



PUGET SOUND ENERGY

Donald E. Gaines
Vice President
Finance & Treasurer

May 19, 2006

Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734

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

Re: Planned Securities Issuance - Demand Promissory Note

Dear Ms. Washburn:

Puget Sound Energy (the "Company" or "PSE") furnishes the following information, in compliance with RCW 80.08.040, (1), (2) and (3), with respect to the planned issuance of a Demand Promissory Note to secure loans from the Company's parent, Puget Energy, Inc. (PE), the proceeds of which will be used to repay short-term debt which was incurred by PSE to fund construction costs.

Under the facility, the Borrower (PSE) may borrow, repay and borrow again provided that advances under the Note shall not exceed the original aggregate principal amount at any one time outstanding. The original aggregate amount is \$30 million. In addition, the outstanding principal balance of the loan evidenced by the Note shall bear interest at the lowest of the weighted average per annum interest rate paid (a) by Borrower on Borrower's outstanding commercial paper, (b) by Borrower on its senior unsecured revolving credit facility or (c) by PSE Funding, Inc. on the outstanding loans to PSE Funding, Inc. pursuant to its Loan and Servicing Agreement. The loan is "one-way", meaning PSE would borrow from PE, its parent, but the parent does not have the authority to borrow from PSE.

Enclosed as Attachment A are the May 18, 2006 Minutes of the Securities Pricing Committee of the Board of Directors, including resolutions and related materials.

The transaction is in the public interest inasmuch as it allows the Company to maintain an overall cost-effective capital structure and provides the utility access to funds on reasonable terms.

In view of the foregoing, and in accordance with WAC 480-90-242 (1)(a) and WAC 480-100-242 (1)(a), the undersigned hereby certifies that the proceeds from such financing will be used for one or more of the purposes allowed by RCW 80.08.030 and that the information provided herein is true and correct to the best of my knowledge and belief, under penalties of perjury as set forth in the laws of the State of Washington.

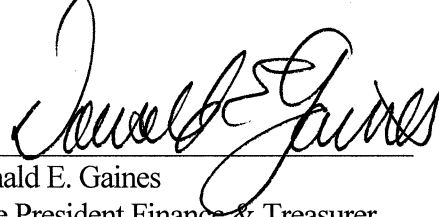
The Company having provided herewith all information and statements required by subsections (1), (2), and (3) of RCW 80.08.040 requests hereby a Washington Utilities and Transportation Commission order affirming that it has complied with such requirements as part of these planned securities transactions.

Thank you for your assistance.

Sincerely,

PUGET SOUND ENERGY

By

A handwritten signature in black ink, appearing to read "Donald E. Gaines", written over a horizontal line.

Donald E. Gaines

Vice President Finance & Treasurer

Enclosure

cc: Simon J. ffitc

ATTACHMENT A

May 18, 2006 Minutes of the Securities Pricing Committee Meeting

**Puget Sound Energy
Planned Securities Issuance – Demand Promissory Note
RCW 80.08.030 (1), (2) and (3) Compliance Filing**



FINANCING DISCUSSION

APPROVAL FOR DEMAND PROMISSORY NOTE **May 18, 2006**

A Summary by Don Gaines

425-462-3870

Request

The Company is requesting approval to enter into a Demand Promissory Note (Note) with its parent Puget Energy, Inc. (PE).

Background

On April 29, 2006, the Board of Directors of Puget Energy, Inc. approved of the sale of InfrastruX to an affiliate of Tenaska Power Fund, L.P. The sale is expected to result in net after-tax proceeds to PE ranging between \$83 million and \$88 million. Some of the payments related to the transaction have yet to be made. The press release issued May 2, 2006 states "Puget Energy will use the proceeds from the sale to repay debt and support its core utility business." The purpose of the loan is to optimize the funds at PSE until the payments need to be made.

Were PE to make an equity investment in PSE for the full amount of the net proceeds, those proceeds would likely no longer be considered "non-regulated" or "shareholder funds."

The InfrastruX sale contains certain provisions and indemnifications that could require PE to make limited payments to certain parties over the next few years. PE does not have an immediate need for these funds, but may over time. PE can invest those funds, until needed, in a money market fund or could, with the appropriate approvals, loan such funds to PSE. The utility could then repay the loan in part or in full with funds from its own activities.

PSE presently has two liquidity facilities; 1) a \$500 million five-year committed line of credit with twelve banks and 2) a \$200 million five-year receivables securitization facility. Under the line of credit, the company can borrow directly from the banks at LIBOR

plus a spread or use the line to support the issue of commercial paper. Typically, using the line to support the issue of commercial paper is less costly than borrowing directly through the agreement.

Demand Promissory Note

The Demand Promissory Note would enable PSE to borrow excess funds from PE. The Note would be structured as a revolving amount so funds could be borrowed, repaid, and borrowed again in the future. The Note would have no stated term but would be limited to a maximum borrowing amount of \$30 million.

The interest rate on borrowings through the Note would be at the lower of 1) the cost of borrowing under the credit agreement, 2) the effective rate on PSE's commercial paper, or 3) the cost of borrowing through the receivables securitization facility.

Although borrowings through the Note would appear as short-term debt on PSE's financial statements, there would be no debt on PE's financial statements, as PSE's loan would be offset by PE's receivable upon consolidation.

The Note provides PSE with another source of liquidity at a reasonable return and provides PE with the ability to support PSE with dollars not presently needed.

WUTC Approval

After approval by the Securities Pricing Committee, the Company will file the required notification with the Washington Utilities and Transportation Commission.

Requested Action

At the Securities Pricing Committee meeting on May 18, 2006 the Company will request approval to enter into a Demand Promissory Note through which it can borrow excess funds from PE.

PUGET SOUND ENERGY, INC.

**MINUTES OF THE
SECURITIES PRICING COMMITTEE MEETING
MAY 18, 2006**

Pursuant to notice duly given, a telephonic meeting of the Securities Pricing Committee of the Board of Directors of Puget Sound Energy, Inc. was held on Thursday, May 18, 2006 beginning at 10:30 a.m., PDT.

Meeting Attendance

Securities Pricing Committee:

Phyllis J. Campbell, Chairperson
Sally G. Narodick
Stephen P. Reynolds

Puget Sound Energy Management:

Bertrand A. Valdman, Senior Vice President Finance and CFO
Donald E. Gaines, Vice President Finance & Treasurer
James D. Sant, Assistant Treasurer

D. E. Gaines presided and kept the records of the meeting.

REDEMPTION OF TRUST PREFERRED SECURITIES

Mr. Gaines reviewed the materials provided to the Committee and discussed management's intent and recommendations regarding the following requested transactions. A copy of the materials presented by Mr. Gaines will be filed with the records of this meeting. After discussion, the following resolutions were unanimously adopted by the Committee:

WHEREAS, on February 27, 2006, the Board of Directors of Puget Sound Energy, Inc. (the "*Company*") authorized this Committee to approve the repayment or redemption of any outstanding securities of the Company, including, without limitation, trust preferred securities, in connection with the sale of any senior notes or otherwise; and

WHEREAS, this Committee has reviewed a plan to redeem the 8.40% trust preferred securities of Puget Sound Energy Capital Trust II (the "*Capital Trust*"), and now desires to approve such plan, NOW THEREFORE, BE IT

RESOLVED, that this Committee hereby approves the plan, as presented at this meeting (the "*Capital Trust Redemption*"), to redeem all of the outstanding (8,000,000) 8.40% Trust Originated Preferred Securities of the Capital Trust (CUSIP No. 74531W 20 1) and all of the outstanding (247,440) 8.40% Trust Originated Common Securities of the Capital Trust at a redemption price of \$25 per security plus an amount equal to accrued and unpaid distributions thereon at the redemption date, which shall be on or after June 30, 2006; and

RESOLVED, FURTHER, that in order to effect the Capital Trust Redemption, this Committee hereby approves the redemption of the related series of unsecured debentures designated the "8.40% Subordinated Deferrable Interest Debentures due June 30, 2041" (CUSIP No. 745332 BR 6), currently outstanding in favor of the Capital Trust at the redemption price of 100% of the principal amount thereof (\$206,186,000) plus accrued interest to the redemption date, which shall be on or after June 30, 2006; and

ISSUANCE OF SENIOR NOTES

WHEREAS, on February 27, 2006, the Board of Directors of the Company authorized the issuance and sale, from time to time, by the Company of, among other securities, senior notes (the "*Senior Notes*"), which may be secured by first mortgage bonds of the Company, having maturities, interest rates and such other terms, including redemption provisions, redemption premiums and sinking fund payments, as specified officers of this Company may determine, subject to the approval of such terms by this Committee; and

WHEREAS, this Committee desires to permit the Company to respond quickly to favorable conditions in the capital markets in connection with additional issuances of Senior Notes, NOW THEREFORE, BE IT

RESOLVED, that this Committee authorizes the pricing of up to \$250,000,000 in principal amount of the Senior Notes (in one or more tranches to be designated by interest rate and maturity date of such principal amounts) having maturities (not longer than 30 years), bearing an effective interest not in excess of [one hundred thirty (130)] basis points over the interest rate on the appropriate benchmark U.S. Treasuries, and such other terms, including redemption provisions, redemption premiums and sinking fund payments, as the Chairman, President and Chief Executive Officer, the Vice President, Corporate Secretary and Controller, the Senior Vice President Finance and Chief Financial Officer, the Vice President Finance & Treasurer and Assistant Treasurer (collectively, the "*Designated Officers*"), or any two of them, may determine, provided that the specific terms of

the Senior Notes are determined within a period of time not to extend beyond June 30, 2006;

RESOLVED, FURTHER, that the Senior Notes shall be issued under the Indenture of the Company dated as of December 1, 1997 between the Company and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee, and the Fourth Supplemental Indenture thereto, dated as of May 1, 2003 and authorized by the Board of Directors of the Company on April 16, 2003; and

RESOLVED, FURTHER, that the first mortgage bonds of the Company issued to secure the Senior Notes shall be issued under either (a) the First Mortgage of the Company dated as of June 2, 1924 (the "*Electric Mortgage*") between the Company and U.S. Bank National Association, as trustee, and a supplemental indenture thereto, substantially in the form of the Eighty-First Supplemental Indenture to the Electric Mortgage, that may be entered into by the Designated Officers pursuant to authority granted to them by the Board of Directors of the Company on February 27, 2006 or (b) the Washington Natural Gas Company Indenture of First Mortgage dated as of April 1, 1957 (the "*Gas Mortgage*") between the Company and BNY Midwest Trust Company, as trustee, and the Thirty-Second Supplemental Indenture thereto or a supplemental indenture thereto substantially in the form of such Thirty Second Supplement Indenture that may be entered into by the Designated Officers pursuant to authority granted to them by the Board of Directors of the Company on February 27, 2006.

GENERAL AUTHORITY

RESOLVED, that any and all actions taken by the Designated Officers of the Company, or any of them, including the execution and delivery in the name and on behalf of the Company of agreements or other instruments and agreements deemed by such officers to be necessary or advisable to effectuate the transactions contemplated by the foregoing resolutions, whether prior to or subsequent to this action by this Committee, are hereby authorized, approved and ratified, and the taking of any and all such actions and the performance of any and all such things in connection with the foregoing shall conclusively establish such officers' authority therefor from the Company and the approval and ratification thereof by this Committee.

APPROVAL OF DEMAND PROMISSORY NOTE

Mr. Gaines reviewed the materials provided to the Committee and discussed management's intent and recommendations regarding the following requested transactions. A copy of the materials presented by Mr. Gaines will be filed with the records of this meeting. After discussion, the Committee unanimously adopted the following resolutions:

WHEREAS, Puget Energy, Inc. ("Puget") has recently completed the sale of its interest in InfrastruX Group, Inc. ("InfrastruX") to a third party. While the Company expects net after-tax proceeds of approximately \$85 million, it presently has \$118 million invested as not all payments related to the transaction have been made. Puget Energy would like to support Puget Sound Energy by lending excess funds until such funds are needed. Puget intends to invest the majority of the funds directly, as a contribution to capital, in Puget Sound Energy, Inc. (the "Company"); and

WHEREAS, Puget remains obligated under the terms of the InfrastruX purchase and sale agreement for certain taxes, claims, indemnities, and other payments for a period of five years, the amount of which, in aggregate, are estimated to be \$30 million (the "Excess Funds"); and

WHEREAS, the Company frequently relies on its \$200 million receivables securitization facility or its \$500 million commercial line of credit (either directly or as support for the sale by the Company of commercial paper) for its liquidity needs, and would benefit from having access to the Excess Funds as an additional source of short-term liquidity; and

WHEREAS, the Company would provide to Puget a demand promissory note for any of the Excess Funds utilized for such purposes, in the form and with such terms and conditions as are set forth in the copy attached as Exhibit A, hereto (the "Inter-company Note");

NOW, THEREFORE, IT IS

RESOLVED, that this Committee hereby approves borrowing of the Excess Funds, or any portion thereof, from Puget, upon such terms and conditions as are set forth in the Inter-company Note, together with such changes, additions, and deletions to such terms, or amendments to the terms as the Company's Chairman, President and Chief Executive Officer, Senior Vice President Finance and Chief Financial Officer, Vice President Finance and Treasurer and Assistant Treasurer (together, the "Designated Officers"), or any one of them, may deem necessary or advisable; and

RESOLVED FURTHER, that the Designated Officers, or any one of them, be and hereby are authorized to execute and deliver the Inter-company Note, and any related agreements between and among Puget and the Company, with such revisions or amendments as the Designated Officers, or any one of them, may deem necessary or advisable, the execution of such document to be evidence of this Committee's approval.

MAY-18-06 14:17 From: PUGET SOUND ENERGY

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T-986 P.05/05 Job-062

GENERAL AUTHORITY

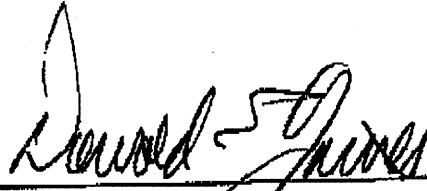
RESOLVED, that the officers of the Company, or any one of them, are hereby authorized and empowered to take any and all action, to execute any and all certificates, documents and filings or recordings, and to do any and all things as may be deemed necessary or advisable to effectuate the transaction contemplated by the foregoing resolutions, and the performance of any and all such things, whether before or after the date hereof, in connection with the foregoing shall establish each such officer's authority therefor from the Company and the approval and ratification thereof by this Committee.

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

RESOLVED, that this meeting be and hereby is adjourned.

A true record.

ATTEST:



Donald E. Grimes
Secretary of the Securities Pricing Committee

ACCEPTED:



Phyllis J. Campbell
Chairperson of the Securities Pricing Committee

Attachment A

Demand Promissory Note

DEMAND PROMISSORY NOTE

\$30,000,000

May __, 2006

FOR VALUE RECEIVED, PUGET SOUND ENERGY, INC., a Washington corporation ("Borrower"), promises to pay, in lawful money of the United States of America, to the order of PUGET ENERGY, INC., a Washington corporation ("Lender"), at 10885 NE 4th Street, PSE-08N, Bellevue, Washington 98004-5591, or such other place as Lender may designate in writing from time to time, the principal sum of thirty million dollars (\$30,000,000) or so much thereof as is advanced by Lender to Borrower, payable at the rate and in the manner provided below.

1. Revolving Credit Facility

Borrower may borrow, repay and reborrow under this Note; provided that (a) advances under this Note shall not exceed, in the aggregate principal amount at any one time outstanding, \$30,000,000 and (b) each advance is subject to Lender's approval, in Lender's sole discretion.

2. Repayment

(a) On the 10th day of each month, Borrower shall pay Lender all accrued interest on this Note.

(b) Borrower shall pay Lender all outstanding principal and interest on this Note in full on demand. This Note may be prepaid in whole or in part at any time without premium or penalty.

3. Interest

The outstanding principal balance of the loan evidenced by this Note shall bear interest as provided in this Section 3, on the basis of a 360-day year, for the actual days elapsed. The rate of interest shall be adjusted each month to a per annum rate equal to the lowest of the weighted average per annum interest rate paid for each such month (excluding the amortization of fees) (a) by Borrower on Borrower's outstanding commercial paper, (b) by Borrower on its senior unsecured revolving credit facility or (c) by PSE Funding, Inc. on the outstanding loans to PSE Funding, Inc. pursuant to that certain Loan and Servicing Agreement (the "LSA") dated as of December 20, 2005, to which PSE Funding, Inc. is a party, as such agreement may be amended from time to time. In the event that in any month during which there is an outstanding principal balance on this Note, and Borrower has no outstanding commercial paper, Borrower has no outstanding advances on its senior unsecured revolving credit facility or PSE Funding has no outstanding loans under the LSA, the interest rate for such month shall be (i) the lower of the rates described under clauses (a), (b) and (c) to the extent that there are any outstanding borrowings during such month under the credit facilities described therein or (ii) in the event that there are no outstanding borrowings during such month under such credit facilities, the per annum interest rate for such month shall be the Eurodollar Rate plus 0.25 percent. As used herein, the

term "Eurodollar Rate" means the British Bankers' Association LIBOR Rate for deposits in U.S. dollars for a one-month interest period as quoted by Bloomberg on the last day of such month.

4. Remedies

In the event that this Note is not paid when due, then (a) Lender shall be entitled to exercise any remedies at law or in equity and (b) the unpaid principal balance of this Note shall bear interest from the date of such Event of Default at a rate per annum that is 2 percent higher than the rate of interest provided for in Section 3. Lender's delay or failure to exercise any right or remedy shall not constitute a waiver of such right or remedy.

5. Collection Expenses

Borrower agrees to reimburse Lender on demand for all reasonable legal fees and other costs and expenses incurred in collecting or enforcing this Note, together with interest at the default rate specified in this Note. Without limitation, such costs and fees shall include fees, costs and expenses, incurred with or without suit and in any appeal, any proceedings under any present or future federal bankruptcy act or state receivership, and any post-judgment collection proceedings.

6. Waivers

Borrower waives presentment and demand for payment, notice of dishonor, protest, and notice of protest.

7. Governing Law

This Note shall be construed, enforced, and otherwise governed by the laws of the State of Washington.

8. Notices

Any notice to Borrower under this Note shall be to the address noted below or such other address as may be designated by Borrower in writing and shall be deemed to have been given on the date delivered in the case of personal delivery or delivery via courier or, if mailed, one day after deposited in first class or certified mail.

[The remainder of this page intentionally left blank.]

9. Statutory Notice

BORROWER ACKNOWLEDGES THAT ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

PUGET SOUND ENERGY, INC.

By _____
Donald E. Gaines
Vice President Finance & Treasurer

Address:

10885 NE 4th Street, PSE-08N
Bellevue, Washington 98004-5591