.] The Company has agreed to indemnify each Underwriter and the Issuer against certain liabilities, including liabilities under the federal securities laws. In addition, the Bond Purchase Agreement provides that the Company will reimburse the Underwriters for certain expenses incurred in connection with the offering of the Bonds.

In the ordinary course of business the Underwriters and certain of their affiliates have in the past and may in the future engage in investment banking and commercial banking transactions with the Company, including provision of certain advisory services to the Company.

TAX EXEMPTION

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Company and the Issuer have covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to compliance by the Company and the Issuer with the above-referenced covenants, under present law, in the opinion of Bond Counsel, (i) interest on the Bonds is not includable in the gross income of the Owners thereof for federal income tax purposes, except for

interest on any Bond for any period during which such Bond is owned by a person who is a substantial user of the Facilities or any person considered to be related to such person (within the meaning of Section 147(a) of the Code and Section 103(b)(13) of the 1954 Code, (ii) the interest on the 2003A Bonds is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations, and (iii) interest on the 2003B Bonds is included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the Issuer and the Company with respect to certain material facts solely within the Issuer's and the Company's knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax ("*AMT*") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("*AMTI*"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (excluding S Corporations, Regulated Investment Companies, Real Estate Investment Trusts, REMICs and FASITS) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax exempt interest, including interest on the Bonds.

Under the provisions of Section 884 of the Code, a branch profits tax is levied on the "effectively connected earnings and profits" of certain foreign corporations, which include tax-exempt interest such as interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S Corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity or, in the case of a Bond issued with original issue discount, its Revised Issue Price (as discussed below), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "*Service*") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service will treat the Issuer as the taxpayer and the Bondholders may have no right to participate in such procedure.

Under the laws of the State of Montana, as presently enacted and construed, so long as interest on the Bonds is excluded from gross income for federal income tax purposes, interest on the Bonds will be exempt from the individual income tax imposed pursuant to Title 15, Chapter 30 of the Montana Code Annotated, as amended and supplemented. However, interest on the Bonds will be subject to the Montana corporation license and income tax imposed under Title 15, Chapter 31 of the Montana Code Annotated, as amended and supplemented.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinion of Chapman and Cutler, as Bond Counsel (the "*Bond Counsel*"). Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that in its capacity as Bond Counsel, Chapman and Cutler has supplied the information under the headings "THE LOAN AGREEMENT," "THE INDENTURE," AND "TAX EXEMPTION." Certain other legal matters will be passed upon for the Company by Perkins Coie LLP, Seattle, Washington. Certain legal matters will be passed upon by Gary Ryder, City Attorney. Certain legal matters will be passed upon for the Underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York.

MISCELLANEOUS

The attached Appendices (including the documents incorporated by reference therein) are an integral part of this Official Statement and must be read together with all of the balance of this Official Statement.

This Official Statement has been duly executed and delivered by the Issuer. The Issuer neither has nor assumes, however, any responsibility for the accuracy or completeness of any information contained herein (other than under "THE ISSUER") or in the Appendices hereto, all of which has been furnished by others.

CITY OF FORSYTH,
ROSEBUD COUNTY, MONTANA

By _____
Mayor

APPENDIX A

PUGET SOUND ENERGY, INC.

Puget Sound Energy, Inc., as Washington corporation (the "Company") is a public utility engaged in the generation, transmission, distribution and sale of electric energy and the purchase, distribution, transportation and sale of natural gas. The Company is the principal subsidiary of Puget Energy, Inc., an energy services holding company that owns all of the Company's common stock. Subject to limited exceptions, Puget Energy is exempt from regulation as a public utility holding company pursuant to Section 3(a)(1) of the Public Utility Holding Company Act of 1935. In addition to its ownership of the Company, Puget Energy also owns InfrastruX Group, Inc., a nonregulated holding company for businesses that provide gas and electric construction and maintenance services to the utility industry.

The Company is the largest electric and gas utility headquartered in Washington State, serving a territory covering approximately 6,000 square miles, principally in the Puget Sound region. At December 31, 2002, the Company had approximately 958,000 electric customers, of which approximately 88% were residential customers, 11% were commercial customers and 1% were industrial, transportation and other customers. At December 31, 2002, the Company had approximately 622,000 gas customers, of which approximately 92% were residential customers, 8% were commercial customers and 1% were industrial and transportation customers.

The Company's executive office is located at 411—108th Avenue N.E., Bellevue, Washington 98004-5515, and its telephone number is (425) 454-6363.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

The Company files reports and other information with the Securities and Exchange Commission. These SEC filings are available over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document the Company files at the SEC's public reference room at 450 Fifth Street N.W., Room 1024, Washington, D.C. 20549. Please call the SEC at 1-800- SEC-0330 for more information on the public reference rooms and their copy charges. You may also inspect the Company's SEC reports and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The SEC allows the Company to "incorporate by reference" into this Official Statement the information it files separately with the SEC, which means the Company may disclose important information by referring you to those other documents. The information incorporated by reference is considered to be part of this Official Statement, except for any information superseded by information in this Official Statement. This Official Statement incorporates by reference the documents set forth below that the Company has filed previously with the SEC:

SEC FILINGS (FILE NO. 1-4393)

PERIOD/DATE

- Annual Report on Form 10-K..... Year ended December 31, 2002
- Current Reports on Form 8-K..... Filed January 15, 2003
Filed February __, 2003

The documents filed by the Company with the SEC pursuant to Sections 13(a), 13(c), 14 and 15 of the Securities Exchange Act of 1934 after the date of this Official Statement are also incorporated by reference into this Official Statement. You may request a copy of these filings at no cost by writing or telephoning the Company at the following address: Investor Relations Puget Sound Energy, Inc. 411-108th Avenue N.E. Bellevue, Washington 98004-5515 (425) 454-6363.

EXPERTS

The consolidated financial statements incorporated in this Official Statement by reference to the Annual Report on Form 10-K for the year ended December 31, 2002, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

APPENDIX B

[SPECIMEN MUNICIPAL BOND INSURANCE POLICY]

[To Come.]

APPENDIX C

[FORM OF OPINION OF BOND COUNSEL]

[To Come.]

APPENDIX D

[CONTINUING DISCLOSURE UNDERTAKING]

Exhibit B
Proposed Order

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the matter of the request of) Puget Sound Energy, Inc.) for an order establishing compliance) with Chapter 80.08 RCW)	Order (Proposed) Docket No. 03-_____
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On February 19, 2003, Puget Sound Energy, Inc. (hereinafter called "PSE" or "the Company") filed an application with the Commission under the provision of chapter 80.08 RCW for authority (1) to enter into a transaction to refinance its existing pollution control bonds on more favorable terms.

According to the application and supporting materials filed by the Company, it asserts the proceeds of the financing are for one or more of the purposes allowed by RCW 80.08.

FINDINGS AND CONCLUSIONS

THE COMMISSION FINDS:

1. PSE is engaged in the business of providing electric and natural gas service within the state of Washington. As a public service company, it is subject to the jurisdiction of the Commission under the provisions of Chapter 80.08 RCW.
2. As to form, the application herein meets the requirements of RCW 80.08.040 and the rules and regulations of the Commission. *Chapter 480-146 WAC.*
3. The Company's application in this Docket contains: (a) a certification by an authorized officer that the proceeds will be used for one or more purposes allowed by RCW 80.08.030; (b) a description of the proposed issuances, including the essential final terms of financing, and (c) a statement as to why the proposed transaction is in the public interest.

ORDER

4. Puget Sound Energy, Inc. has complied with the requirements of RCW 80.08.040 with respect to the proposals set forth in its application to enter into the proposed refinancing.
5. The Company is directed to file a Report of Securities Issued as required by WAC 480-146-340. The Company is also directed to file verified copies of any agreement entered into in connection with the transaction pursuant to this Order.
6. The Order shall in no way affect the authority of this Commission over rates, services, accounts, valuations, estimates, or determination of costs, or any matters whatsoever that may come before it, nor shall anything herein be construed as acquiescence is any estimate or determination of costs, or any valuation of property claimed or asserted. This matter was brought before the Commission at its regularly scheduled meeting on February [], 2003. The Commissioners, having determined this filing complies with the requirements of RCW 80.08.040, directed the Secretary to enter this order.

Dated in Olympia, Washington, and effective this ___ day of February, 2003.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

CAROLE J. WASHBURN, Secretary