



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

April 17, 2009

Filed Electronically via WUTC web-portal and via Overnight Mail

Mr. David Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: Affiliated Interest Filing for Puget Sound Energy, Inc.

Dear Mr. Danner:

Pursuant to RCW 80.16.020 and WAC 480-100-245, Puget Sound Energy, Inc. (PSE) tenders for filing an original and three copies of the Income Tax Sharing Agreement (Agreement) between Puget Holdings LLC and its subsidiary companies. Following the acquisition of PSE by Puget Holdings on February 6, 2009, PSE became a subsidiary of Puget Holdings. Also included in this filing is a verification of the Agreement.

If you have any other questions please contact me at (425) 462-3495.

Very truly yours,

A handwritten signature in black ink that reads 'Tom DeBoer'.

Tom DeBoer
Director – Federal & State Regulatory Affairs

Enclosures

INCOME TAX SHARING AGREEMENT

PREAMBLE

AGREEMENT ("Agreement") effective as of April ___, 2009 for the taxable years of Holdings ending on or after December 31, 2009, by and among Puget Holdings, LLC ("Holdings"), a Delaware limited liability company classified as a corporation for federal income tax purposes, and the other entities (each of which constitutes a corporation for federal income tax purposes) listed on the signature page attached hereto (collectively, the "Subsidiaries").

RECITALS

WHEREAS, Holdings is the common parent of an affiliated group of corporations (the "Holdings Group") within the meaning of Section 1504(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and as of February 7, 2009, the Subsidiaries became members of the Holdings Group;

WHEREAS, Holdings and the Subsidiaries desire to file a consolidated federal income tax return for the taxable year ending December 31, 2009, and expect to file such consolidated income tax returns for all succeeding taxable years;

WHEREAS, Holdings and the Subsidiaries wish to provide for the allocation among them of any consolidated federal income tax liability (including any consolidated alternative minimum tax liability), and, to the extent provided in Article X of this Agreement, any consolidated, combined, and unitary state income tax liabilities, and certain related matters; and

WHEREAS, the parties desire to ensure that, to the maximum extent reasonably possible, the aggregate tax sharing amounts ultimately paid or received by Puget Sound Energy, Inc. ("PSE"), a regulated public utility subsidiary of Holdings, pursuant to this Agreement shall be no more or less than the amount of federal income taxes PSE would have

paid or refunds it would have received if PSE had filed its federal income tax returns on a separate return basis.

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual covenants herein contained, the parties hereto agree as follows.

ARTICLE I

DEFINITIONS

(a) Except as otherwise expressly provided in this Agreement, terms used in this Agreement shall have the meanings ascribed to them in the Code, the Treasury Regulations and rulings issued thereunder, as from time to time in effect. Concepts referred to in this Agreement shall be interpreted in a manner consistent with the applicable provisions of the Code and the Treasury Regulations and rulings thereunder, as in effect from time to time. Thus, for example, the term "corporation" shall include a limited liability company treated as a corporation for federal income tax purposes.

(b) For purposes of this Agreement, the following terms shall have the meanings as defined below.

(i) "Additional Stand-alone Benefit" has the meaning ascribed to it in Article IV(a)(i).

(ii) "Agreement" has the meaning ascribed to it in the Preamble.

(iii) "AMT" has the meaning ascribed to it in Article II(a)(i).

(iv) "AMTC" has the meaning ascribed to it in Article II(a)(iii).

(v) "Code" has the meaning ascribed to it in the recitals.

(vi) "Creditable Benefit" has the meaning ascribed to it in Article II(c)(i).

(vii) "Estimated Tax Payment Date" has the meaning ascribed to it in Article II(b)(i).

(viii) "Former Holdings Member" has the meaning ascribed to it in

Article VI.

(ix) "Holdings" has the meaning ascribed to it in the Preamble.

(x) "Holdings Group" has the meaning ascribed to it in the recitals.

(xi) "Holdings Group Tax Liability" means the consolidated federal income tax liability (including, where applicable, any such liability determined under the AMT rules) reported on the consolidated federal income tax return of the Holdings Group filed for the taxable year, together with any and all interest, additions to tax, fines and penalties with respect thereto.

(xii) "Losses" has the meaning ascribed to it in Article IV(a)(i).

(xiii) "Member" means any corporation (whether now existing or hereafter formed or acquired) that at the time is included in the Holdings Group.

(xiv) "Member's New Liability" has the meaning ascribed to it in Article III(a).

(xv) "Member's Separate Return Tax" means the tax of a Member which is computed as though such company were not a Member of a consolidated group, but subject to the adjustments found in Treasury Regulation section 1.1552-1(a)(2)(ii). The Member's Separate Return Tax shall be calculated as if the Member were subject to tax on all of its taxable income at the applicable maximum taxable rate for a corporation, as specified in the Code. For the avoidance of doubt, a Member's Separate Return Tax shall include any credits allowed by section 38 or other sections of the Code that are earned by the Member. Once an item of loss, deduction, or credit is taken into account in determining a Member's Creditable Benefit or an Additional Stand-alone Benefit, the same item shall not later be taken into account in determining a Member's Separate Return Tax.

(xvi) "Percentage Method" has the meaning ascribed to it in Article II(a)(i).

(xvii) "Proposed Treasury Regulations" means regulations proposed by the U.S. Department of Treasury.

(xviii) "PSE" has the meaning ascribed to it in the recitals.

(xix) "Settlement Statement" has the meaning ascribed to it in Article II(c)(i).

(xx) "Subsidiary" has the meaning ascribed to it in the Preamble.

(xxi) "Tax Benefit Amount" has the meaning ascribed to it in Article II(a)(i).

(xxii) "Treasury Regulations" means regulations promulgated by the U.S. Department of Treasury.

(xxiii) "True-up Amount" has the meaning ascribed to it in Article II(c)(i).

ARTICLE II

TAX LIABILITY OF MEMBERS

(a) Allocation of Tax Liability.

(i) Holdings shall determine each Member's tax liability by allocating the Holdings Group Tax Liability among the Members under the method described in Treasury Regulation section 1.1502-33(d)(3) (the "Percentage Method"). The "fixed percentage" as defined in Treasury Regulation § 1.1502-33(d)(3)(i) to be used in applying the Percentage Method shall be 100 percent. The Percentage Method shall be applied by allocating to Members the following amounts:

- A. Pursuant to section 1552 of the Code and Treasury Regulation section 1.1552-1(a)(2)(ii) the Holdings Group Tax Liability (other than the alternative

minimum tax ("AMT") and AMTC) among the Members of the Holdings Group on the basis of the percentage of the total Holdings Group Tax Liability which a Member's Separate Return Tax would bear to the total amount of federal income taxes (other than AMT and AMTC) for all Members of the group so computed.

B. An additional amount (the "Tax Benefit Amount") to each Member equal to the excess, if any, of the Member's Separate Return Tax (other than AMT and AMTC) over the amount allocated to such Member pursuant to the previous sentence.

(ii) The total of the Tax Benefit Amounts allocated to Members shall result in an increase in the earnings and profits of the Members who had items of deduction, loss or credits to which such Tax Benefit Amount is attributable. Payments in respect of Tax Benefit Amounts shall be made in accordance with the provisions of Article II(c) of this Agreement.

(iii) The allocation of the alternative minimum tax liability incurred by the Holdings Group and the resulting minimum tax credit shall be allocated in the manner set forth in Treasury Regulation section 1.1502-55 and Proposed Treasury Regulation 1.1502-55. This method generally allocates (A) any AMT paid by the Holdings Group based on the relative separate adjusted AMT of each Member and (B) the alternative minimum tax credit ("AMTC") on the basis of the AMT previously assigned to such Member and assuming that AMTC is utilized on a "first in/first out" methodology, and that to the extent that AMTC arising in one year is not fully utilized, such AMTC is utilized proportionately by the Members previously assigned AMT for that year.

(b) Payment of Estimated Tax Installments.

(i) No later than 20 days before the due date for an installment of estimated tax (as determined in accordance with section 6655(c) of the Code) or the date prescribed for payment of tax (as determined in accordance with section 6081(b) of the Code)

(each such date referred to as the "Estimated Tax Payment Date"), Holdings shall send each Member of the Holdings Group a calculation of the amount of estimated tax due from each Member. The amount of tax due from each Member shall be calculated on a separate return, stand alone basis and shall be sufficient to avoid incurring any additional tax under § 6655 as if that Member were filing a separate stand-alone tax return and constituted a "large corporation" within the meaning of section 6655(g)(2) of the Code. No later than 5 days prior to the Estimated Tax Payment Date, each Member shall pay Holdings the amount shown as due by that Member. In the case of PSE, the amount of estimated tax due for a particular taxable period shall be determined as if PSE filed a separate return for all taxable years from and after the date of this Agreement, such that, for example, if PSE incurred a Loss in "Year 1" as determined on a separate return basis that otherwise would be available to be carried forward to "Year 2" on a separate return basis, PSE may take such Loss carryforward into account in determining its obligation to make estimated tax payments to Holdings in "Year 2"; provided, however, that once PSE's Losses are taken into account in determining a Creditable Benefit or an Additional Stand-alone Benefit of PSE, such Losses shall not be taken into account in determining the amount of estimated tax due from PSE in order to avoid double counting such Losses for purposes of determining the parties' obligations hereunder.

(ii) No later than 20 days before the date prescribed for automatic extension for the Holdings Group federal income tax return, Holdings may send each Member of the Holdings Group a calculation of the Member's share of additional tax Holdings intends to pay with an extension request. No later than 5 days prior to the automatic extension date, each Member shall pay Holdings the amount shown as due from such Member.

(c) Annual Tax Settlement and Payment.

(i) Tax Settlement Statement. Within 30 days of the filing of the applicable consolidated federal income tax return, Holdings shall deliver a statement to each Member ("Settlement Statement") showing the following amounts:

- A. The difference between the Member's Separate Return Tax for such taxable year and the total amounts the Member paid to Holdings under Article 2(b) hereof for such year (the "True-up Amount").
- B. The portion of the total Tax Benefit Amounts, if any, that is attributable to the Member (such Member's portion of such a Tax Benefit being referred to as the Member's "Creditable Benefit").

(ii) Payments. Within 10 days of the receipt of the Settlement Statement, the Member shall pay to Holdings, or Holdings shall pay to the Member, as the case may be, the True-up Amount. Within 20 days of the delivery of the Settlement Statement, Holdings shall pay Members their Creditable Benefit, if any.

(d) Except for payments that are required to be made pursuant to Article II and Article III, no Member with tax attributes shall be entitled to receive payments from another Member with respect to that other Member's use of the first Member's tax attributes (whether in the current taxable year or through a carryback or carryforward to a different taxable year).

ARTICLE III

CHANGES IN TAX LIABILITY

If the Holdings Group Tax Liability, a Tax Benefit Amount or a Member's Separate Return Tax is changed or otherwise adjusted (including, without limitation, by reason of the filing of an amended return, a final "determination" as that term is defined in Section 1313(a) of the Code, or any of the events specified in Section 6213(b) or (d) of the Code), then the amount of the payments required from each Member to Holdings under

Articles II(b) and II(c) shall be recomputed by substituting the amount of the Holdings Group Tax Liability, the Tax Benefit Amount or Member's Separate Return Tax, as the case may be, after the changes or adjustments described above ("Member's New Liability"), in place of the Holdings Group Tax Liability, Tax Benefit Amount or the Member's Separate Return Tax, as the case may be, as originally computed. Not later than (i) the due date for any additional payment of federal income tax by the Holdings Group, (ii) five days after the receipt of a refund or (iii) five days after the event giving rise to the recomputation if such event will not result in the payment of additional tax or the receipt of a refund by the Holdings Group, each Member shall pay to Holdings, or Holdings shall pay to the Member, as the case may be, the difference between the Member's New Liability and the amount(s) previously paid by or to a Member under Article II and this Article III (in each case with an apportioned share of interest, penalties and additions to tax). The parties recognize that a Member's New Liability for any taxable year is not necessarily the Member's final tax liability for the taxable year, and may be recomputed in accordance with this Article III more than once.

ARTICLE IV

PSE STAND-ALONE CARRYBACKS

(a) If, for a taxable year, (i) PSE has unused items of deduction, loss or credit as determined for purposes of computing such Member's Separate Return Tax ("Losses") and (ii) the amount that PSE would have received as a refund of taxes due to the carryback of such Losses had it filed separate returns for all taxable years subject to this Agreement exceeds the actual Creditable Benefit paid to PSE for the current taxable year, if any, (such excess referred to as the "Additional Stand-alone Benefit"), Holdings shall pay PSE the amount of such Additional Stand-alone Benefit within 20 days of filing the annual federal consolidated income tax return for the Holdings Group.

(b) Upon payment to PSE of an amount of Additional Stand-alone Benefit, Holdings shall furnish a written notice to each Member that received a payment for Creditable Benefit in the relevant taxable years with respect to which PSE would have claimed the carryback had it filed a separate return. Holdings shall allocate the amount of Additional Stand-alone Benefit to each such Member in a reasonable manner taking into account the reduction in a Creditable Benefit a Member would have incurred in the relevant taxable years had PSE's carrybacks of Losses to those years been taken into account before the determination of the Member's Creditable Benefit for those years. Within 20 days of the receipt of such notice, such Member shall pay the amount allocated to it on the notice, provided, however, that Holdings' failure to collect the requisite payments from the applicable Member or Members pursuant to this Article III(c) shall not relieve Holdings of its obligations to pay the amount of the Additional Stand-alone Benefit to PSE.

ARTICLE V

INTEREST

Any amount that is required to be paid by Holdings or any of its Subsidiaries pursuant to this Agreement that has not been timely paid to Holdings or any of its Subsidiaries, as the case may be, shall be subject to an interest charge at the prevailing rate equal to the rate specified for "large corporate underpayments" in section 6621 of the Code.

ARTICLE VI

TERMINATION OF AFFILIATION

The parties recognize that at some future date a Member may cease to be included in the Holdings Group, but continue to be a corporation subject to federal income tax ("Former Holdings Member"). In such event, Holdings and the Former Holdings Member shall consult and furnish each other with information required to prepare accurately (a) the consolidated federal income tax return for the Holdings Group for the last taxable year

in which the Former Holdings Member was included in the Holdings Group, and (b) the federal income tax returns for all taxable years thereafter of the Former Holdings Member in which the tax liability of the Former Holdings Member may be affected by its former affiliation (including, for example, the apportionment of any consolidated net operating or capital loss or investment or foreign tax credit carryover to the Former Holdings Member). Moreover, the Former Holdings Member shall furnish Holdings with information and assistance required to apply for and obtain the benefit of any carryback of a net operating or capital loss or any investment or foreign tax credit of the Former Holdings Member for a taxable year in which the Former Holdings Member was included in the Holdings Group and a consolidated federal income tax return was filed, if the Holdings Group is otherwise entitled to such carryback and credit.

Holdings and a Former Holdings Member also shall consult and furnish each other with information concerning the status of any tax audit relating to a taxable year in which the Former Holdings Member was included in the Holdings Group.

ARTICLE VII

EFFECTIVE DATE

(a) This Agreement is effective with respect to the taxable year of Holdings ending December 31, 2009. It shall remain in effect for each taxable year thereafter in which one or more Members is included in a consolidated federal income tax return filed by Holdings.

(b) In connection with the filing of the consolidated federal income tax return of the Holdings Group, the Subsidiaries confirm that they have executed or will execute Form 1122, Authorization and Consent of Subsidiary Corporation to be Included in a Consolidated Income Tax Return.

ARTICLE VIII

NEW MEMBERS

If sufficient stock of any corporation is acquired hereafter by Holdings and/or any Member so that the corporation becomes a Member of the Holdings group ("New Member"), Holdings and such other Members that own stock of the New Member shall use their reasonable best efforts to cause the New Member to become a party to this Agreement and to execute Form 1122, Authorization and Consent of Subsidiary Corporation to be Included in a Consolidated Income Tax Return.

ARTICLE IX

PROCEDURAL MATTERS

(a) All determinations with respect to the meaning of the provisions of this Agreement, their implementation and all calculations thereunder shall be made by Holdings and shall be deemed conclusive and binding on all Members.

(b) Holdings shall prepare and file the consolidated return and any other returns, documents or statement required to be filed with the Internal Revenue Service with respect to the determination of the federal income tax liability of the Holdings Group. Holdings shall have the right with respect to any consolidated returns which it has filed or will file, in its sole discretion, to take any appropriate action affecting the consolidated return, including, but not limited to, the following: (1) to determine (a) the manner in which such returns, documents or statements shall be prepared and filed including, without limitation, the manner in which any item of income, gain, loss, deduction or credit shall be reported, (b) whether any extensions may be requested and (c) the elections that will be made by any Member; (2) to contest, compromise or settle any adjustment or deficiency proposed, asserted or assessed as a result of any audit of such returns by the Internal Revenue Service; (3) to file, prosecute, compromise or settle any claim for refund; and (4) to determine whether any

refunds, to which the Holdings Group may be entitled shall be paid by way of refund or credited against the tax liability of the Holdings Group. The Members hereby irrevocably appoint Holdings as their agent and attorney-in-fact to take such action (including the execution of documents) as Holdings may deem appropriate to effect the foregoing.

ARTICLE X

ALLOCATION OF STATE AND LOCAL INCOME TAX LIABILITY

In the event that Holdings, its affiliates and/or any of the Members become liable for state or local income taxes determined on a consolidated, combined or unitary basis, principles analogous to those set forth herein for the allocation of consolidated federal income tax liability shall be used to determine the Members' respective shares of such taxes and the amount and timing of payments to be made in respect thereof.

ARTICLE XI

MISCELLANEOUS PROVISIONS

(a) This Agreement constitutes the entire agreement of the parties concerning the subject matter hereof and supersedes all prior agreements, whether or not written, concerning such subject matter. No alteration, amendment or modification of any of the terms of this Agreement shall be valid unless made by an instrument signed in writing by an authorized officer of each party hereto.

(b) This Agreement has been made in and shall be construed and enforced in accordance with the laws of the State of Washington.

(c) This Agreement shall be binding upon and inure to the benefit of each party hereto.

(d) All payments to be made by any party under this Agreement shall, except to the extent otherwise specifically provided herein, be made without setoff, counterclaim or withholding, all of which are expressly waived.

(e) Nothing in this Agreement shall be construed to require a party hereto to pay any liability or obligation arising under this Agreement more than once.

(f) If due to any change in applicable law, regulations, or interpretation thereof after the date of this Agreement, performance of any provision of this Agreement or any transaction contemplated thereby shall become impracticable or impossible, the parties hereto shall use their reasonable best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such provision.

(g) This Agreement shall be binding upon and inure to the benefit of any successor to each of the parties, by merger, acquisition of assets or otherwise, to the same extent as if the successor had been an original party to this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to
be duly executed by their authorized representatives.

Puget Holdings LLC

By: _____
Name: Donald E. Gaines
Title: Vice President Finance and Treasurer

Puget Intermediate Holdings, Inc.

By: _____
Name: Donald E. Gaines
Title: Vice President Finance and Treasurer

Puget Energy, Inc.

By: _____
Name: Donald E. Gaines
Title: Vice President Finance and Treasurer

Puget Sound Energy, Inc.

By: _____
Name: Donald E. Gaines
Title: Vice President Finance and Treasurer

PSE Funding, Inc.

By: _____
Name: Donald E. Gaines
Title: President

Puget Western, Inc.

By: _____
Name: Eric M. Markell
Title: Executive Vice President and Chief Financial Officer

Hydro Energy Development Corp.

By: _____
Name: Nicole A. O'Donnell
Title: Secretary and Treasurer

Black Creek Hydro, Inc.

By: _____
Name: Nicole A. O'Donnell
Title: Secretary and Treasurer

VERIFICATION

I, Tom DeBoer, Director, Federal and State Regulatory Affairs for Puget Sound Energy, Inc. verify that the attached copy of the Income Tax Sharing Agreement is a true and correct copy of the original document.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on April 17, 2009 at Bellevue, Washington.

Tom DeBoer

Tom DeBoer
Director – Fed. & State Regulatory Affairs
Puget Sound Energy, Inc.

Subscribed and sworn to before me this 17 day of APRIL, 2009.



Denise K Schroeder

Notary Public for Washington
My commission expires: 8-1-2009