

**EXHIBIT NO. KRK-3
DOCKET NO. UE-10____
WITNESS: KARL R. KARZMAR**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

**For a Declaratory Order Regarding the
Transfer of Assets to Jefferson County
Public Utility District.**

Docket No. UE-10____

**SECOND EXHIBIT (NONCONFIDENTIAL) TO THE PREFILED DIRECT
TESTIMONY OF
KARL R. KARZMAR
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JULY 15, 2010

ASSET PURCHASE AGREEMENT
BETWEEN
PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY
AND
PUGET SOUND ENERGY, INC.

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ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement, dated this 11th day of June, 2010 (“Effective Date”), is between Public Utility District No. 1 of Jefferson County, a public utility district organized under the laws of the state of Washington (“JPUD”), and Puget Sound Energy, Inc., a Washington corporation (“PSE”). JPUD and PSE are sometimes referred to collectively as the “Parties” and individually as a “Party.”

RECITALS

- A. In November 2008, the citizens of Jefferson County, Washington voted to approve Proposition 1, authorizing JPUD to construct or acquire electrical facilities for the generation, transmission or distribution of electric power in Jefferson County.
- B. PSE is currently providing electric service to customers located in Jefferson County in accordance with the rules and regulations of the Washington Utilities and Transportation Commission (“WUTC”), including, but not limited to, PSE rates and tariffs on file therewith.
- C. Under RCW 54.16.020, a public utility district may acquire electrical distribution and transmission assets, facilities and properties through eminent domain.
- D. The Parties entered into a nonbinding letter of intent dated April 30, 2010 (“LOI”) for JPUD to purchase certain of PSE’s electric system assets, facilities and properties used by and useful to PSE in providing electric service to customers located in eastern Jefferson County pursuant to the terms of mutually agreed upon definitive agreements.
- E. This Agreement is being entered into by the Parties as the definitive agreement contemplated under the LOI, and the transactions described herein are proceeding under JPUD’s threat of condemnation and, if consummated, will constitute a settlement between the Parties and a disposal of property to a special purpose district pursuant to RCW 80.12.020(2).

AGREEMENT

1. Definitions.

For purposes of this Agreement, the following terms used herein but not otherwise defined herein shall have the following meanings when used with initial capitalization, whether singular or plural:

“Agreement” means this Asset Purchase Agreement, including all Exhibits hereto, as the same may be modified, amended, or supplemented from time to time in accordance with Section 14.1.

“Assets” means the assets, facilities and properties (including real property interests) of PSE listed in Exhibit A, as such exhibit may be amended from time to time prior to the Closing Date in accordance with the terms of this Agreement.

“Assumed Liabilities” shall have the meaning given it in Section 2.6.

“Bill of Sale” means the Bill of Sale to be entered into by the Parties substantially in the form attached to this Agreement as Exhibit C.

“BPA” shall have the meaning given it in Section 10.5.

“Closing” shall have the meaning given it in Section 9.1.

“Closing Date” means the date established for Closing by JPUD pursuant to Section 9.1.

“Closing Notice” shall have the meaning given it in Section 9.1.

“Closing Statement” shall have the meaning given it in Section 2.4(d).

“Conditions Precedent” means those conditions set forth in Sections 7 and 8.

“Confidentiality Agreement” means that certain Production and Confidentiality of Information Agreement Regarding Public Utility District No. 1 of Jefferson County Acquisition of Puget Sound Energy’s Assets and Interests in Jefferson County dated September 11, 2009.

“Customer Transition Agreement” shall have the meaning given it in Section 14.15.

“Dispute” shall have the meaning given it in Section 14.13(a).

“Dispute Notice” shall have the meaning given it in Section 14.13(c).

“Effective Date” shall have the meaning given it in the preamble to this Agreement.

“Environmental Assessments” means JPUD’s assessment of the Environmental Conditions and includes the Environmental Studies, the Phase I Environmental Assessments and the Phase II Environmental Assessments.

“Environmental Conditions” means all environmental conditions, damages, circumstances or other matters of fact pertaining to, relating to or otherwise affecting the existing environmental condition of the Assets or surrounding areas, including any environmental pollution, contamination, degradation, damage or injury related to, arising from or in connection with the (a) presence, use, handling, storage, treatment, recycling, generation, transportation, release, spilling, leaking, pumping, pouring, emptying, discharging, injecting, escaping, leaching, disposal (including the abandonment or discarding of barrels, containers and other closed receptacles containing any hazardous materials), dumping or threatened release of hazardous materials in connection with the ownership, possession, construction, improvement, use or operation of the Assets, (b) offsite transport of hazardous materials from the Assets, or the treatment, storage or disposal of hazardous materials transported from the Assets to another site, and (c) release of hazardous materials from the Assets into the atmosphere, soil or any watercourse or body of water not included in the Assets.

“Environmental Laws” means any federal, state or local law, rule, order, regulation, ordinance or restriction relating to (a) the control of any pollutant or protection of the air, water or land; (b) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation; (c) exposure to hazardous, toxic or other harmful materials or substances; and (d) the protection and enhancement of the environment. The term “Environmental Laws” shall include, without limitation, the Clean Air Act, 42 U.S.C. § 7401 et seq. (CAA); the Clean Water Act, 33 U.S.C. § 1251 et seq. (CWA); the National Environmental Policy Act, 42 U.S.C. § 4321 et seq.; the Endangered Species Act, 16 U.S.C. § 1531 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq. (RCRA); the Safe Drinking Water Act, 42 U.S.C. § 300f et seq.; the Comprehensive Environmental Response, Compensation, and Liability Act as amended by the Superfund Amendments and Reauthorization Act, 42 U.S.C. § 9601 et seq. (CERCLA); the Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. § 136 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. § 1801 et seq.; the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq. (TSCA); the Emergency Planning and Community Right-To-Know Act, 42 U.S.C. § 11001 et seq.; the Washington State Environmental Policy Act, Ch. 43.21C RCW (SEPA); the Model Toxics Control Act, Ch. 70.105D RCW; the Hazardous Waste Management Act, Ch. 70.105 RCW; the Solid Waste Management Act, Ch. 70.95 RCW et seq.; the Washington Clean Air Act, Ch. 70.94 RCW; the Washington Aquifer Protection Areas Act, Ch. 36.36 RCW; the Washington Water Pollution Control Act, Ch. 90.48 RCW; and such other similar federal, state or local laws implementing or substantially equivalent to the foregoing requirements.

“Environmental Studies” shall have the meaning given it in Section 2.9(b).

“Escrow Agent” means First American Title Company or its successor appointed in accordance with the Escrow Agreement.

“Escrow Agreement” means the escrow agreement between Escrow Agent, JPUD and PSE substantially in the form attached to this Agreement as Exhibit B.

“Excluded Assets” means the following: (a) service marks, trade names or trademarks owned, used or held by PSE; (b) electric revenue accounts receivable (i.e., money owed for electric service) as of the Closing Date; and (c) the items listed in Schedule 1.3.

“Expected Improvements” means improvements that PSE may make to the Assets in the ordinary course of operating the Assets during the Transition Period, consistent with (a) PSE’s past operating practice and experience in the Service Territory, and (b) Prudent Utility Practices. Exhibit E provides an illustrative, but not an exclusive, list of such improvements made, on an annual basis, over the preceding five (5) years. Exhibit E is included for purposes of notice and identification only, and is not a commitment by PSE to make any such improvements, nor is it a limitation on PSE’s right to make any such improvements, during the Transition Period.

“Extraordinary Items” means extraordinary additions, deletions, upgrades or improvements to the Assets determined by PSE during the Transition Period to be necessary due to emergency conditions or exigent circumstances to (a) maintain the safety and reliability of PSE’s electrical system, (b) operate and maintain PSE’s electrical system and serve its customers in accordance with the rules and regulations of the WUTC (including, but not limited to, PSE

rates and tariffs on file therewith), or (c) comply with any applicable law. Extraordinary Items do not include Expected Improvements or Planned Improvements.

“FERC” means the United States Federal Energy Regulatory Commission.

“Interim Payment” shall have the meaning given it in Section 2.5(a).

“Interim Payment Date” shall have the meaning given it in Section 2.5(a).

“JPUD” shall have the meaning given it in the preamble to this Agreement.

“JPUD's Knowledge” means the actual knowledge of JPUD's General Manager and each and all of JPUD's Commissioners.

“Liquidated Damages” shall have the meaning given it in Section 11(a).

“LOI” shall have the meaning given it in Recital D.

“Long-Term Financing” means such financing as JPUD shall obtain on terms and conditions acceptable to JPUD, in its sole discretion, in an amount sufficient to pay the Purchase Price and provide for operations within the time specified for payment in this Agreement.

“Lookback” shall have the meaning given it in Section 10.5.

“Necessary Approvals” means receipt by PSE of (a) WUTC Orders containing the WUTC Confirmations; and (b) an order, on commercially reasonable terms, from the FERC, approving the transactions set forth in this Agreement, if and as required for the transfer of any FERC-jurisdictional facilities that are part of the Assets.

“Net Book Value” means, with respect to an Asset, the cost of such Asset less depreciation and amortization as shown on PSE's books and records maintained for regulatory purposes.

“Notifying Party” shall have the meaning given it in Section 14.13(c).

“Party” and “Parties” shall have the meanings given them in the preamble to this Agreement.

“Phase I Environmental Assessment” means an assessment of Environmental Conditions conducted by or on behalf of JPUD in accordance with Section 6.6 that does not include or require site access for purposes of undertaking investigations such as soil and ground water sampling, digging, drilling boring or other activities that may involve the physical disturbance of Assets or surrounding areas.

“Phase II Environmental Assessment” means an assessment of Environmental Conditions conducted by or on behalf of JPUD in accordance with Section 6.6 that does include or require site access for purposes of investigations such as soil and ground water sampling, digging,

drilling, boring or other activities that may involve the physical disturbance of Assets or surrounding areas.

“Planned Improvements” means the JPUD-approved planned upgrades and improvements to the Assets that PSE may make during the Transition Period, and are more particularly described in Exhibit F.

“PSE” shall have the meaning given it in the preamble to this Agreement.

“PSE’s Knowledge” means the actual knowledge of Karl Karzmar, Bob Tulp, Brett Bolton and Jim Hogan.

“PSE Mortgage” means that certain First Indenture of First Mortgage from Puget Sound Power & Light Company dated as of June 2, 1924, as supplemented and amended by all indentures supplemental thereto.

“Prudent Utility Practice” means, at any particular time, any of the practices, methods, decisions and acts that, in the exercise of PSE’s reasonable judgment in light of the facts known at the time, would have been expected to accomplish the desired result consistent with applicable law, reliability, efficiency, economy, safety and expedition, commonly engaged in or approved by the electric utility industry in the United States prior thereto, and includes all practices and methods needed to comply with the rules and regulations of the WUTC, including, but not limited to, PSE rates and tariffs on file therewith. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practices, methods or acts to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts that could have been expected to accomplish the desired result consistent with applicable law, reliability, efficiency, economy, safety and expedition.

“Purchase Price” shall have the meaning given it in Section 2.4.

“Quit Claim Deed” means a quit claim deed for the real property interests included in the Assets, substantially in the form attached to this Agreement as Exhibit D.

“Recipient Party” shall have the meaning given it in Section 14.13(c).

“Review Materials” shall have the meaning given it in Section 2.9(a).

“Review Period” shall have the meaning given it in Section 2.9(a).

“Service Territory” means that portion of Jefferson County wherein, as of the Effective Date, PSE provides retail electric service to customers in accordance with rates and tariffs on file with the WUTC. A map generally depicting the Service Territory is attached hereto as Exhibit G.

“Site Access Agreement” means an agreement authorizing a Phase II Environmental Assessment, substantially in the form attached to this Agreement as Exhibit I.

“Stores” shall have the meaning given it in Section 2.2.

“Stores Purchase Price” shall have the meaning given it in Section 2.2.

“Transition Advisory Committee” means a five (5) member committee comprised of three (3) members appointed by PSE and two (2) members appointed by JPUD with responsibilities specifically identified and limited in Section 2.11.

“Transition Period” means the period beginning on the Effective Date and ending on the earlier of the Closing Date or the date this Agreement is terminated in accordance with Section 12.

“WUTC” shall have the meaning given it in Recital B.

“WUTC Confirmations” means a WUTC Order (or such other determination satisfactory to PSE) confirming that (a) the amount of the Purchase Price is an amount that is sufficient to fully compensate PSE customers for the sale of the Assets; (b) the provisions of this Agreement pertaining to PSE’s transition of its responsibilities to provide electrical service to its customers in the Service Territory are sufficient and consistent with PSE’s public service obligations; and (c) by operation of RCW 80.12.020(2), WUTC approval is not required prior to the transfer of the Assets to JPUD.

“WUTC Order” means an order from the WUTC.

2. Sale and Purchase of Assets and Stores.

2.1 Assets to Be Sold.

(a) Subject to all terms and conditions of this Agreement and under JPUD’s threat of condemnation, at Closing PSE agrees to sell and JPUD agrees to buy all of PSE’s right, title and interest in the Assets, free and clear of the PSE Mortgage.

(b) The Assets will be sold by PSE and accepted by JPUD in their then current condition, and in all respects, **AS IS, WHERE IS, WITH ALL FAULTS AND DEFECTS, AND WITHOUT WARRANTY OR REPRESENTATION OF ANY KIND.** Nothing herein is intended, nor shall be construed, to relieve or release PSE from any obligation assumed under this Agreement, including, but not limited to, PSE’s obligation to transfer the Assets free and clear of the PSE Mortgage and PSE’s obligations arising under Section 10.

(c) The Assets are described in Exhibit A. Exhibit A may be amended from time to time after the Effective Date and before the Closing Date in accordance with this Section 2.1(c) and Sections 2.11 and 14.1. If prior to Closing a Party believes that Exhibit A includes any PSE asset, facility or property that should not be included in the Assets or omits any PSE asset, facility or property (other than an Excluded Asset) that should be included in the Assets and wants Exhibit A amended, such Party shall provide written notice of such request to the other Party. The standard for determining the inclusion or exclusion of any PSE asset, facility or property in the Assets and Exhibit A shall be whether such asset, facility or property constitutes a real property interest located in the Service Territory or an improvement or fixture located thereon that is used by and useful to PSE to provide retail electric service to customers located in the Service Territory in accordance with the rules, regulations of, and the rates and

tariffs on file with the WUTC. Upon receipt of such a request from the other Party, the Parties shall confer in good faith whether to amend Exhibit A to reflect all or any portion of such request. If the Parties reach agreement to include or delete any PSE asset, facility or property from Exhibit A and the Assets, Exhibit A shall be amended accordingly. If the Parties are unable to agree, the matter shall be submitted to Dispute resolution under Section 14.13 and, if applicable, Exhibit A shall be amended to reflect the outcome of such Dispute resolution.

(d) PSE is retaining all, and nothing in this Agreement or any instrument made in connection with this Agreement shall be construed as assigning or conveying any, right, title or interest in and to all assets, facilities and properties (including real property interests) other than the Assets and the Stores.

2.2 Stores.

Upon PSE's receipt of the Closing Notice, PSE shall prepare an inventory of stores, consumables, tools, equipment, furniture and other items of personal property that are then currently used by and useful to PSE to provide electrical service to its customers located in the Service Territory that PSE is willing to sell to JPUD. As to any such items (or lots of such items) that PSE is willing to sell to JPUD, PSE shall provide JPUD with a list thereof, together with the price at which PSE is willing to sell such items to JPUD and the location of the item(s). The purchase price for such items shall not exceed the actual cost of such items to PSE (or a lesser amount, as may be determined by PSE, taking into consideration normal wear and tear). PSE shall provide JPUD such list not less than forty-five (45) days prior to the Closing Date. Not less than thirty (30) days prior to the Closing Date, JPUD shall identify and inspect any items appearing on such list that it desires to purchase ("Stores") at the price designated for such items by PSE ("Stores Purchase Price"). At Closing, PSE shall transfer title to the Stores to JPUD, through escrow, by the Bill of Sale, and JPUD shall accept the Stores in all respects **AS IS, WHERE IS, WITH ALL FAULTS AND DEFECTS, AND WITHOUT WARRANTY OR REPRESENTATION OF ANY KIND**. At Closing, PSE may leave the Stores in place and shall have no obligation to effect a physical delivery of the Stores to JPUD.

2.3 Instruments of Conveyance and Transfer.

(a) At Closing, PSE shall deliver to JPUD the following items:

(i) An original counterpart of the Bill of Sale duly executed by PSE for the Stores and any personal property included in the Assets;

(ii) Quit Claim Deed(s) duly executed and acknowledged by PSE for the real property interests included in the Assets;

(iii) The original of a nonforeign affidavit, duly executed and acknowledged by PSE certifying as to PSE's nonforeign status; and

(iv) Original counterparts of all necessary State of Washington real estate excise tax affidavits for the transfer of the real property interests included in the Assets, duly executed and acknowledged by PSE.

(b) At Closing, JPUD shall deliver to PSE the following items:

(i) An original counterpart of the Bill of Sale duly executed by JPUD for the Stores and any personal property included in the Assets; and

(ii) Original counterparts of all necessary State of Washington real estate excise tax affidavits for the transfer of the real property interests included in the Assets, duly executed and acknowledged by JPUD.

2.4 Purchase Price.

The purchase price for the Assets shall be

(a) One Hundred and Three Million Dollars (\$103,000,000);

(b) **plus:** (i) the Net Book Value of any Planned Improvements, Expected Improvements and Extraordinary Items that are placed in service by PSE during the Transition Period, as approved by the Transition Advisory Committee pursuant to Section 2.11, and (ii) the amount of any other increasing adjustment determined by the Transition Advisory Committee to be necessary to take into account any other material addition to or improvement or betterment of the Assets during the Transition Period pursuant to Section 2.11; and

(c) **minus:** (i) the Net Book Value of any Assets removed by PSE from service in the ordinary course of its utility operations during the Transition Period, as approved by the Transition Advisory Committee pursuant to Section 2.11, and (ii) the amount of any other decreasing adjustment approved by the Transition Advisory Committee pursuant to Section 2.11 to take into account any material loss or damage to any Asset during the Transition Period that has not been repaired or replaced by PSE

(in total, the "Purchase Price").

(d) Ten (10) business days prior to the Closing Date PSE shall provide JPUD with an itemized statement (the "Closing Statement") that sets forth the calculation of the Purchase Price. Schedule 2.4 is the form in which the Closing Statement shall be presented by PSE.

2.5 Payment; Allocation of Purchase Price.

(a) Within ten (10) business days of JPUD's receipt of funds under its Long-Term Financing, JPUD shall deposit Twenty Million Dollars (\$20,000,000) with the Escrow Agent (the "Interim Payment"). Such payment shall be paid by the Escrow Agent in compliance with the terms of the Escrow Agreement. The date JPUD deposits the Interim Payment with the Escrow Agent shall be the Interim Payment date ("Interim Payment Date").

(b) At Closing, JPUD shall deposit the Purchase Price less the Interim Payment with the Escrow Agent. Such payment shall be paid by the Escrow Agent in compliance with the terms of the Escrow Agreement.

(c) At Closing and in accordance with the terms of the Escrow Agreement, the Escrow Agent shall transfer to PSE by wire transfer of immediately available funds to the bank account specified by PSE the sum of (i) the Purchase Price (including the Interim Payment) and (ii) any and all other amounts as may then be due and owing to PSE pursuant to the terms and conditions of this Agreement.

2.6 Assumption of Certain Liabilities.

JPUD shall assume at Closing (a) all liabilities under or relating to the Assets that arise or accrue after Closing and (b) the liabilities described in Section 10.4(b) (collectively, the "Assumed Liabilities") and will discharge, observe and perform when due all of the terms, conditions, covenants, obligations and provisions of the Assumed Liabilities. JPUD shall assume no other liabilities related to the Assets.

2.7 Proration of Property Taxes, Utilities and Third Party Revenue.

Real property taxes and personal property taxes, water and other utilities, rent and other income and expense items related to the Assets and the Stores and any revenue from third parties arising from non-electric service use of the Assets (e.g., revenue under pole attachment agreements with cellular carriers) shall be prorated as of Closing. General installments of local improvement district assessments falling due after the Closing Date shall be paid by JPUD. General installments of local improvement district assessments falling due prior to the Closing Date shall be paid by PSE. Upon the request of either Party, adjustments shall be made between the Parties after Closing for the actual amount of any prorations made on the basis of estimates as of Closing. PSE shall be responsible for and pay all such taxes and expense items attributable to any period prior to or on the Closing Date, and JPUD shall be responsible for and pay for all such taxes and expense items attributable to any period after the Closing Date. The real and personal property interests included in the Assets are currently assessed as PSE operating utility property and will likely not be paid to Jefferson County for some period following Closing. JPUD shall cooperate with PSE so as to secure PSE's reimbursement for any such property taxes paid by PSE that are attributable to any period after the Closing Date. Neither Party shall be liable for any penalty or interest owing as a result of an untimely property tax or expense payment by the other Party.

2.8 Sales, Transfer and Other Taxes.

JPUD shall be responsible for any sales, transfer, purchase, use or similar tax that may be payable by reason of the sale of all or a portion of the Assets or the Stores. PSE shall be responsible for paying any income and Washington State business and occupation taxes arising out of PSE's receipt of the Purchase Price. The Parties shall cooperate to minimize each Party's and their respective affiliates' taxes resulting from or arising with respect to the transactions contemplated under this Agreement.

2.9 Due Diligence Activities.

(a) Within one hundred twenty (120) days of the Effective Date, PSE shall make available to JPUD for inspection as provided in Section 2.9(c) below all title reports, real estate documents, maps, facility inventories, maintenance records, logs and other documents in

its possession that reasonably relate to (i) PSE's title to the Assets and (ii) the physical condition of the Assets (collectively, the "Review Materials"). JPUD's right to inspect the Review Materials shall commence as of the date that the Review Materials are made available to JPUD for inspections and, unless extended by mutual agreement of the Parties, shall end upon the earlier of the Closing Date, the date this Agreement is terminated in accordance with Section 12 or twenty-four (24) months after the Effective Date (the "Review Period").

(b) During the Review Period, PSE shall also provide to JPUD all relevant environmental documents (including, but not limited to, studies) in its possession that reasonably relate to the Assets or surrounding areas (collectively, the "Environmental Studies"). The Environmental Studies to be provided shall include, but not be limited to, all PSE records on transformer testing and PCB testing and disposal that reasonably relate to the Assets.

(c) The Review Materials and Environmental Studies shall be made available to JPUD for inspection, on business days during PSE's normal business hours, at such locations where PSE normally retains such information (as the case may be) in PSE's offices in Jefferson County and Bellevue, Washington. The Parties shall cooperate as to the scheduling of such inspections. JPUD shall have the right, at its expense, to make copies of the Review Materials and Environmental Studies and, to the extent not otherwise included in the Assets, request that PSE deliver the Review Materials and Environmental Studies (or portions thereof) to JPUD at Closing. If so requested, PSE shall deliver the Review Materials and Environmental Studies (or portions thereof) subject to its right to retain copies thereof, and subject to JPUD's executing appropriate releases of PSE's liability for the contents and accuracy thereof. PSE reserves the right to designate any one or more of the Review Materials and Environmental Studies as "Confidential Information" (as that term is defined in the Confidentiality Agreement) subject to the terms and conditions of the Confidentiality Agreement.

(d) JPUD may conduct, and PSE will reasonably cooperate with JPUD and facilitate, such other due diligence reviews during the Review Period as JPUD may elect to undertake concerning the status and prospects for acquisition, financing, operation and performance of the Assets.

(e) In their access to and review of the Assets, the Review Materials and the Environmental Studies, JPUD's employees, agents and representatives will be subject to, and JPUD shall ensure that they observe, any applicable PSE rules regarding safety, security and confidentiality and do not interfere with or hinder the operation of the Assets. JPUD shall indemnify PSE for any loss or damage to any Assets arising out of any act or omission of JPUD or its employees, agents and representatives during the Transition Period.

2.10 Audit Rights.

JPUD shall have the right to audit, at a reasonable time and place, such books, records and accounts as were used by PSE in the calculation of the Lookback and shall have reasonable access to such books, records and accounts, as well as to PSE personnel, during PSE's normal business hours, at such locations where PSE normally retains such books, records and accounts, and upon providing not less than ten (10) days' prior written notice to PSE, to perform such audit.

2.11 Transition Advisory Committee.

(a) Appointment and Authority. The Parties shall designate their respective representatives to serve on the Transition Advisory Committee within ten (10) days of the Effective Date. A Party may, at any time by notice to the other Party, change any one or more of its designated representatives by designating replacement representatives. The Transition Advisory Committee shall have only the authority to act on behalf of the Parties with respect to those matters specially delegated to the Transition Advisory Committee by this Section 2.11 and shall have no other authority whatsoever to act on behalf of or bind any Party. Decisions made by the Transition Advisory Committee pursuant to Sections 2.11(c) and 2.11(d) below shall be made by approval of the majority of the members of the Transition Advisory Committee.

(b) Meetings. The Transition Advisory Committee shall meet and confer at least on a monthly basis to facilitate the cooperative efforts of the Parties to transfer the Assets to JPUD in accordance with the terms and conditions of this Agreement. The Transition Advisory Committee may also be used to coordinate other activities between the Parties, such as site visits, due diligence activities, training activities and other activities mutually agreed upon related to facilitating the transfer of the Assets in accordance with the terms of this Agreement. In all such matters, the Transition Advisory Committee's role is advisory only.

(c) Authority to Approve Adjustments to the Purchase Price. At any meeting of the Transition Advisory Committee where all representatives are in attendance, the Transition Advisory Committee shall have the authority to approve adjustments to the Purchase Price.

(d) Adjustment to the Purchase Price (prior to the Interim Payment). Prior to the Interim Payment, the Transition Advisory Committee shall be informed of all additions and deletions (including Planned Improvements, Expected Improvements and Extraordinary Items) to the Assets that would result in any adjustments to the Purchase Price in accordance with Section 2.4, and Exhibit A shall be amended accordingly. The Transition Advisory Committee's sole responsibility with respect to such additions or deletions shall be to determine the amount of any increase or decrease to the Purchase Price that is necessary to equitably account for such additions and deletions to the Assets. The Transition Advisory Committee's decision with respect to the amount of any such increase or decrease to the Purchase Price shall be final and binding upon the Parties.

(e) Adjustment to the Purchase Price (subsequent to the Interim Payment). Subsequent to the Interim Payment, the Transition Advisory Committee shall review all additions and deletions (including Planned Improvements, Expected Improvements and Extraordinary Items) to the Assets that would result in any adjustments to the Purchase Price in accordance with Section 2.4. Prudent Utility Practices shall be the basis for the Transition Advisory Committee to determine whether such equitable adjustments are appropriate, and if so determined, Exhibit A shall be amended accordingly. The Transition Advisory Committee's decision with respect to the amount of any such increase or decrease to the Purchase Price shall be final and binding upon the Parties; provided, however, if a Party disagrees with any such decision, that matter may be referred to Dispute resolution in accordance with Section 14.13.

(f) Materiality Threshold. No adjustment to the Purchase Price shall be required for any (i) loss of or damage to, or (ii) addition to or betterment of, the Assets occurring during the Transition Period unless, on an occurrence basis, the amount thereof exceeds Five Thousand Dollars (\$5,000), or in the aggregate, the amount thereof exceeds Twenty-Five Thousand Dollars (\$25,000). No adjustment to the Purchase Price shall be made or available for losses or damages associated with normal wear and tear.

(g) Planned Improvements. If, during the Transition Period, PSE determines a need to change a Planned Improvement, and such change materially affects the cost thereof, PSE will advise the Transition Advisory Committee of such change, and the Transition Advisory Committee shall determine the amount of any increase or decrease to the Purchase Price that is necessary to equitably account for such change. The Transition Advisory Committee's decision by majority vote with respect to the amount of any such increase or decrease to the Purchase Price shall be final and binding upon the Parties, and Exhibit A shall be amended accordingly. If, subsequent to the Interim Payment Date, the Parties are unable to agree upon the change to the Planned Improvements list or the amount of any such further equitable adjustment, then the matter shall be referred to Dispute resolution in accordance with Section 14.13.

2.12 Risk of Loss.

PSE shall bear the risk of loss with regard to the Assets prior to Closing. The risk of loss for the Assets shall pass to JPUD at Closing.

3. Representations and Warranties of PSE.

PSE represents and warrants that as of the Effective Date and the Closing Date:

3.1 Organization and Powers of PSE.

PSE is a Washington corporation, duly organized and validly existing under the laws of the state of Washington. PSE has the requisite corporate power and authority to own or lease the Assets and to carry on its business as it is now being conducted.

3.2 Authority Relative to Agreement; Governmental Authorization.

PSE has the corporate power and authority to execute and deliver this Agreement and consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated under this Agreement by PSE have been duly and validly authorized by all necessary corporate action on its behalf and this Agreement constitutes the valid and binding obligation of PSE enforceable in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and except that the availability of the equitable remedies of specific performance and injunctive relief are subject to the discretion of the court before which any proceeding may be brought. Except for the Necessary Approvals and other third party consents and approvals described in Section 7.3, to PSE's Knowledge, no declaration, filing or registration with, or notice to, or authorization, consent or approval of, any governmental or regulatory body or

authority is necessary for the execution and delivery of this Agreement by PSE or the consummation by PSE of the transactions contemplated under this Agreement.

3.3 Noncontravention; Approvals.

Except for the Necessary Approvals, the PSE Mortgage and the other third party consents and approvals described in Section 7.3, the execution and delivery of this Agreement and the consummation of the transactions contemplated under this Agreement will not violate, conflict with or result in a breach of any provision of, or constitute a default under, or result in the termination of, any note, bond, mortgage, indenture, deed of trust, contract, lease or other instrument, obligation or agreement of any kind to which PSE is now a party or by which any of its assets may be bound or affected.

3.4 Tax Matters.

There are no liens for taxes upon any of the Assets, other than liens for taxes not yet due and payable, and no action, proceeding or investigation has been instituted against PSE that would give rise to a lien for taxes upon the Assets. PSE has duly filed with the appropriate governmental agencies all material tax returns and tax reports due and required to be filed by PSE with respect to the Assets, including all tax returns and tax reports with respect to all federal, foreign, state and local, income, sales, use, occupation, license, franchise, excise, real and personal property, employment, social security, withholding, employment insurance and other taxes.

3.5 Compliance With Laws.

As of the Effective Date and except as set forth in Schedule 3.5, PSE has received no written notice of violation or noncompliance of and, to PSE's Knowledge, there is no material violation or noncompliance that has occurred and not been cured with respect to any law or regulation applicable to the Assets, including, but not limited to, any Environmental Laws.

3.6 Legal Proceedings.

As of the Effective Date and except as set forth in Schedule 3.6, there are no material actions, suits, inquiries, investigations or proceedings pending or, to PSE's Knowledge, threatened, relating to the Assets, before any federal, state or local court or other governmental or regulatory body.

3.7 Property Included.

Except for the Excluded Assets, the Assets constitute all of the electrical distribution assets, facilities and properties (including real property interests) as of the Closing Date within the scope of the standard for Assets described in the fourth sentence of Section 2.1(c) that are a part of the assets that PSE uses to provide electrical service to PSE customers located in the Service Territory.

3.8 Due Diligence Material.

During the Review Period, PSE made available to JPUD, to PSE's Knowledge, all material information in its possession as of the Effective Date that reasonably relates to (a) PSE's title to the Assets, (b) the physical condition of the Assets, and (c) the environmental documents (including, but not limited to, studies) in its possession that reasonably relate to the Assets or surrounding areas. As of the Effective Date, to PSE's Knowledge, no additional material information has come into PSE's possession that would contradict or cause the material information made available by PSE to JPUD during the Review Period to be materially inaccurate.

4. Representations and Warranties of JPUD.

JPUD represents and warrants that as of the Effective Date and as of the Closing Date:

4.1 Organization and Powers of JPUD.

JPUD is a public utility district, duly organized and validly existing under the laws of the state of Washington. JPUD has all requisite public utility district power and authority to own, operate and lease its properties and to carry on its business as it is now being conducted.

4.2 Authority Relative to Agreement; Governmental Authorization.

JPUD has the public utility district power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated under this Agreement by JPUD have been duly and validly authorized by all necessary public utility district actions on its behalf and constitutes the valid and binding obligation of JPUD enforceable in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and except that the availability of the equitable remedies of specific performance and injunctive relief are subject to the discretion of the court before which any proceeding may be brought.

4.3 Noncontravention; Approvals.

The execution and delivery of this Agreement and the consummation of the transactions contemplated under this Agreement will not violate, conflict with or result in a breach of any provision of, or constitute a default under, or result in the termination of any note, bond, mortgage, indenture, deed of trust, contract, lease or other instrument, obligation or agreement of any kind to which JPUD is now a party or by which any of its assets may be bound or affected.

4.4 Opportunity to Inspect and Investigate.

Prior to Closing, JPUD has been provided the opportunity to inspect and make such investigations regarding the Assets, Stores, Review Materials and Environmental Conditions and has performed such due diligence inspection, Environmental Assessments and investigation of the Assets and their suitability for JPUD's purposes (including review of documents and

information provided by PSE, governmental authorities and others, site visits and interviews with PSE employees and consultants) as JPUD deems appropriate, necessary and prudent for JPUD to consummate the transactions contemplated under this Agreement, and JPUD will rely solely upon the results of the representations and warranties of PSE in this Agreement, its inspection, investigation and other due diligence activities with regard to the status of the title, quality, condition, merchantability, fitness and other aspects of the Assets and Stores, their compliance with applicable laws, their suitability for JPUD's intended use and for all aspects and purposes.

5. Covenants of PSE.

PSE covenants and agrees as follows:

5.1 Conduct of Business.

(a) PSE will, during the Transition Period, construct, operate and maintain the Assets, and provide electric service to its customers in the Service Territory, at substantially the same quality and level of service that PSE provides to its other customers, and to so construct, operate, maintain and serve in accordance with the rules and regulations of the WUTC (including, but not limited to, PSE rates and tariffs on file therewith).

(b) Without JPUD's consent and except as may be required under applicable law or regulation, PSE shall not, during the Transition Period, engage in any material transactions relating to the Assets out of the ordinary course of business that (i) limits PSE's ability to sell the Assets to JPUD in accordance with this Agreement except as contemplated in Section 14.16, or (ii) would materially and adversely affect JPUD's post-Closing use of the Assets, except for PSE obtaining consents and terminations as contemplated under Section 7.3.

(c) PSE shall not, during the Transition Period, encourage, initiate or solicit any proposals to sell to any third party, nor shall PSE engage in negotiations concerning the sale of or sell the Assets to any third party; provided, however, that PSE may take any such actions if a failure to do so would subject PSE or its directors to potential liability.

5.2 Insurance.

Until Closing, PSE shall continue to self-insure or carry insurance insuring the Assets against loss or damage by fire and other risks, and public liability consistent with and in accordance with its past and ongoing practices.

5.3 Conditions and Commercially Reasonable Efforts.

Subject to the terms of this Agreement, PSE shall do such commercially reasonable acts and things as reasonably may be required to carry out PSE's obligations hereunder and to consummate its transactions contemplated under this Agreement, including, without limitation of the foregoing, promptly making application for Necessary Approvals, and seeking to have any order, decree or injunction of a court of competent jurisdiction that restrains, enjoins or prohibits the consummation of the transactions contemplated by this Agreement set aside or lifted.

5.4 Maintain Properties.

During the Transition Period, PSE shall maintain the Assets in a condition that is substantially the same as the condition the Assets are in as of the Effective Date, normal wear and tear excepted.

5.5 Notification.

During the Transition Period, PSE will promptly give JPUD written notice of any event, condition or fact within PSE's Knowledge that would cause any of its representations and warranties in this Agreement to be untrue in any material respect or any other event or condition of any kind within PSE's Knowledge pertaining to and materially and adversely affecting the financial position, prospects, operations or business of PSE in the Service Territory.

5.6 Sale or Purchase of Assets.

After the Interim Payment Date, PSE may not sell any Asset with a total Net Book Value in excess of Five Thousand Dollars (\$5,000), nor shall PSE purchase any Asset (other than Planned Improvements and Expected Improvements) with a total Net Book Value in excess of One Hundred Thousand Dollars (\$100,000), in either case, without JPUD's prior approval, which approval shall not be unreasonably withheld or delayed. JPUD's prior approval shall not, however, be required for any repair, removal, replacement or improvement of an Asset by PSE that is made in response to exigent circumstances (e.g., to repair storm damage) and reasonably required to provide safe and reliable service consistent with applicable laws and regulations to PSE's customers in the Service Territory. The adjustment to the Purchase Price associated with any such repair, removal, replacement or improvement of Assets shall, however, be subject to review by the Transition Advisory Committee in accordance with Section 2.11.

5.7 Post-Closing Consents.

To the extent PSE does not obtain, prior to Closing, consents required under contracts and agreements included in the Assets or Assumed Liabilities, PSE shall, after Closing, use commercially reasonable efforts to obtain such consents, unless otherwise agreed between the Parties.

5.8 Necessary Approvals.

PSE shall use its best efforts in good faith to prepare and execute all filings to meet the following target dates:

(a) PSE shall apply for the WUTC Confirmations on or before July 15, 2010;
and

(b) PSE shall apply for an order from the FERC, if and as required, approving the transfer of any FERC-jurisdictional facilities. Such application shall be promptly submitted to FERC by PSE if, during the Transition Period, an Asset shall become or is determined to be a FERC-jurisdictional facility, and in such event, PSE shall promptly notify JPUD of such determination.

6. Covenants of JPUD.

JPUD covenants and agrees as follows:

6.1 Conditions and Commercially Reasonable Efforts.

Subject to the terms of this Agreement, JPUD shall use its commercially reasonable efforts to do all such acts and things as reasonably may be required to carry out JPUD's obligations hereunder and to consummate its transactions contemplated under this Agreement. Notwithstanding the foregoing, JPUD shall not be required in connection with any regulatory approval to make any payment or agree to any conditions of approval that are unacceptable to JPUD in its sole discretion.

6.2 Confidentiality.

All material nonpublic information requested and obtained by JPUD from PSE shall be subject to the confidentiality and use restrictions contained in the Confidentiality Agreement. If this Agreement should terminate pursuant to Section 12, then JPUD shall either promptly destroy or return to PSE all of such nonpublic information.

6.3 No Condemnation.

During the term of this Agreement, JPUD will forbear from initiating or proceeding with any condemnation or other action to acquire the Assets.

6.4 WUTC Approval.

JPUD shall cooperate with PSE, if and as PSE may reasonably request, in PSE's filing for and obtaining approval from the WUTC for any and all transactions contemplated under this Agreement for which approval is required under Washington statutes and regulations. Additionally, JPUD shall support PSE's applications for approval as contemplated under this Agreement to state and federal agencies in all material respects and will not take any positions adverse to PSE in any proceedings concerning the purchase of Assets or transfer of service resulting from or relating to such applications.

6.5 Financing Plan.

Not later than six (6) months from and after the Effective Date, JPUD will provide PSE with a financing plan, for informational purposes only, together with such commitments from financing entities received as of that date, as are sufficient to demonstrate that JPUD will be able to qualify for financing in an amount sufficient to fund the Purchase Price and that the proceeds of such financing will be available to JPUD to pay the Purchase Price within the time periods specified in this Agreement. JPUD shall update its financing plan on a quarterly basis until Closing.

6.6 Environmental Assessments.

(a) JPUD may conduct, at its expense, any Phase I Environmental Assessments that it deems appropriate. Prior to undertaking any such Phase I Environmental Assessment, JPUD shall notify PSE of its intention to do so and the Assets to be included in any such assessment. The Parties shall cooperate as to the scheduling and undertaking of any Phase I Environmental Assessments in accordance with Section 2.9(d).

(b) JPUD may conduct, at its expense, any Phase II Environmental Assessments that it deems appropriate. Prior to undertaking any such Phase II Environmental Assessment, JPUD shall notify PSE of its intention to do so, the Assets to be included in any such assessment, and the date or dates upon which JPUD proposes to undertake such assessment. The Parties shall cooperate as to the scheduling and undertaking of such Phase II Environmental Assessments in accordance with Section 2.9(d); provided, however, PSE shall have the right to establish alternative dates for any one or more of such Phase II Environmental Assessments if and as reasonably necessary to avoid any disturbance, interference or impairment of the safe, continuous and reliable operation of the Assets in accordance with Prudent Utility Practices. In no event, however, shall JPUD have the right to proceed with a Phase II Environmental Assessment unless and until the Parties have entered into a Site Access Agreement with respect to such Phase II Environmental Assessment.

(c) JPUD shall provide PSE with a copy of any and all Environmental Assessments. For avoidance of doubt, JPUD shall not be entitled to a reduction in the Purchase Price for any Environmental Conditions.

6.7 Environmental Assessments.

During the Transition Period, JPUD will promptly give PSE written notice of any event, condition or fact within JPUD's Knowledge that would cause any of its representations and warranties in this Agreement to be untrue in any material respect or any other event or condition of any kind within JPUD's Knowledge pertaining to and materially and adversely affecting the financial position, prospects, operations or business of JPUD.

7. Conditions Precedent to PSE's Obligations.

PSE's obligation to consummate the transactions contemplated under this Agreement at Closing is subject to the fulfillment, prior to or at Closing, of each of the following conditions, unless waived by PSE in writing in its sole discretion:

7.1 Representations, Warranties and Covenants of JPUD.

All representations and warranties made in this Agreement by JPUD shall be true and correct in all material respects as of the Closing Date as fully as though such representations and warranties had been made on and as of the Closing Date, except for representations and warranties specifically referring to another date, which shall be true and correct in all material respects as of such date. As of the Closing Date, JPUD shall have complied in all material respects with all covenants made by it in this Agreement that by their terms are to be performed prior to Closing.

7.2 Necessary Approvals.

Necessary Approvals shall have been obtained and be in effect on the Closing Date, all on terms acceptable to PSE, in its reasonable discretion, and PSE shall have advised JPUD to that effect, provided, however, that in the event that the WUTC fails to issue WUTC Orders containing the WUTC Confirmations, the Parties shall, subject to Subsection 12.1(a)(vii), meet and confer to resolve the outstanding issues associated with the WUTC Orders.

7.3 Third Party Consents.

PSE shall have obtained the written consent of third parties, including governmental agencies, or terminations in form and substance satisfactory to PSE, necessary for consummation of the transactions contemplated under this Agreement, including, without limitation, consents or terminations with regard to any permits, franchises, leases, licenses, tenancy and/or permissions relating to the Assets or transactions contemplated under this Agreement, other than those consents or terminations which, if not obtained or terminated, would not have an adverse effect on PSE.

7.4 Litigation.

At the Closing Date, there shall not be in effect any order, decree or injunction of a court of competent jurisdiction restraining, enjoining or prohibiting the consummation of the transactions contemplated under this Agreement. Additionally, no state or federal government or governmental agency in the United States shall have taken any action, and no statute, rule or regulation shall have been enacted, that would prevent the consummation of such transactions.

7.5 Verification of Asset Value.

PSE shall have received independent, third party verification of the value of the Assets on or before July 1, 2010.

7.6 Delivery of Purchase Price to Escrow Agent.

JPUD shall have delivered funds equivalent to the Purchase Price, the Stores Purchase Price and any other amounts as then may be due and owing to PSE by JPUD under this Agreement to the Escrow Agent.

7.7 Material Adverse Change.

There shall not have occurred a material adverse change in or effect upon the Assets or any change that could materially impair the ability of the Parties to consummate the transactions contemplated under this Agreement.

7.8 Customer Transition Agreement.

The Parties have executed and delivered the Customer Transition Agreement.

8. Conditions Precedent to JPUD's Obligations.

JPUD's obligation to consummate the transactions contemplated under this Agreement at Closing is subject to the fulfillment, prior to or at Closing, of each of the following conditions, unless waived in writing by JPUD in its sole discretion:

8.1 Representations, Warranties and Covenants of PSE.

All representations and warranties made in this Agreement by PSE shall be true and correct in all material respects as of the Closing Date as fully as though such representations and warranties had been made on and as of the Closing Date, except for representations and warranties specifically referring to another date, which shall be true and correct in all material respects as of such date. As of the Closing Date, PSE shall have complied in all material respects with all covenants made by it in this Agreement that by their terms are to be performed prior to Closing.

8.2 Long-Term Financing.

JPUD shall have obtained Long-Term Financing within thirty-six (36) months from the Effective Date.

8.3 Third Party Consents.

PSE shall have obtained the written consent of third parties, including governmental agencies, and the Necessary Approvals necessary for consummation of the transactions contemplated under this Agreement, other than those which, if not obtained, would not, in the aggregate, have an adverse effect on the value of the Assets.

8.4 Title.

If ordered by JPUD at its expense, JPUD shall have received commitments for title insurance disclosing that title to each parcel of PSE fee-owned real property included in the Assets is held in fee simple, subject only to such matters as shall have been approved by JPUD.

8.5 Litigation.

At the Closing Date, there shall not be in effect any order, decree or injunction of a court of competent jurisdiction restraining, enjoining or prohibiting the consummation of the transactions contemplated under this Agreement. Additionally, no state or federal government or governmental agency in the United States shall have taken any action, and no statute, rule or regulation shall have been enacted, that would prevent the consummation of such transactions.

8.6 Material Adverse Change.

There shall not have occurred a material adverse change in or effect upon the Assets or any change that could materially impair the ability of the Parties to consummate the transactions contemplated under this Agreement.

8.7 Licenses and Permits.

Unless otherwise agreed between the Parties in writing, all permits, franchises, licenses, permissions and/or consents, if any, reasonably required to provide electrical service to the Service Territory have either been assigned to JPUD or, if not assignable, new permits, licenses, permissions and/or consents have been issued to JPUD.

8.8 Customer Transition Agreement.

The Parties have executed and delivered the Customer Transition Agreement.

9. Closing.

9.1 Time and Place.

The closing of the transactions contemplated under this Agreement (the "Closing") shall take place on a date that is no earlier than eighteen (18) months, and not later than thirty-six (36) months from the Effective Date (the "Closing Date"). Subject to satisfaction or waiver of the Conditions Precedent, JPUD shall have the right to determine the Closing Date within such period at any time after the end of the fifteenth (15th) month of the Transition Period, by providing closing instructions to the Escrow Agent, with a copy to PSE, ninety (90) days prior to the JPUD-determined Closing Date (the "Closing Notice"). The procedures for cut-over of electric service from PSE to JPUD shall be set forth in the Customer Transition Agreement. Closing shall be held at such place as the Parties may mutually agree.

9.2 Further Assurances.

From time to time after Closing, each Party, upon the request of the other Party, shall without further consideration execute, deliver and acknowledge all such further instruments of transfer and conveyance and do and perform all such other acts and things as either Party may reasonably request to accomplish the transfer of the Assets from PSE to JPUD and to effectively carry out the intent of this Agreement.

9.3 Responsibility for Providing Electric Service.

At Closing, PSE's obligations to provide electric service to its customers in the Service Territory shall cease, and JPUD shall assume full and complete responsibility for providing electric service to such customers and shall release PSE for the same.

10. Survival of Warranties, etc.; Indemnities.

10.1 Representations, Warranties and Covenants of the Parties to Be Continuing.

All representations, warranties, covenants and indemnification of the Parties, and all liability therefor, shall survive Closing for a period of three (3) years except that the covenants and obligations of the Parties set forth in this Section 10 shall survive indefinitely.

10.2 Indemnification by PSE.

(a) PSE shall indemnify, defend and hold harmless JPUD, its officers, directors, employees or agents, and its successors and assigns, from and against any third party claims, demand or action to the extent caused by or arising out of:

(i) Any breach or default in the performance by PSE of any covenant or agreement of PSE contained in this Agreement;

(ii) Any breach of warranty or representation made by PSE in this Agreement;

(iii) Any investigation, removal and remediation/cleanup of any Environmental Condition that is the responsibility of PSE under Section 10.4(a);

(iv) Any cause of action related to or involving the Assets that arose prior to Closing, notwithstanding any act or omission of JPUD, whether or not negligent, which act or omission occurred prior to Closing;

(v) Any liability arising out of any and all actions, suits, proceedings, claims, demands, judgments, damages, costs and expenses, including reasonable attorneys' fees, incident to any of the foregoing; or

(vi) Any cause of action relating to the presence of an Environmental Condition that is the responsibility of PSE under Section 10.4(a).

(b) JPUD and its successors and assigns shall promptly notify PSE in writing of any matter arising under the foregoing indemnification provision. PSE may contest and defend in good faith any claim of third parties covered by this Section 10.2, provided such contest is made without cost or prejudice to JPUD and provided that, within ten (10) days of PSE's receipt of notice of such claim, PSE notifies JPUD of its desire to defend and contest such claim. JPUD shall reasonably cooperate with PSE in its investigation and response to any third party claim.

(c) If, following notice from JPUD as provided in Section 10.2(b), PSE does not notify JPUD of its desire to contest the claim, demand or action, PSE shall reimburse JPUD on demand for any payment actually and reasonably made by JPUD at any time after the Closing Date with respect to any liability arising out of any and all actions, suits, proceedings, claims, demands, judgments, damages, costs and expenses, including reasonable attorneys' fees, incident to the claim, demand or action covered by such notice. PSE may not use the provision of this Section 10.2(c) for its responsibilities under Sections 10.2(a)(iii) or 10.2(a)(vi).

(d) As between the Parties and solely for the purpose of the indemnities contained in this Section 10.2, PSE expressly waives any immunity, defense or protection that may be granted to it under the Washington State Industrial Insurance Act, Revised Code of Washington Title 51 or any other industrial insurance, workers' compensation or similar laws of the State of Washington to the fullest extent permitted by applicable law. This Section 10.2 shall not be interpreted or construed as a waiver of PSE's right to assert such immunity, defense or

protection directly against any of its own employees, or such employee's estate or other representatives. This Section 10.2(d) has been mutually negotiated by the Parties.

10.3 Indemnification by JPUD.

(a) JPUD shall indemnify, defend and hold harmless PSE, its officers, directors, employees or agents, and its successors and assigns, from and against any third party claim, demand or action to the extent caused by or arising out of:

(i) Any breach or default in the performance by JPUD of any covenant or agreement of JPUD contained in this Agreement;

(ii) Any breach of warranty or representation made by JPUD in this Agreement;

(iii) Any investigation, removal and remediation/cleanup of any Environmental Condition that is the responsibility of JPUD under Section 10.4(b);

(iv) Any cause of action related to or involving the Assets or Assumed Liabilities that arises after Closing, notwithstanding any act or omission of PSE, whether or not negligent, which act or omission occurred prior to Closing;

(v) Any liability arising out of any and all actions, suits, proceedings, claims, demands, judgments, damages, costs and expenses, including reasonable attorneys' fees, incident to any of the foregoing; or

(vi) Any cause of action relating to the presence of an Environmental Condition that is the responsibility of JPUD under Section 10.4(b).

(b) PSE and its successors and assigns shall promptly notify JPUD in writing of any matter arising under the foregoing indemnification provision. JPUD may contest and defend in good faith any claim of third parties covered by this Section 10.3, provided such contest is made without cost or prejudice to PSE and provided that, within ten (10) days of JPUD's receipt of notice of such claim, JPUD notifies PSE of its desire to defend and contest such claim.

(c) If, following notice from PSE as provided in Section 10.3(b), JPUD does not notify PSE of its desire to contest the claim, demand or action, JPUD shall reimburse PSE on demand for any payment actually and reasonably made by PSE at any time after the Closing Date with respect to any liability arising out of any and all actions, suits, proceedings, claims, demands, judgments, damages, costs and expenses, including reasonable attorneys' fees, incident to the claim, demand or action covered by such notice.

(d) As between the Parties and solely for the purpose of the indemnities contained in this Section 10.3, JPUD expressly waives any immunity, defense or protection that may be granted to it under the Washington State Industrial Insurance Act, Revised Code of Washington Title 51 or any other industrial insurance, workers' compensation or similar laws of the State of Washington to the fullest extent permitted by applicable law. This Section 10.3 shall not be interpreted or construed as a waiver of JPUD's right to assert such immunity, defense or

protection directly against any of its own employees, or such employee's estate or other representatives. This Section 10.3(d) has been mutually negotiated by the Parties.

10.4 Environmental Indemnification.

(a) PSE shall be liable and shall indemnify JPUD for the costs of any investigation, removal, and remediation/cleanup of any Environmental Condition arising prior to or at the Closing Date, other than Environmental Conditions existing at the time of Closing that are reasonably expected in the ordinary course of utility operations.

(b) JPUD shall be liable for and indemnify PSE for the costs of investigation, removal and remediation/cleanup of any Environmental Condition (i) arising after the Closing Date or (ii) existing at the time of Closing that are reasonably expected in the ordinary course of utility operations.

(c) If JPUD discovers, encounters or is notified of the existence of any Environmental Conditions that it believes is the responsibility of PSE under Section 10.4(a), then

(i) JPUD shall promptly notify PSE thereof and shall take such reasonable actions with respect to the area containing such Environmental Conditions as are required or appropriate under Environmental Laws; and

(ii) If such Environmental Conditions are the responsibility of PSE under Section 10.4(a), PSE may enter upon the applicable property and take reasonable steps to investigate, remove, remediate and cleanup such Environmental Condition consistent with Environmental Laws.

10.5 Residential Exchange Adjustments.

JPUD shall indemnify PSE in an amount equal to fifty percent (50%) of any adjustment by Bonneville Power Administration ("BPA") after Closing to account for the overpayment of benefits, if any, for the period October 1, 2001, through September 30, 2008 (the "Lookback"), allocable to PSE's residential and small farm customers in Jefferson County, of the monetary benefits provided PSE under the Residential Purchase and Sale Agreement, by and between the United States of America, Department of Energy, acting by and through the Bonneville Power Administration, and Puget Sound Energy, Inc., Contract No. 08PB-11974. PSE shall provide all information as may be reasonably requested by JPUD to document any such adjustment made by BPA. In the event that the amount of the Lookback is subsequently reduced or overturned after JPUD has paid its share of the Lookback to PSE under this Section 10.5, PSE shall pay to JPUD fifty percent (50%) of such Lookback reduction upon PSE's receipt of such Lookback amounts from BPA.

10.6 Consequential Losses.

NOTWITHSTANDING ANY OTHER PROVISION IN THIS AGREEMENT AND EXCEPT FOR A PARTY'S POTENTIAL OBLIGATION TO PAY LIQUIDATED DAMAGES AS PROVIDED IN SECTION 11(a) OR INDEMNIFICATION OBLIGATIONS AS PROVIDED IN THIS SECTION 10, WITH RESPECT TO CLAIMS BETWEEN THE

PARTIES, NEITHER PARTY, NOR THEIR RESPECTIVE AGENTS OR EMPLOYEES SHALL BE LIABLE AS A RESULT OF ANY ACTION OR INACTION UNDER THIS AGREEMENT OR OTHERWISE, INCLUDING, WITHOUT LIMITATION, NEGLIGENCE OR OTHER FAULT, STRICT LIABILITY WITHOUT REGARD TO FAULT, BREACH OF CONTRACT OR WARRANTY, FOR ANY LOSS OF PROFITS OR LOSS OF REVENUE OR ANY CONSEQUENTIAL, SPECIAL, INCIDENTAL, EXEMPLARY, PUNITIVE OR INDIRECT LOSSES OR SIMILAR DAMAGES OF ANY NATURE WHATSOEVER (INCLUDING, BUT NOT LIMITED TO, THE COST OF POWER), WHETHER ARISING UNDER THE LAW OF CONTRACTS, TORTS (INCLUDING, WITHOUT LIMITATION, NEGLIGENCE OF EVERY KIND AND STRICT LIABILITY, WITHOUT FAULT) OR PROPERTY, OR AT COMMON LAW OR IN EQUITY, OR OTHERWISE, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OR EXISTENCE OF SUCH DAMAGES.

11. Liquidated Damages and Specific Performance.

(a) Not later than fifteen (15) days after the Effective Date, each Party shall tender to the Escrow Agent a promissory note, substantially in the form attached to this Agreement as Exhibit H, in the amount of Two Million Five Hundred Thousand Dollars (\$2,500,000), payable to the other Party, as liquidated damages ("Liquidated Damages") for the unexcused failure to close the transactions contemplated under this Agreement in accordance with the terms and conditions hereof. Liquidated Damages shall be held by the Escrow Agent subject to the terms of the Escrow Agreement. The Parties acknowledge and agree that because of the unique nature of the Assets and the transactions contemplated under this Agreement, it is difficult or impossible to determine with precision the amount of damages that would or might be incurred by a Party as a result of the other Party's unexcused failure to close the transactions contemplated under this Agreement in accordance with the terms and conditions hereof. It is understood and agreed by the Parties that Liquidated Damages are in the nature of liquidated damages, and not a penalty, and are fair and reasonable; and such payment represents a reasonable estimate of fair compensation to the nondefaulting Party for the losses that may reasonably be anticipated from such failure. The Parties hereby acknowledge that this Section 11 represents a reasonable allocation of risk.

(b) In lieu of Liquidated Damages, in the event that a Party, without proper excuse as provided elsewhere in this Agreement, fails to consummate the transactions contemplated under this Agreement in accordance with the terms and conditions of this Agreement, then the other Party may seek to specifically enforce this Agreement. In the event that an action is brought by a Party to specifically enforce this Agreement, the prevailing Party shall be entitled to recover all of its costs and attorneys' fees from the other Party.

(c) The alternate remedies provided for in Section 11(a) (including termination of this Agreement under Section 12) and in Section 11(b) as elected by a Party shall be the sole and exclusive remedy of such Party in the event of an unexcused failure by the other Party to close the transactions contemplated under this Agreement in accordance with the terms and conditions hereof and the other Party shall have no other liability with regard to such unexcused failure.

12. Termination.

12.1 Termination.

(a) This Agreement shall terminate if at any time prior to Closing:

(i) The Parties agree in writing to terminate this Agreement.

(ii) JPUD delivers a written notice of termination to PSE to the effect that PSE has defaulted in a material respect under one or more of its covenants and agreements contained herein (which shall be specified in detail in such notice), and such condition or conditions have not been satisfied or such default or defaults have not been remedied (or waived by JPUD) within fifteen (15) days after the date such notice is delivered by JPUD to PSE, or if such breach is not capable of being cured within such fifteen (15) day period (as determined by JPUD in its sole discretion), PSE (x) fails to commence to cure such breach within such fifteen (15) day period, or (y) fails to thereafter diligently proceed to cure such breach in a manner reasonably satisfactory to JPUD.

(iii) JPUD delivers a written notice of termination to PSE, on or before the expiration of the Review Period, stating that JPUD has reasonably determined that based upon its review of the Review Materials, the transactions contemplated under this Agreement present an unanticipated and previously unknown material risk to JPUD, which shall be described by JPUD in such notice.

(iv) JPUD delivers written notice of termination to PSE that JPUD has been unable to secure Long-Term Financing.

(v) JPUD delivers a written notice of termination to PSE on or before June 1, 2012 stating that based upon its review of information disclosed by the Environmental Assessments conducted by JPUD pursuant to Section 6.6, JPUD has reasonably determined that information contained therein presents an unanticipated and previously unknown material risk to JPUD were it to consummate the transactions contemplated under this Agreement.

(vi) PSE delivers a written notice of termination to JPUD to the effect that JPUD has defaulted in a material respect under one or more of its covenants and agreements contained herein (which shall be specified in detail in such notice), and such condition or conditions have not been satisfied or such default or defaults have not been remedied (or waived by PSE) within fifteen (15) days after the date such notice is delivered by PSE to JPUD, or if such breach is not capable of being cured within such fifteen (15) day period (as determined by PSE in its reasonable discretion), JPUD (x) fails to commence to cure such breach within such fifteen (15) day period or (y) fails to thereafter diligently proceed to cure such breach in a manner reasonably satisfactory to PSE.

(vii) Either Party delivers a written notice of termination to the other Party if the WUTC Orders issued by the WUTC fail to include the WUTC Confirmations and the Parties have failed to resolve the outstanding issues associated with such WUTC Orders after the Parties have met and conferred about such resolution.

(b) This Agreement will automatically terminate if Closing has not occurred on or before the third anniversary of the Effective Date.

12.2 Effect of Termination.

In the event of the termination of this Agreement as provided in this Section 12, written notice thereof shall be given to the nonterminating Party, specifying the provision of this Agreement pursuant to which such termination is made, and this Agreement shall forthwith become null and void, except that (a) Sections 10.6, 11, and 14 and this Section 12.2, and the Confidentiality Agreement in accordance with its terms, shall each survive termination of this Agreement at any time, and (b) nothing shall relieve either Party from liability for fraud or, subject to Sections 10.6 and 11, any breach of this Agreement. Upon termination, JPUD shall promptly return to PSE all copies of the Review Materials and Environmental Studies and shall be immediately free to initiate or proceed with any condemnation or other action to acquire the Assets.

13. Assignment.

13.1 Assignment.

Any assignment of this Agreement or rights and obligations hereunder shall be void without the written consent of the other Party.

13.2 No Discharge; Successors and Assigns.

No assignment of this Agreement shall operate to discharge the assignor of any duty or obligation hereunder without the written consent of the other Party. Without limiting Section 13.1, this Agreement shall be binding upon the successors and assigns of an assigning Party.

14. Miscellaneous.

14.1 Amendment.

This Agreement may be amended only by an instrument in writing executed by the Parties that expressly refers to this Agreement and states that it is an amendment hereto, provided however, that Exhibit A may be amended pursuant to the procedures outlined in Sections 2.1(c) and 2.11.

14.2 Section and Paragraph Headings.

The Section and paragraph headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

14.3 Waiver.

Any of the terms or conditions of this Agreement may be waived at any time and from time to time, in a signed writing, by the Party or Parties entitled to the benefit of such terms or

conditions. Any waiver given by a Party shall be narrowly construed to specifically waive in time and subject only the express matter contained in such waiver.

14.4 Choice of Law.

This Agreement shall be governed by, subject to and construed under the laws of the State of Washington, without regard to principles of conflict of laws that would call for the application of any laws other than the laws of the State of Washington.

14.5 Notices.

All notices, requests, demands and other communications given by any Party shall be in writing and shall be deemed to have been duly given when sent via facsimile as evidenced by a printed confirmation page of successful transmission, when delivered personally or delivered by a recognized courier service that provides a receipt of delivery or three (3) days after being deposited as certified or registered mail, postage prepaid, into the United States mail, to the following addresses or numbers:

If to JPUD:

General Manager
Public Utility District No. 1 of Jefferson County
230 Chimacum Road
Port Hadlock, WA 98339
Fax: (360) 385-5945

With a copy to:

Joel R. Paisner
Ater Wynne LLP
Two Union Square
601 Union Street, Suite 1501
Seattle, WA 98101-2341
Fax: 206-467-8406

If to PSE:

Eric M. Markell
Executive Vice President and Chief Financial Officer
Puget Sound Energy, Inc.
P. O. Box 97034, PSE-12S
Bellevue, WA 98009-0868
Fax: (425) 462-4300

With copies to:

Karl Karzmar
Puget Sound Energy, Inc.
P. O. Box 97034, PSE-8N
Bellevue, WA 98009-0868
Fax: (425) 462-3414

and to:

Steven R. Secrist, Esq.
Puget Sound Energy, Inc.
P. O. Box 97034, PSE-11N
Bellevue, WA 98009-9734
Fax: (425) 456-2707

or to such other address as the Parties may designate in writing.

14.6 Limits on Representations and Warranties.

WITHOUT LIMITING SECTION 2.1(b) OR SECTION 2.2, JPUD ACKNOWLEDGES THAT PSE IS NOT MAKING AND PSE EXPRESSLY DISCLAIMS AND NEGATES, ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE OR NON-INFRINGEMENT OR ANY OTHER WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, RELATING TO THE ASSETS OR THE STORES INCLUDING NO REPRESENTATION OR WARRANTY AS TO THE EXISTENCE OR CONTINUATION OF ANY FRANCHISE, EASEMENT, LEASE OR OTHER RIGHTS OF OWNERSHIP, OCCUPANCY, TENANCY OR POSSESSION WITH REGARD TO ANY OF THE REAL PROPERTY INTERESTS UPON WHICH ANY ASSETS MAY BE LOCATED.

14.7 Expenses.

Each Party shall bear its own legal, accounting, consulting, regulatory, tax and other professional fees and expenses and other transaction costs, regardless of whether the transactions contemplated under this Agreement are consummated.

14.8 Integrated Agreement.

This Agreement, when executed, and the Confidentiality Agreement constitute the entire agreement between the Parties, and supersede the LOI and all other prior agreements and understandings, oral and written, between the Parties, with respect to the subject matter hereof.

14.9 Severability.

Any provisions of this Agreement prohibited or rendered unenforceable by any law shall be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement. Upon such determination that any term or other

provision is prohibited or rendered unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated under this Agreement are fulfilled to the greatest extent possible.

14.10 Confidentiality.

The terms and conditions of the Confidentiality Agreement remain in full force and effect and govern each Party's obligation hereunder to keep information confidential. At any time and from time to time, a Party may designate any information, documents, data, work product, notes, files, drafts, samples, models, plans, correspondence, maps, drawings, evaluations, summaries, studies, assessments, impressions, calculations, reports and other communications (in any written, electronic or other form) to be provided to the other Party under this Agreement as "Confidential Information" (as that term is defined in the Confidentiality Agreement) subject to the terms and conditions of the Confidentiality Agreement.

14.11 No Third Party Beneficiaries.

This Agreement shall create no rights, responsibilities and/or obligations in, to or from any parties other than JPUD and PSE.

14.12 Time of the Essence.

Time is of the essence in the performance of all terms and conditions of this Agreement in which time is an element.

14.13 Dispute Resolution.

(a) Any and all other claims, controversies or disputes arising out of or relating to or in connection with this Agreement (collectively, a "Dispute") arising between the Parties shall be resolved in accordance with the Dispute resolution procedures as set forth in this Section 14.13.

(b) The Parties shall inform one another promptly following the occurrence or discovery of any item or event that would reasonably be expected to result in a Dispute required to be resolved in accordance with this Dispute resolution procedure. The initial mechanism to resolve Disputes will involve negotiations between the Parties' representatives, so designated by the Parties by notice given pursuant to Section 14.5.

(c) If the Parties cannot resolve a Dispute satisfactorily within ten (10) days after receipt of the initial notice in accordance with Section 14.13(b), any Party (the "Notifying Party") may deliver to the other Party (the "Recipient Party") notice of the Dispute with a detailed description of the underlying circumstances of such Dispute (a "Dispute Notice"). The Dispute Notice shall include a schedule of the availability of the Notifying Party's senior officers (having a title of senior vice president or higher) duly authorized to settle the Dispute during the thirty (30) day period following the delivery of the Dispute Notice.

(d) The Recipient Party shall, within three (3) business days following receipt of the Dispute Notice, provide to the Notifying Party a parallel schedule of availability of the Recipient Party's senior officers duly authorized to settle the Dispute. Following delivery of the respective senior officers' schedules of availability, the senior officers of the Notifying Party and the Recipient Party shall meet and confer as often as they deem reasonably necessary during the remainder of the thirty (30) day period in good faith negotiations to resolve the Dispute to the satisfaction of each Party.

(e) In the event a Dispute is not resolved pursuant to the procedures set forth in Sections 14.13(b) through (d), then a Party may request mediation by written notice to the other Party. Any mediator used under this Section 14.13 shall be experienced in electric utility matters and the issue which is in Dispute. If the Dispute is not resolved to the mutual satisfaction of both Parties within forty-five (45) days of the date of such notice requesting mediation, then either Party may commence or prosecute any suit, proceeding or claim to pursue any remedy available under Sections 11 and 12 in the federal and state courts located in Thurston County, Washington and the Parties each irrevocably consent to the jurisdiction and venue of such courts with regard to such suits, proceedings or claims and will not commence any such action or proceeding in any other court.

(f) Pending resolution of any Dispute, the Parties shall continue performance of their respective obligations under this Agreement. Each Party shall be responsible for its own costs incurred in connection with any Dispute resolution proceedings undertaken pursuant to this Section 14.13.

14.14 Communications.

Each Party shall reasonably coordinate with the other Party with respect to, and provide advance copies to the other Party for review of, the content and timing of any proposed public communications or publications concerning the transactions contemplated under this Agreement, to the extent consistent with applicable laws. Except as to the Necessary Approvals, the Parties agree that this Agreement is not intended, nor shall it be construed, to require a Party to affirmatively support or advocate any position, opinion, statement or other communication to or before any governmental entity as to any matter of general or specific interest relating to this Agreement or to the consummation of the transactions contemplated by this Agreement.

14.15 Cooperation.

The Parties will cooperate and use their best efforts in good faith to facilitate all aspects of the efficient transition of electric utility service obligations for the Service Territory customers of PSE from PSE to JPUD, and to assist with the efficient transition, the Parties prior to Closing will negotiate the terms and conditions of a customer transition agreement (the "Customer Transition Agreement") that will address the relative rights, obligations and cost responsibilities of the Parties regarding their respective cooperative efforts to facilitate such efficient transition. The Parties agree that the Customer Transition Agreement shall include, among other provisions, provisions regarding transition of customer data, maps and any materials related to the location and configuration of the Assets, arrangements regarding requests for transmission

interconnections and transmission services, billing records, electric service cut-over planning and procedures, and security and communication protocols.

14.16 Condemnation.

If, during the Transition Period, any other entity shall acquire any of the Assets in a condemnation proceeding, or in an agreement in lieu or settlement thereof, then in any such event: (a) PSE shall be entitled to receive and retain any awards or payments made in connection with such proceeding, agreement or settlement; and (b) the Purchase Price shall be reduced by the Net Book Value of any Asset acquired by such other entity.

14.17 Counterparts.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same instrument.

14.18 Construction.

This Agreement has been negotiated on an arm's-length basis by the Parties and their respective counsel and shall be interpreted fairly in accordance with its terms and without any strict construction in favor or against either Party.

[The rest of this page is intentionally left blank. The next page is the signature page.]

IN WITNESS WHEREOF, the Parties have signed this Agreement as of the Effective Date.

PUGET SOUND ENERGY, INC.

By: Stephen P. Reynolds
Name: Stephen P. Reynolds
Title: President and Chief Executive Officer

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY

By: Ken McMillen
Name: Ken McMillen
Title: President, District 2

By: Barney Burke
Name: Barney Burke
Title: Vice President, District 1

By: Wayne G. King
Name: Wayne G. King
Title: Secretary, District 3

**EXHIBIT A
ASSETS**

The Assets to be sold to JPUD pursuant to this Agreement are described in this Exhibit A. Section 2.1(c) of the Agreement provides terms and conditions pursuant to which the Parties may make additions and deletions to this Exhibit A prior to Closing.

SUBSTATIONS AND SERVICE CENTER

- **Irondale Substation and Service Center**
 - Parcel No. 001333037, containing approximately 915,944 sq. ft. (21 acres).
 - Including 4 Corners Service Center Bldg (5,042 sq. ft. in building).

That portion of the Northeast Quarter of the Southwest Quarter lying south of Permanent Highway No. 7, all in Section 33, Township 30 North, Range 1 West, W.M., in Jefferson County, Washington;

EXCEPTING therefrom the following described portions thereof:

- (A) A tract of 1.36 acres conveyed to Jefferson County as a gravel pit by deed recorded in Volume 76 of Deeds, Page 613, and designated as Tax No. 2 in said Section 33;
- (B) A tract of land conveyed to Puget Sound Power & Light Company by deed recorded in Volume 95 of Deeds, page 510 and designated as Tax No. 3 in said Section 33;
- (C) Commencing at the quarter section corner between Sections 32 and 33, Township 30 North, Range 1 West, W.M.; thence South 82° 24' East 1241.5 feet; thence South 80° 36' East, parallel to said Permanent Highway No. 7, 255.9 feet to the true point of beginning; (said point being the northeasterly corner of that certain tract designated as Tax No. 3 in said Section 33); thence South 238 feet, thence East 275 feet; thence North to the southerly right of way line of Permanent Highway No. 7; thence in a northwesterly direction along said right of way line to the point of beginning; said tract being designated as Tax Nos. 18 and 23 in said Section 33;
- (D) The Easterly 255 feet of that portion of the Northeast Quarter of the Southwest Quarter of said Section 33 lying south of Permanent Highway No. 7; except that portion of Tax No. 2 (above described) which is included in said Easterly 255 feet;

EXCEPTING from above described tracts the right of way of the Port Townsend pipe line and the right of way of the transmission line of the Puget Sound Power & Light Company;

ALSO EXCEPTING commencing at the quarter section corner between Sections 32 and 33, Township 30 North, Range 1 West, W.M.; thence South 82° 24' East 1241.5 feet;

thence South 80° 36' East parallel to said Permanent Highway No. 7, 255.9 feet; thence South 238 feet; thence East 275 feet; thence North to the southerly right of way line of Permanent highway No. 7, the true place of beginning, said point being in the northeasterly corner of that certain tract designated as Tax Nos. 18 and 23; thence South 258 feet; thence East 150 feet; thence North to the southerly right of way line of Permanent Highway No. 7; thence in a northwesterly direction along said right of way line to the point of beginning, containing 0.89 of an acre, more or less;

RESERVING, however, to Grantor a temporary easement for improvement, maintenance and use of an existing road, said easement extending from said Permanent Highway No. 7 southerly following said existing road to the south line of the hereinabove described property; at such time as Grantee has completed its development plans of the above described tract, Grantee shall grant to Grantor a permanent easement 20 feet in width, having 10 feet of such width on each side of a described centerline to be surveyed and staked out on the ground at a location within the boundaries of the tract above described.

And

That portion of the S1/2 of the NW 1/4 of the SW 1/4 lying East of the right of way of the transmission line of the Puget Sound Power & Light Company, except the north 200 feet thereof in Section 33, Township 30 North, Range 1 West of the W.M., Jefferson County, Washington.

Together with all improvements, fixtures and electrical apparatus generally described as follows:

Equipment Type	Description	Manufacturer	Serial #
Transformer	20 MVA	Pennsylvania Transformer	C-02883-5-2
Regulator	Regulator (13.8 kV 2 MVA)	Moloney	P650229
Gas Breaker	CIRC BKR 121KV 2,000A 42KA SF6 125VDC	ABB	103081-01
Gas Breaker	CIRC BKR 121KV 2,000A 42KA SF6 125VDC	ABB	103079-1
Gas Breaker	CIRC BKR 121KV 2,000A 42KA SF6 125VDC	ABB	103080-01
Vacuum Breaker	Circuit Breaker (15 KV 2 Cycles)	ITE	95719-A-7-3B
Vacuum Breaker	Circuit Breaker (15 KV 2 Cycles)	ITE	95719-A-8-3B
Vacuum Breaker	Circuit Breaker (14.4 KV 3 Cycles)	ITE	95719-A-5-3B
Vacuum Breaker	CIRC BKR 15.5KV 1200A 20KA 48VDC	ABB	1VAL04G162VBBT
Battery	BATTERY (48 V 100 Ah)	Exide	3CC-5
Battery	BATTERY (120 V 115 Ah) - Cont House	Hawker	VB12106
Charger	BATTERY CHARGER (120 V)	ALCAD	109358-421230-2ZK
Charger	BATTERY CHARGER (48 V)	Ratelco	852647
Capacitor	CAPACITOR (4.8 MVAR)	General Electric	P-4761

- **Quilcene Substation**

- Parcel No. 702134032, containing approximately 60,994 sq. ft. (1.4 acres).

EXHIBIT A – ASSET PURCHASE AGREEMENT

Commencing at the South Quarter corner of Section 13, Township 27 North, Range 2 West, W.M. thence North 00° 55' 00" East, 1680.4 feet along the north-south center line of said Section 13, thence North 86° 04' 22" East, 1701.89 feet to the true point of beginning; thence continuing North 86° 04' 22" East, 270.00 feet; thence South 03° 55' 38" East 277.50 feet to a point on the North right of way line of existing East Quilcene Road; Thence along said right of way on a curve to the right, the center of which bears North 11° 59' 49" East, 2093.69 Feet, an arc distance of 287.29 feet; thence North 03° 55' 38" West, 180 feet to the true point of beginning. All situate in Jefferson County, Washington.

Together with all improvements, fixtures and electrical apparatus generally described as follows:

Transformer	5 MVA	General Electric	C-587440
Regulator	REG 7.6KV 328A 32-STP	Cooper Power Systems	750001307
Regulator	REG 7.6KV 328A 32-STP	Cooper Power Systems	750001308
Regulator	REG 7.6KV 328A 32-STP	Cooper Power Systems	750001340
Recloser	Recloser (12.5 kV 3 Cycles)	McGraw-Edison	3315
Vacuum Breaker	Circuit Breaker (15 KV Cycles)	Westinghouse	82G146VB
Battery	BATTERY (48 V 100 Ah)	Globe	3GQC-11
Charger	BATTERY CHARGER (V)	NA	NA

- **Kearney St. Substation**

- Parcel No. 969912401, containing approximately 25,265 sq. ft. (.58 acres).

Lots 2, 4, 6, & 8, Blk 124, Mabel Addition to the City of Port Townsend, as per plat recorded in Volume 2 of Plats, page 12, records of Jefferson County.

Together with all improvements, fixtures and electrical apparatus generally described as follows:

Equipment Type	Description	Manufacturer	Serial #
Transformer	20 MVA	Allis Chalmers	2-6311-01905-1
Regulator	Regulator (13.2 kV 2 MVA)	Cooper Power Systems	C-46723-1-1
Vacuum Breaker	Circuit Breaker (15.5 KV 5 Cycles)	Westinghouse	150VCP-W500
Vacuum Breaker	Circuit Breaker (15.5 KV 5 Cycles)	Westinghouse	150VCP-W500
Vacuum Breaker	Circuit Breaker (15.5 KV 5 Cycles)	Westinghouse	150VCP-W500
Battery	BATTERY (48 V 330 Ah)	C&D Batteries	KCR-9
Charger	BATTERY CHARGER (48 V)	Exide	3148210000000

Together with the following real property (vacant land): Blk 124, Lots 1, 3, 5, & 7, Mable Addition to the city of Port Townsend as per plat rec in Vol 2 of Plats, Page 12, Jefferson County.

- **Port Ludlow**

- Parcel No. 821072003, containing approximately 431,866 sq. ft. (9.91 acres).

The South 10 acres of that portion of Government Lot 2, Section 7, Township 28 North, Range 1 East, W.M., lying easterly of County Road No. 12, described as follows: Commencing at the West quarter corner of said Section 7; thence along the South line of said Government Lot South 86° 02' 23" East, 881.58 feet to the Northeasterly line of said county road, this being the true point of beginning; thence continuing South 86° 02' 23" East, 575.72 feet to the Southeast corner of said Government Lot ; thence along the East line of said Government lot 01° 17' 04" East, 634.29 feet; thence parallel to the South line of said Government Lot, North 86° 02' 23" West 799.38 feet to the Northeasterly line of said county road; thence along last said Northeasterly line South 17° 49' 41" East, 682.35 feet to the true point of beginning, all situate in Jefferson County, Washington.

Together with all improvements, fixtures and electrical apparatus generally described as follows:

Equipment Type	Description	Manufacturer	Serial #
Transformer	20 MVA	Allis Chalmers	47-8223-40915-1
Regulator	Regulator (13.8 kV 2.24 MVA)	General Electric	L 703454
Oil Breaker	Circuit Breaker (15 KV 5 Cycles)	Pacific Electric Mfg. Co.	10828
Oil Breaker	Circuit Breaker (15 KV 5 Cycles)	ITE	41-43951-202
Battery	BATTERY (48 V 100 Ah)	Exide	3CC-5
Charger	BATTERY CHARGER (V)	Ratelco	2112-R
Capacitor	CAPACITOR (4.8 MVAR)	Sangamo Electric Co.	44088

- **Fairmount BPA-BREM JCT**

- Parcel No. 902253-13, containing approximately 45,002 sq. ft. (1.03 acres).

That portion of the Northwest ¼ of the Southwest ¼ of Section 25, Township 29 North, Range 2 West, W.M. Jefferson Country, Washington, lying easterly of State Highway No 9 and northerly of an easement for transmission line purposes granted to the United States Of America by instrument dated August 3, 1948, and recorded in Volume 125 of Deeds, page 107, in the records of Jefferson County; EXCEPT the abandoned right of way of the Port Townsend Southern Railway.

And

- Parcel No. 901301003, containing approximately 1,685,722 sq. ft. (38.7 acres).

The Northwest Quarter of the Northwest Quarter of Section 30, Township 29 North, Range 1 West W.M.;

EXCEPT therefrom secondary highway No. 9-E.

And

- Parcel No. 901081012, containing approximately 294,918 sq. ft. (6.77 acres).

Beginning at a point on the East line of Section 8, Township 29 North, Range 1 West, which bears South 1°31'47" West 2,042 feet from the Northeast corner of said Section 8; thence West 367.73 feet along the South line of the North 2,042 feet; thence North 13° 35' 25" East 1,334.25 feet; thence East to the East line of said Section 8 at a point which bears South 1° 31' 47" West 737.2 feet from said Northeast corner of Section 8; thence South 1° 31' 47" West 1,304.8 feet to the True Point of Beginning and being a portion of the following described parcels: A portion of the South 763.2 feet of the North 1,410.4 feet of the Northeast Quarter of the Northeast Quarter as measured along the East line thereof, Section 8, Township 29 North, Range 1 West, EXCEPT right-of-way of the Port Townsend Pipe Line and EXCEPT Roads. Also, a portion of the South 631.6 feet of the North 2,042 feet of the East half of the Northeast quarter of Section 8, Township 29 North Range 1 West, as measured along the East line thereof EXCEPT right-of-way of the Port Townsend Pipe line.

Together with all improvements, fixtures and electrical apparatus generally described as follows:

Equipment Type	Description	Manufacturer	Serial #
Breaker	40 kA (minimum) gas power circuit breaker	TBD	TBD
Switch	1600 ampere disconnect switch sets	TBD	TBD
Switch	1600 ampere disconnect switch sets	TBD	TBD
Switch	1600 ampere disconnect switch sets	TBD	TBD
Transformer	115 kV metering current transformer and digital relay	TBD	TBD
Transformer	115 kV metering current transformer and digital relay	TBD	TBD
Transformer	115 kV metering current transformer and digital relay	TBD	TBD

- **Chimacum Substation**

- Parcel No. 901113012, containing approximately 178,596 sq ft. (4.1 acres).

That portion of the Southeast quarter of the Southeast Quarter of Section 11, Township 29 North, Range 1 West, W.M., more particularly described as follows: Beginning at the intersection of the centerline of the West Chimacum Creek and the North line of the ½ of the Southwest quarter of said Section 11; which point bears South 89°05' East 1029.7 feet from the Northwest corner of said subdivision; Thence 89° 05' East along said North line of the subdivision 1215.0 feet to the Westerly right of way line of the Chimacum-Hadlock road; thence Southerly along said right-of way line 507.2 feet to the TRUE POINT OF BEGINNING for the description; thence South 72° 34' West 351.7 feet; thence South 00° 51' 30" West 433.6 feet to a line which is 280.5 feet North of and Parallel to the South line of said subdivision; thence South 89°03' 30" East along said parallel line to intersect the Westerly right of way line of the Chimacum-Hadlock Road; thence Northerly along the right of way of said road to the place of Beginning. Situate in Jefferson County, Washington.

Together with all improvements, fixtures and electrical apparatus generally described as follows:

Equipment Type	Description	Manufacturer	Serial #
Transformer	TRF PWR 3PH 115Y-13Y KV 25MVA LTC	Hyosung Corp.	TP80097005
Vacuum Breaker	CIRC BKR 15KV 1200A 23KA VAC 48VDC MCLAD	Cutler Hammer	70601061
Vacuum Breaker	CIRC BKR 15KV 1200A 23KA VAC 48VDC MCLAD	Cutler Hammer	70601362
Vacuum Breaker	CIRC BKR 15KV 1200A 23KA VAC 48VDC MCLAD	Cutler Hammer	70601392
Vacuum Breaker	CIRC BKR 15KV 1200A 23KA VAC 48VDC MCLAD	Cutler Hammer	70601422
Vacuum Breaker	CIRC BKR 15KV 1200A 23KA VAC 48VDC MCLAD	Cutler Hammer	70601031
Battery	BATTERY STA 48V 300-500AH	ENERSYS	EC-13
Charger	CHARGER BATTERY	HINDLE Power	191-0501/586960-1
Capacitor	CAP BANK 13KV 4.8 MVAR METALCLAD UG FEED	Scott Engineering Inc.	71541

- **Hastings**

- Parcel No. 948311002, containing approximately 20,000 sq. ft. (.46 acres).

Lots 5, 6, 7, & 8, in Blk 110, Eisenbeis Addition according to the Plat thereof recorded in Volume 1 of Plats, at Page 50, situate in Jefferson County.

Together with all improvements, fixtures and electrical apparatus generally described as follows:

Equipment Type	Description	Manufacturer	Serial #
Transformer	20 MVA	Westinghouse	RBR-67672
Regulator	Regulator (13.8 kV 2 MVA)	Moloney	P690641
Vacuum Breaker	CIRC BKR 15KV 600A 12KA 48VDC	General Electric	0442A4317-005
Oil Breaker	Circuit Breaker (15 KV 8 Cycles)	Pacific Electric Mfg. Co.	10413
Oil Breaker	Circuit Breaker (15.5 KV 3 Cycles)	Westinghouse	1-36Y3026
Battery	BATTERY STA 48V 101 to 299AH	ENERSYS	3CC-5M
Charger	BATTERY CHARGER (48 V)	Ratelco	13895

- **Discovery Bay**

- Parcel No. 964514702, containing approximately 69,696 sq. ft. (1.6 acres).

Lots 11 & 12, Bk 147 of Junction City recorded in Volume 2 of Plats, on Page 103, situate in Jefferson County.

Together with all improvements, fixtures and electrical apparatus generally described as follows:

Transformer	20 MVA Delta-Wye	US Transformer	100840902
Regulator	4.2 kV Single Phase	Siemens-Allis	7727-7
Regulator	4.2 kV Single Phase	Siemens-Allis	7727-8
Regulator	4.2 kV Single Phase	Siemens-Allis	7727-9
Vacuum Breaker	CIRC BKR 15KV 1200A 20KA	ABB	1VAL08E198RMAG

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Vacuum Breaker	CIRC BKR 15KV 1200A 20KA	ABB	1VAL08E197RMAG
Battery	BATTERY (48 V 50 Ah)	Exide	3CC-3
Charger	BATTERY CHARGER (48 V)	ALCAD	115487/476080-1CE

TRANSMISSION

The following three 115kV lines and associated electrical apparatus and easements generally described below.

Line Name	Line Number	Length	Voltage	PSE Substations Connected		
Port Townsend #1	TLN-049	9.3	115kV	Irondale	Hasting	Kearney St.
BPA Fairmont – Irondale	TLN-0139	6.8	115kV	Irondale		
Irondale - Port Ludlow	TLN-138	10.3	115kV	Irondale	Chimacum	Port Ludlow

Facility Type	Quantity
Structures	401
115kV OH Conductors	26.4 miles
Transmission Switch	6
Battery	2

Easements used in connection with transmission system by auditor's file number:

Recording number				
	334919	368647	375082	380336
17869	344699	370093	375083	380337
34289	344700	370094	375084	380338
34295	344701	370864	375085	380339
35702	344702	370865	375086	380340
56922	344703	371461	375087	380672
62777	344704	371462	375088	380673
67304	344705	371463	375089	380674
140189	344706	371464	375090	380675
174964	344707	371465	375091	380676
187123	344708	371466	375094	381430
225435	345280	371467	375621	381431
227213	345281	371916	375623	381432
227214	345282	371917	375624	381433
227215	345336	371918	376069	382522
227264	345337	371919	376070	382523
227265	345338	371920	376071	382524
227266	345339	372264	376072	382525
227267	345340	372265	376073	385471
227268	345341	372266	376074	388046

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227552	345342	372267	376075	390810
227733	345343	372268	376076	439577
227838	345344	372269	376077	448351
227839	345345	372654	376078	459344
228574	345346	372655	376324	
228575	345753	372656	376325	459344
228576	345754	373262	376664	462582
229603	345755	373263	376665	466013
229604	345756	373264	376666	487185
229605	346712	373265	376667	491629
231864	346713	373266	376668	496549
254088	346714	373268	376669	496562
264037	346715	373269	377144	498963
264038	346716	373270	377145	502330
269901	346717	373470	377148	502521
285270	346718	373471	377149	504448
304448	347743	373472	377150	504451
304449	347744	374224	377161	510359
313610	347745	374225	378107	515275
320610	347746	374226	378108	515278
322507	350037	374227	378109	517742
324036	350038	374231	378111	
324038	351366	374562	378342	
325848	352214	374563	378343	
325849	353104	374564	378898	
329589	353666	374565	378900	
332508	356012	374566	379682	
332732	359603	374567	379683	
334080	361625	374568	380334	
334084	362044	375081	380335	
17869	334919	344699	368647	
370093	375082	775083	380336	
380337				

DISTRIBUTION

The following electrical distribution circuits and associated electrical apparatus and easements described below.

Distribution Circuits	UG Sites	OH Sites
IRO-13	95	602
IRO-15	269	457
IRO-16	220	217
IRO-17	412	944
PTL-13	409	789
PTL-16	524	573
CHM-11	324	1247
CHM-13	41	180
CHM-14	30	152

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CHM-15	106	246
KEA-13	20	311
KEA-14	39	288
KEA-15	25	586
HAS-12	284	917
HAS-13	167	482
HAS-15	369	767
DIS-12	86	499
DIS-13	117	449
QUI-25	302	1156
QUI-26	192	715
SIL-13 (North of Hood Canal)	TBD	TBD
PGA-15 (North of Hood Canal)	TBD	TBD

Facility Type	Quantity
Poles	9892
OH Transformers	4867
PMT Transformers	2865
OH Conductor	373 miles
UG Conductor	335 miles
Meters	17745

Easements used in connection with distribution system by auditor's file number:

Recording number						
	64621	102561	124506	155343	171326	174958
34286	65513	103975	124507	155344	172394	174959
34287	65919	104175		155345		174960
34288	67126	104176	124508	155346	172395	174961
34306	67481	104177		155347	172396	174962
34307	68617	104178	124798	155348	172397	174963
34838	69410	104529	126341	155349	172398	174965
	69472	105498	126342	155350	172399	176362
34982	70166	106855	126343	155351	172401	176363
35131	70167	106856		155352	172402	176364
35132	71656	106857	126344	155353	172930	176365
35133	71789	106858	139750	155654	172931	176366
35134	72468	106859		155655	172932	176367
35135	73935	106860	140188	155656	172934	176833
35137	74318	107823	140190	155657	172935	176834
35138	74319	108270	140191	159132	172936	176835

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35203	74321	108271	140193	159422	172937	177298
35205	75914	108272	140194	159423	172938	177299
35206	77442	108273		159424	172939	177300
35445	79053	108274	140195	159425	172940	181567
35446	79357	108275	140196	159426	172941	181841
35447	79358	109634	140527	159427	172942	181842
35617	79359	109635	144825	159428	172943	181866
35618	79360	109636	144826	159430	173306	181890
35619	79361	109638	147954	168763	173307	181891
35620	79362	109639	148755	168765	173308	181892
35621	79363	110958	148757	168766	173444	
35623	79364	111899	151234	168769		181893
35648	82449	111900	151235	168770	173445	184068
35700	82608	111901	151236	169538	173446	184069
35701		111902	152711	169539	173447	184435
	82743	111903	152712	169540	173448	184436
35703	82744	111904	152713		173821	184437
35965	82870	111905	152714	169542	173822	186140
36824	82871	111906	152715	169544	173823	186141
36825	82872	111907	152716	169548	173824	186142
	83240	113764	152717	169550	173825	186143
37275	83241	114205	152718	169551	173826	187478
40336	83242	114206	152719	171312	174571	188709
50345	83243	114340	152720	171314	174573	188801
53110	83244	114341	154137	171316	174574	190292
56921	84258	114719	155102	171317	174575	190293
57277	85853	114720	155103	171318	174576	190294
59264	85854	116739	155104	171319	174577	190295
61412	87213	117089	155105	171320	174578	190296
61413	89260	117828	155106	171321	174953	
61414	99095	124496	155107	171322	174954	190646
62350	99096	124503	155108	171323	174955	190647
62351	101849	124504	155341	171324	174956	191071
62778	102560	124505	155342	171325	174957	191072
191073	203914	203963	209667	227389	236130	254084
	203915	203964	211129	227390	236131	254085
194047	203916	203965	213853	227732	236132	254086
	203917	203966	213854	228314	236133	254087
194556	203918	203967	215216	228315	237999	254698
194879	203919	203968	217609	228316	238000	254699
194977	203920	203969	217611	229017	238001	255065
195189	203921	203970	217904	229583	238002	255066
195475		203971	219434	229584	238003	255212
195476	203922	203972	219436	229585	241817	255213
195477	203923	203973	219437	231460	241818	255352
	203924	203974	219438	231461	241819	255353
196722	203925	203975	219439	231462	241820	255354
196771	203926	203976	219440	231463	241822	255355
196772	203927	203977	219441	231464	241823	255500
196773	203928	203978	219740	231465	241824	255501

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198230	203929	203979	220345	231798	241825	255502
198231	203930		220346	231799	241826	255503
198232	203931	203980	220347	231800	244370	255504
202363	203932	203981	220826	231801	244371	255505
202365	203933	203982	220827	232060	244372	255506
202366	203934	204147	220828	232062	244373	255507
202367	203935	204320	220829	232312	244374	255508
	203936	204528	221286	232313	244375	255738
202368	203937	204529	221287	232314	244926	255739
202369	203938	204530	221288	232315	244928	255740
202370	203939	204531	221289	232721	244929	255741
202429	203940	204532	222076	232722	244930	255742
202430	203941	204533	222078	233139	244931	255743
	203942	204626	224125	233140	244933	255744
202726	203943	204901	224126	233141	244934	256258
202864	203944	204902	225436	233142	244935	256259
202865	203945	205781	225539	233736	246725	256260
202866	203946		225540	235079	246726	256263
202867	203947	205782	225541	235080	246727	256560
202868	203948	205783	225542	235081	247896	256561
202869	203949	206083	225543	235082	247897	256563
203400	203950	206084	225812	235083	247899	256564
203401	203951	206285	225813	235781	247900	257038
203402	203952	206286	225814	235782	247901	257039
203403	203954	206570	226314	235783	247902	257040
203643	203955	206780	226315	235784	249464	257041
203644	203956	206937	226316	235785	249465	257043
203645	203957	208361	226317	235787	251293	257045
203722	203958	208362	226716	236124	251294	257434
203908	203959	208363	226717	236125	252676	257435
203909	203960	208504	226718	236126	252677	257944
203911	203961	208505	226719	236127	252678	258545
203912		209120	227387	236128	252679	258547
203913	203962	209666	227388	236129	252680	258548
258549	265292	267946	273120	278535	282745	287353
258550	265293	267947	273122	278536	282746	287561
259376	265294	267948	273123	279045	282747	287562
259377	265295	268103	273124	279046	282748	287563
259379	265296	268104	273125	279047	282749	287564
259380	265297	268640	273126	279048	283332	287565
259381	265298	268641	273127	279344	283333	287566
260415	265299	268642	273128	279345	283334	287567
260416	265300	268643	273129	279346	283335	287568
260417	265301	268644	273130	279347	283336	287569
260418	265302	268645	273131	279348	283337	287570
260419	265303	268646	273132	279349	283338	287571
260420	265304	269065	273133	279686	283339	287572
260421	265650	269068	273134	279687	283340	287573
262800	265651	269069	273135	279688	283341	288091
262801	265652	269071	273136	279689	283342	288092

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262802	265653	269419	273137	279690	283343	288093
262956	265890	269420	273276	279691	283906	288770
262957	265891	269421	273277	279822	283907	288771
263473	265892	269422		279823	283908	288772
263636	266346	269423	273564	280844	283909	290127
263731	266347	269594	274582	280845	283910	290128
263732	266348	269900	274583	280848	283911	290129
263733	266349	269903	274585	280849	283912	290130
263734	266350	270789	274586	280850	283913	290131
	266351	270790	274587	280853	283914	290132
263735	266352	270791	274588	280854	283915	291530
263739	266662	270792	274589	280855	283916	291531
263740	266663	270793	274590	280856	284980	291532
263742	266664	270794	275067	280857	284981	291533
263743	266665	271031	275068	280858	284982	291534
264028	267088	271032	275769	281384	284983	291535
264029	267089	271033	275770	281385	284984	291536
264030	267090	271346	275771	281386	284985	291537
264031	267612	271347	275772	281387	284986	291538
264032	267613	271467	275773	281388	284987	291540
264033	267614	271468	276301		284988	291541
264034		271819	276302	282184	284989	292215
264036	267615	271821	276546	282185	284990	292216
264297	267616	271822	276547	282186	285271	292217
264298	267617	271823	276548	282187	285272	292218
264299	267618	272026	276549	282188	285273	292219
264300	267619	272027	277909	282189	286121	292220
264589	267620	272028	277910	282190	286122	292221
264590	267621	272029	277911	282191	286123	292222
264591	267622	272030	277912	282740	286124	292968
265288	267942	272031	277913	282741	286125	292971
265289	267943	272032	278532	282742	286126	292972
265290	267944	272033	278533	282743	286127	292973
265291	267945	273119	278534	282744	286129	292974
292975	298684	303836	307938	311431	314046	318198
292976	298685	303837	307939	311433	314047	318199
292977	299398	303838	307940	311434	314048	318200
292978	299399	303839	307941	311435	314049	318201
292979	299400	303840	307942	311436	315072	318202
292980	299401	303841	307943	311437	315073	318203
292981	299403	303842	308193	311438	315074	318204
293814	299404	304088	308194	311439	315075	318205
293815	299405	304089	308195	311440	315076	318206
293816	299406	304090	308196	311441	315077	318207
293817	299407	304091	308435	311442	315078	318208
293818	300161	304092	308436	311443	315079	318209
293819	300162	304093	308437	311444	315595	318210
293820	300163	304262	308978	311445	315596	318211
293821	300164	304263	308979	311446	315597	318698
294705	300165	304264	308980	311964	315598	318699

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294706	300166	304265	308981	311966	315599	318700
296139	300167	304266	308983	311967	315600	318701
296140	300168	304267	308984	311968	315602	318702
296141	301118	304268	308985	311969	315603	318703
296142	301119	304446	309483	311971	315604	318704
296143	301120	304447	309484	311973	315605	319673
296144	301121	304450	309485	313432	316240	319675
296145	301122	304451	309486	313536	316241	319676
296146	301123	304452	309487		316242	319679
296147	302412	304453	309488	313537	316244	319680
296148	302413	304749	309489	313605	316245	319681
296613	302414	304750	309490	313606	316246	319682
296614	302548	304751	309491	313607	316247	319683
296615	302550	304752	309492	313608	316248	319684
296616	302551	304753	309763	313609	316249	319685
296731	302552	304934	310077	313611	316705	319686
297587	302553	305827	310078	313612		320163
297588	302554	305828	310079		317358	320164
297589	302555	305829	310080	313613	317359	320165
297590	302556	306621	310081	313615	317360	320166
297591	302557	306622	310949	313616	317361	320167
297592	302871	306623	310950	313617		320168
298362	302872	306624	310951	313618	317362	320169
298363	302873	306625	310952	313619	317363	320170
298364	302874	306626	310953	313829	317364	320171
298365	303400	306627	310954	314037	317367	320608
298366	303402	307016	310955	314038	318043	320609
298367	303403	307017	310956	314039	318044	320611
298368	303404	307018	311422	314040	318045	320612
298679	303405	307019	311423	314041	318046	320613
298680	303406	307934	311424	314042	318047	320614
298681	303407	307935	311426	314043	318048	321070
298682	303408	307936	311427	314044	318049	321071
298683	303835	307937	311428	314045	318050	321072
321073	324049	327344	331586	334918	337287	340385
321074	324050	327345	331587	334920	337288	340386
321075	324051	327346	331588	334921	337289	340387
321076	324052	327347	331589	334922	337290	340511
321077	324053	327348	331590	334923	337906	340513
321078	324054	328577	331591	334924	337907	340514
321079	324645	328578	332502	334925	337908	340515
321080	324646	328579	332503	334926	337909	340516
321081	324647	328580	332504	334927	338363	340517
321082	324648	328581	332505	335397	338364	341316
321083	324649	328898	332506	335398	338365	341317
321084	324652	328899	332509	335399	338366	341318
321085	324997	328900	332510	335400	338367	341319
321086	324998	329809	332511	335401	338368	341320
321087	324999	329811	332512	335402	338369	341321
321088	325000	329812	332513	335403	338370	341322

EXHIBIT A – ASSET PURCHASE AGREEMENT

321089	325001	329813	332514	335404	338838	341323
321357	325003	329814	332733	336603	338839	341324
321358	325004	329815	332734		338840	341325
321359	325005	329816	332735	336604	338841	341326
321360	325472	329817	332736	336605	338842	341327
322155	325473	329818	334067	336606	338843	341517
322156	325474	329819	334068	336607	338844	341518
322157	325475	329821	334069	336608	338845	341519
322158	325476	330550	334070	336609	338846	341520
322159	325477	330551	334071	336610	339354	341521
322160	325478	330552	334072	336611	339355	341522
322161	325479	330553	334073	336612	339356	341523
322162	325632	330554	334074	336613	339357	341524
322163	325633	330555	334075	336614	339358	341525
322505	325634	330556	334076	336615	339359	341526
322506	325635	330557	334077	336616	339360	341527
322508	325636	330558	334078	336617	339846	341528
322509	325637	330559	334079	336618	339847	341529
322510	325638	330560	334081	336619	339848	341530
322511	325639	330561	334082	336620	339849	341879
322703	325640	330562	334083	336621	339850	342266
323298	325832	330563	334477	336622	339851	342267
323461	326133	330564	334478	336624	339852	342268
324037	326135	330565	334479	336752	339853	342269
324039	326136	330566	334480	336753	339854	342270
324040	326137	330567	334481	336754	339855	342271
324041	326847	330568	334482	336756	339856	342272
324042	326848	331579	334483	336955	339857	342273
324043	326849	331580	334484	337281	339858	342274
324044	326850	331581	334485	337282	339859	342275
324045	326851	331582	334914	337283	340381	342642
324046	326852	331583	334915	337284	340382	342644
324047	326853	331584	334916	337285	340383	342645
324048	326854	331585	334917	337286	340384	342646
342647	345317	350046	353660	356732	361143	361676
342648	345757	350047	353661	356733	361144	361976
342649	345758	350048	353662	356734	361145	361977
342650	345759	350049	353663	356735	361146	361978
342651	345760	350050	353664	356736	361147	362462
342652	345761	350051	353665	357464	361631	362463
342653	345762	351249	354463	357465	361632	362464
342654	345763	351250	354464	357466	361633	362465
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343699	345765	351253	354466	357468	361635	362467
343701	345766	351254	354467	357469	361636	362468
343702	345767	351255	354468	357470	361637	362469
343703	345768	351256	354469	357471	361638	362470
343704	345769	351257	354470	358158	361639	362471
343705	345770	352215	354471	358159	361640	362472
343706	345771	352216	354472	358160	361641	363037

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343707	346667	352218	354473	358161	361642	363038
343708	346668	352219	354474	358162	361643	363039
343709	346669	352220	354475	358163	361644	363040
343710	346670	352221	354476	358164	361645	363041
343711	346820	352222	354932	358165	361646	363042
343712	347719	352223	354933	359006	361647	363173
343760	347720	352224	354934	359007	361648	363174
344685	347721	352225	354935	359008	361649	363175
344686	347722	352226	354936	359009	361650	363176
344687	347723	352227	354937	359010	361651	363177
344688	347724	352228	354938	359011	361652	363178
344689	347725	352230	354939	359012	361653	363179
344690	347726	353099	354940	359013	361654	363180
344691	347727	353100	354941	359600	361655	363640
344692	347728	353101	354942	359601	361656	363641
344693	347729	353102	355593	359602	361657	363642
344694	347730	353103	355594	359932	361658	363643
344695	347747	353105	355595	359933	361659	363644
344696	348413	353106	355596	360267	361660	363645
344697	348414	353107	355597	360268	361661	363646
345303	348415	353108	355598	360269	361662	364107
345304	348416	353109	355599	360270	361663	364110
345305	348417	353110	355600	360271	361664	364111
345306	348418	353648	356005	360272	361665	364112
345307	348419	353649	356006	360273	361666	364113
345308	348420	353650	356007	360274	361667	364114
345309	348421	353651	356008	360275	361668	364450
345310	348422	353652	356009	360276	361669	364451
345311	350039	353653	356010	361137	361670	364452
345312	350040	353654	356011	361138	361671	364453
345313	350041	353655	356013	361139	361672	364454
345314	350042	353656	356729	361140	361673	364455
345315	350044	353658	356730	361141	361674	364456
345316	350045	353659	356731	361142	361675	364457
365212	369146	372662	376322	382778	390882	401905
365213	369147	372663	376323	382779	390883	403459
365214	369148	372664	376326	383216	391571	403465
365215	369149	372666	376327	383217	391573	403466
365216	369150	372667	376329	383218	391584	403467
365217	369151	373217	376662	383219	392644	403468
365899	369152	373218	376663	383220	392645	403469
365900	370096	373219	377158	383221	392646	405687
365901	370097	373220	377159	383222	392647	405688
365902	370098	373221	377160	383223	392648	405691
365903	370099	373222	377162	383224	392649	405693
365904	370195	373267	377493	383653	392650	405696
366381	370196	373468	377494	383654	392651	405697
366382	370197	373469	377495	383655	393377	406475
366383	370198	373473	377496	383656	393378	406476
366384	370199	373474	377497	383657	393379	409150

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366385	370200	373562	377498	383658	393532	409151
366386	370201	373563	377499	384123	394090	409152
366387	370866	374216	378106	384124	394091	409153
366388	370867	374217	378110	384125	394092	409154
366389	370868	374218	378112	384388	394094	409155
366390	370869	374219	378113	384389	394739	409156
366391	370870	374220	378114	384390	394740	409156
366392	370871	374223	378341	384394	394741	409157
367158	370872	374228	378344	384600	394742	409158
367159	370873	374230	378345	384603	395692	409159
367160	370874	374569	378346	384604	395693	409160
367161	370875	374570	378347	385254	395694	410784
367162	370876	374571	378874	385255	396229	413661
367163	370877	375092	378875	385257	396230	413662
367164	371415	375093	378876	385258	396231	413663
367714	371416	375095	378899	385470	396232	413664
367715	371417	375096	379024	385472	396233	413665
367716	371418	375097	379025	385473	396826	413666
367717	371419	375587	379026	386020	396827	413667
367718	371420	375588	379027	386022	396828	413668
368623	371421	375589	379028	386864	396829	413669
368624	371422	375590	379029	386865	396830	414688
368625	371423	375591	379680	386866	397689	414689
368626	371424	375592	380292	388000	397690	414690
368627	371425	375593	380293	388001	397691	414691
368628	371907	375594	381434	388002	397692	416010
368629	371908	375595	381435	388003	399541	420527
368630	371909	375596	382526	389706	399543	423118
368631	371910	375597	382527	389707	399544	
368632	371911	375622	382528	389708	401900	424223
369142	371912	375629	382529	389709	401901	425257
369143	371913	376080	382530	389710	401902	425258
369144	371914	376081	382531	390880	401903	427411
369145	371915	376082	382777	390881	401904	427412
427413	436511	445680	457318	468961	483725	496556
429935	436512	446071	459343	470097	483726	496557
429936	437804	446072	459345	470397	483727	496558
429937	437805	446073	459346	470398	483728	496559
429938	437806	446074	459355	470399	483729	496561
429964	438092	446075	460443	470400	483730	496563
431109	438093	446076	460445	470402	483731	496564
431711	438094	446077	460446	470403	483732	496565
431712	438095	446078	460447	470988	483763	498956
431714	438097	447239	460448	474055	487174	498957
431715	438098	447240	460449	474056	487175	498958
431716	438099	447241	460450	474057	487177	498959
431717	439571	447244	460451	474060	487178	498960
431718	439572	447245	462577	477438	487179	498961
432080	439573	448350	462578	477439	487180	498962
433263	439574	448352	462579	477440	487181	498964

EXHIBIT A – ASSET PURCHASE AGREEMENT

433264	439575	448353	462580	477441	487182	498965
433265	439576	448354	462581	477442	487183	498966
433266	439795	448355	462945	477443	487184	501023
433267	439796	448356	464339	477444	487300	501024
433268	439797	449335	464340	477445	491616	501025
433269	442367	449337	464341	479337	491617	501026
433270	442368	449338	464342	479338	491618	501027
433271	442369	450570	464343	479339	491620	502331
433272	442370	450571		479340	491621	502332
433809	442371	450572	464344	479341	491622	504449
433810	442372	450573	466008	479342	491623	504450
433811	442373	450574	466009	479343	491624	504452
433812	442374	451792		479344	491625	504453
434568	442375	451793	466010	479345	491626	504454
434569	442376	451794	466011	479346	491627	504455
434570	442377	452739	466012	479347	491628	504456
434571	442378	452740	467216	479348	491630	505639
434572	442379	452741	467217	481171	491631	506094
435371	443168	452742	467218	481621	491632	
435372	443169	453609	467219	481622	491633	506225
435373	443170	455041	467220	481623	491634	506662
435374	443171	455087	467221	481624	493104	
435375	443172	455088	468950	481625	493105	506663
435376	443173	455089	468951	481626	493106	506664
435950	443174	455090	468952	481627	493107	506665
435951	443175	455091		481628	493108	506666
435952	444473	455092	468953	481629	493109	506667
435954	444474	456184	468954	481630	493110	506668
436505	444475	457313	468955	481631	493111	509063
436506	445221	457314	468956	481632	496550	509064
436507	445222	457315	468957	481633	496551	509065
436508	445223	457316	468958	481634	496552	509066
436509	445224	457317	468959	483723	496553	509067
436510	445275		468960	483724	496554	510357
510358	517737	524341	529508		542947	548205
510360	517738	525158	529509	535501	543488	548944
510361	517739	525159	529977	535502	543489	548945
510362	517740	525160	529978	535503	543490	548946
512625	517741	525161	529979	536041	543491	549271
512626	517742	525162	529980	536042	543636	549272
512627	517743	525163	529981	536043	543637	549273
512628	517743	525164	530032	536044	543638	549274
512629	517744	526026		536045	544322	549275
512630	517744	526031	530467	536732	544323	549639
512631	517745	526032	530468	536733	544324	550424
512632	517745	526033	530470	536734	544325	550425
512633	517746	526034	531095	536735	544669	550987
512634	517746	526035	531096	536736	544670	550988
512635	518014	526036	531097	536737	544671	550989
512636	518015	526037	531098	537322	544672	550990

EXHIBIT A – ASSET PURCHASE AGREEMENT

512637	518016		531099	537323	544673	550991
512638	519598	526798	531484	537324	545319	551142
515268	519599	526799	531840	537325	545320	551143
515269	519600	526800	531841	537612	545321	551885
515270	519601	526801	531842	537613	545322	551886
515271	519602	527292	531843	537614	545323	551887
515272	519603	527913	531844	537615	545324	
515273	519604	527914	532913	538460	546117	
515274	519605	527915	532914	538461	546118	
515276	519606	527916	532915	538462	546119	
515277	522288	527917	532916	538463	546120	
515279	522289	527918	532917	538997	546121	
515280	522290	527920	533291	539155	546122	
515281	522292	527922	533292	539261	546123	
515282	522293	527923	533293	539262	546430	
515283	522295	527924	533294	539263	546431	
515284	522296	528144	533295	539264	546432	
515285	522298	528791	533814	539265	546433	
515554	522299	528792	533815	540327	546434	
515555	522300	528793	533816	540365	547283	
515556	522423	528794	533817	540366	547284	
515557	522593	528795	533818	540621	547285	
515558	522594	528796	533819	540622	547286	
516583	522595	528797	534231	540623	547287	
516584	523139	528798	534232	540624	547288	
516585	523960	528799	534233	540625	547803	
516586	523961	528800	534234	541786	547804	
516587	523962	528801	534754	541787	547805	
516588	523963	529037	534755	542710	547806	
516589	523964	529502	534756	542711	547807	
516590	523965	529503	534757	542712	548201	
516591	523966	529505	534997	542713	548202	
516592	524339	529506	534998	542945	548203	
517737	524340	529507	535400	542946	548204	

EXHIBIT A – ASSET PURCHASE AGREEMENT

OTHER ASSETS

- **Fort Worden Substation (decommissioned substation)**

- Parcel No. 985205102, containing approximately 20,000 sq ft (.46 acres).

Lots 3 thru 6, Blk 51, Pettygrove's 2nd Addition to Port Townsend, Recorded in Vol 2 of Plats, Page 17, Records of Jefferson County.

Together with all improvements, fixtures and electrical apparatus located thereon.

- **Bremerton Junction (decommissioned substation)**

- Parcel No. 001333014, containing approximately 69,696 sq ft. (1.6 acres).

Tract of Land SW ¼ Sec 33, Twn 30N, R 01W described as follows: Beginning at the quarter corner common to Section 32 and 33, Twp 30N., Range 1W., thence south 82°24' East 1241.5 feet to a point on PH #7, which is the true point of beginning of this description, thence south 279.8 feet, thence east 252.4 feet, thence north 238 feet, thence north 80° 36' west 255.9 feet to the true point of beginning, all situate in Jefferson County, Washington.

- **Service Territory System Maps (to be determined and designated by the mutual agreement of the parties)**

**EXHIBIT B
ESCROW AGREEMENT**

This Escrow Agreement (the "Agreement") is made and entered into as of _____, 2010, by and between Puget Sound Energy, Inc., a Washington corporation ("PSE"), Public Utility District No. 1 of Jefferson County, Washington, a Washington public utility district ("JPUD"), and First American Title Insurance Company as Escrow Agent (the "Escrow Agent"). JPUD and PSE are sometimes referred to collectively as the "Parties" and individually as a "Party."

RECITALS:

A. JPUD and PSE have entered into an Asset Purchase Agreement, dated as of _____, 2010 (the "Asset Purchase Agreement"), pursuant to which JPUD is buying certain assets of PSE.

B. The Asset Purchase Agreement contemplates the establishment of an escrow arrangement to provide for an interim payment and the payment of the balance of the purchase price by JPUD and to provide for escrow of promissory notes for payment of potential liquidated damages for the unexcused failure of JPUD or PSE to close the transactions contemplated by the Asset Purchase Agreement.

AGREEMENT

The Parties and Escrow Agent, intending to be legally bound, agree as follows:

1. Defined Terms

Capitalized terms used but not defined in this Agreement shall have the meanings ascribed to such terms in the Asset Purchase Agreement.

2. Escrow Funds and Escrow Notes.

2.1 Receipt of Escrow Funds. JPUD shall deposit twenty million dollars (\$20,000,000) (the "Interim Payment") into the Escrow Account (as defined below) within ten (10) days of JPUD's receipt of funds under its Long Term Financing. The Escrow Agent shall accept delivery of the Interim Payment and agrees to hold the Interim Payment in a separate escrow account (the "Escrow Account") subject to the terms and conditions of this Agreement, and to release the Interim Payment from the Escrow Account as expressly provided in this Agreement.

2.2 Receipt of Escrow Notes. No later than fifteen (15) days after the Effective Date, each Party shall deposit with the Escrow Agent a promissory note substantially in the form attached as Exhibit I to the Asset Purchase Agreement in the amount of Two Million Five Hundred Thousand Dollars (\$2,500,000) made payable to the other Party (collectively, the "Escrow Notes") as potential Liquidated Damages for the unexcused failure of such Party to close the transactions contemplated by the Asset Purchase Agreement. The Escrow Agent shall

accept delivery of the Escrow Notes and agrees to hold the Escrow Notes subject to the terms and conditions of this Agreement, and to release the Escrow Notes from the Escrow Account as expressly provided in this Agreement.

2.3 Receipt of Purchase Price. On or before the Closing Date, JPUD shall deposit into the Escrow Account the Purchase Price less the Interim Payment. The Escrow Agent shall accept delivery of the Purchase Price payment, agrees to hold the Purchase Price in the Escrow Account, and agrees to release the Purchase Price subject to the terms and conditions of this Agreement. The Interim Payment and the subsequent Purchase Price payment when deposited by JPUD in the Escrow Account are referred to in this Agreement as the “Escrow Funds”.

2.4 Escrow.

(a) The Escrow Agent shall hold the Escrow Funds in the Escrow Account. The Escrow Funds shall not be subject to any lien, attachment, trustee process or any other judicial process of any creditor of JPUD.

(b) The Escrow Agent shall hold the Escrow Notes. The Escrow Notes shall not be subject to any lien, attachment, trustee process or any other judicial process of any creditor of the Parties.

(c) The Escrow Agent shall hold and safeguard the Escrow Funds and the Escrow Notes until released in accordance with the express terms of this Agreement, provided that if the Escrow Agent has received a Claim Notice (as defined below) setting forth a claim that has not been resolved, then the Escrow Agent shall hold and safeguard the Escrow Funds and the Escrow Notes until the Escrow Funds and the Escrow Notes are released by the Escrow Agent in accordance with this Agreement.

(d) The Escrow Agent does not have any interest in the Escrow Funds or the Escrow Notes but is serving as escrow holder only and only has possession thereof.

(e) By execution and delivery of this Agreement, the Escrow Agent acknowledges that the terms and provisions of this Agreement are acceptable, and it agrees to carry out on its part only the express provisions of this Agreement.

3. Administration of Escrow Notes and the Escrow Funds.

Except as otherwise provided herein, the Escrow Agent hereby is authorized and instructed to administer the Escrow Notes and Escrow Funds as follows:

3.1 In the event a Party, without an excuse under the Asset Purchase Agreement, fails to close the transactions contemplated by the Asset Purchase Agreement within the time of Closing contemplated by the Asset Purchase Agreement (the “Failing Party”), the other Party (the “Claiming Party”) may deliver a written notice (a “Claim Notice”) to the Failing Party and to the Escrow Agent. The Claim Notice shall state (a) that the Claiming Party believes there is or has been an unexcused failure by the Failing Party to close the transactions contemplated by the Asset Purchase Agreement within the contemplated time of Closing, (b) contain a brief description of the circumstances supporting the Claiming Party’s belief that there is or has been

such failure and (c) indicate whether the Claiming Party is seeking as Claiming Party's remedy for such failure under Section 11 of the Asset Purchase Agreement: (i) Liquidated Damages from the Failing Party or (ii) specific performance by the Failing Party. Notwithstanding anything to the contrary contained in this Agreement or the Asset Purchase Agreement, the Escrow Agent shall have no duty or obligation to investigate, verify or otherwise inquire as to whether the Claiming Party is or may be entitled to Liquidated Damages or specific performance under the Asset Purchase Agreement.

3.2 Within thirty (30) days after receipt by the Failing Party and the Escrow Agent of a Claim Notice, the Failing Party may deliver to the Claiming Party and to the Escrow Agent a written response (the "Response Notice") in which the Failing Party: (i) agrees its failure to close such transactions is unexcused; or (ii) indicates its failure to close such transactions is excused.

3.3 If the Failing Party states in its Response Notice that its failure to close such transactions was unexcused or such failure is deemed pursuant to Section 3.5 to have been unexcused and if the Claim Notice states that the Claiming Party is seeking Liquidated Damages as its remedy for such failure, both Escrow Notes shall be released by the Escrow Agent to the Claiming Party and the Escrow Funds shall be released by the Escrow Agent to JPUD within five (5) Business Days after the Escrow Agent's receipt of the Response Notice or such deemed response pursuant to Section 3.5. For purposes of this Agreement, the term "Business Day" means any day other than a Saturday, Sunday or a day on which commercial banks in the State of Washington are required or authorized by law to close.

3.4 If the Failing Party states in its Response Notice that its failure to close such transactions was unexcused or such failure is deemed pursuant to Section 3.5 to have been unexcused and if the Claim Notice states that the Claiming Party is seeking specific performance as its remedy for such failure, the Escrow Agent shall release to the Parties their respective Escrow Notes and the Escrow Funds shall be released by the Escrow Agent to JPUD within five (5) Business Days after the Escrow Agent's receipt of the Response Notice or such deemed response pursuant to Section 3.5.

3.5 If a Response Notice is not received by the Escrow Agent within thirty (30) days of the Escrow Agent's receipt of a Claim Notice, then the Failing Party conclusively shall be deemed to have agreed that its failure to close such transactions was unexcused, and the Escrow Agent is authorized and instructed hereby to release and distribute the Escrow Notes and Escrow Funds in accordance with Section 3.3 or Section 3.4, as applicable.

3.6 If the Failing Party delivers a Response Notice to the Claiming Party and the Escrow Agent within the thirty (30) day period pursuant to Section 3.2 indicating that the Failing Party disputes that its failure to Close was unexcused, the Escrow Funds shall be released by the Escrow Agent to JPUD within five (5) Business Days after the Escrow Agent's receipt of the Response Notice and the Parties shall attempt in good faith to resolve the Dispute pursuant to Section 4.13 of the Asset Purchase Agreement. If the Parties resolve such Dispute by agreement or the Dispute is resolved by a court, a settlement agreement signed by the Parties or the final, non-appealable order, judgment, decree or ruling of a court of competent jurisdiction ("Order") shall be sent by the Parties to the Escrow Agent, and such settlement agreement or Order shall be conclusive and binding upon the Parties and the Escrow Agent and shall not be contested by any

of them. Upon receipt of a fully executed settlement agreement or Order, the Escrow Agent is hereby authorized and instructed to release the Escrow Notes as specified in such settlement agreement or Order and if applicable, from the Escrow Account within five (5) Business Days after receipt of a fully executed settlement agreement or Order and in accordance therewith. Unless and until the Escrow Agent shall receive a fully executed settlement agreement or Order indicating that any such Dispute has been resolved or adjudicated by the Parties, the Escrow Agent may assume without inquiry that such Dispute has not been resolved.

4. Release of Escrow Funds and Escrow Notes.

4.1 In the Event of Termination. Within ten (10) Business Days after the date on which the Asset Purchase Agreement terminates (the "Termination Date"), the Escrow Agent is authorized and instructed hereby to distribute or cause to be returned:

(a) to JPUD, (x) the Escrow Funds and (y) its Escrow Note; provided, however, that if PSE has submitted a Claim Notice pursuant to Section 3.1 stating that PSE is seeking Liquidated Damages, then the Escrow Agent shall retain JPUD's Escrow Note after the Termination Date until resolution has occurred in accordance with Section 3.3, Section 3.4, Section 3.5 or Section 3.6. Within five (5) Business Days following the resolution of such dispute, the Escrow Agent hereby is authorized and instructed to release JPUD's Escrow Note pursuant to the result of the dispute resolution made in accordance with Section 3.6; and

(b) to PSE, its Escrow Note; provided, however, that if JPUD has submitted a Claim Notice pursuant to Section 3.1 stating that JPUD is seeking Liquidated Damages, the Escrow Agent shall retain PSE's Escrow Note after the Termination Date until resolution has occurred in accordance with Section 3.3, Section 3.4, Section 3.5 or Section 3.6. Within five (5) Business Days following the resolution of such dispute, the Escrow Agent hereby is authorized and instructed to release PSE's Escrow Note pursuant to the result of the dispute resolution made in accordance with Section 3.6.

4.2 Upon Closing. Except where the Escrow Agent has complied with Section 4.1 of this Agreement prior to such date, on the Closing Date, the Escrow Agent shall distribute or cause to be distributed to PSE the Interim Payment and the Purchase Price (less the Interim Payment) and to the Parties their respective Escrow Notes.

4.3 Joint Instructions. Notwithstanding the foregoing, if at any time the Escrow Agent shall receive joint written instructions from JPUD and PSE to release one or more of the Escrow Notes or all or a stated portion of the Escrow Funds, then within five (5) Business Days following receipt of such joint written instructions, the Escrow Agent is hereby authorized and instructed to release the Escrow Notes and Escrow Funds in accordance with such instructions.

5. Fees and Expenses. The Parties shall bear equally the Escrow Agent's reasonable compensation for all services rendered by it hereunder and reimbursement for all its reasonable out-of-pocket costs and expenses (including without limitation fees and disbursements of counsel) in connection with the preparation, negotiation, amendment, modification, waiver, execution, delivery, administration or enforcement of this Agreement and the exercise and

performance of its duties hereunder. The obligations of Section 5 shall survive the termination of this Agreement and the resignation or removal of the Escrow Agent.

6. Escrow Agent.

6.1 The Escrow Agent shall have no duties, responsibilities or obligations as the Escrow Agent except those expressly set forth herein and in any modification or amendment hereof to which the Escrow Agent has consented in writing; and no duties, responsibilities or obligations shall be implied or inferred. Without limiting the foregoing, the Escrow Agent shall not be subject to, nor be required to comply with, or determine if any Party has complied with, the Asset Purchase Agreement or any other agreement between or among the Parties, even though reference thereto may be made in this Agreement, or to comply with any notice, instruction, direction, request or other communication, paper or document other than as expressly set forth in this Agreement.

6.2 The Escrow Agent shall be liable hereunder only for its own gross negligence or bad faith (as determined by a final, non-appealable order, judgment, decree or ruling of a court of competent jurisdiction). Anything to the contrary notwithstanding, in no event shall the Escrow Agent be liable for (a) acting in accordance with a notice, instruction, direction, request or other communication, paper or document signed by both PSE and JPUD and (b) special, punitive, indirect, consequential or incidental loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage.

6.3 The Escrow Agent shall incur no liability with respect to any action taken, suffered or omitted by it, in reliance upon any notice, direction, instruction, consent, statement or other document (including, but not limited to, a settlement agreement) believed by it to be genuine and duly authorized, and shall have no duty to inquire into or investigate the validity, accuracy or content thereof.

6.4 JPUD and PSE hereby severally and equally, but not jointly and severally, agree to indemnify the Escrow Agent and its affiliates and their respective successors, assigns, officers, directors, managers, employees, attorneys, accountants, experts and agents (collectively, the "Indemnitees") for, and to hold the Indemnitees harmless against, any loss, liability, damage, judgment, fine, penalty, claim, demand, settlement, cost or expense (including, without limitation, the reasonable fees and expenses of legal counsel), incurred without gross negligence or bad faith on the part of the Indemnitee, for any action taken, suffered or omitted by the Indemnitee in connection with the acceptance, administration, exercise and performance of its duties under this Agreement. The costs and expenses incurred in enforcing this right of indemnification and defending any legal proceedings which may be instituted against it shall be paid by JPUD and PSE severally and equally, but not jointly and severally. Notwithstanding anything to the contrary contained herein, the provisions of this Section 6 shall survive the termination of this Agreement and the resignation or removal of the Escrow Agent.

6.5 The Escrow Agent may consult with legal counsel, and the Escrow Agent shall incur no liability for or in respect of any action taken, suffered or omitted by it and in accordance with such advice or opinion.

6.6 The Escrow Agent shall act hereunder as an escrow agent only and shall not be responsible or liable in any matter whatever for the sufficiency, collection, correctness, genuineness or validity of any revenues, cash, payments, securities, property, funds, investments, income, earnings or other amounts deposited with or held by it or for the identity, authority or rights of any person or entity executing and delivering or purporting to execute or deliver any thereof to the Escrow Agent.

6.7 The Escrow Agent may execute or perform any duty, responsibility or obligation hereunder either directly or through agents, attorneys, accountants or other experts.

6.8 The Escrow Agent may engage or be interested in any financial or other transaction with JPUD, PSE or any affiliate thereof, and may act on, or as depository, trustee or agent for, any committee or body of holders of obligations of such Party or affiliate, as freely as if it were not the Escrow Agent hereunder.

6.9 The Escrow Agent shall not be obligated to expend or risk its own funds or to take any action which it believes would expose it to expense or liability or to a risk of incurring expense or liability, unless it has been furnished with assurances of repayment or indemnity satisfactory to it.

6.10 The Escrow Agent shall not take instructions or directions except those given in accordance with this Agreement.

6.11 The Escrow Agent shall not incur any liability for not performing any act, duty, obligation or responsibility by reason of any occurrence beyond the control of the Escrow Agent (including without limitation any act or provision of any present or future law or regulation or governmental authority, any act of God, war, civil disorder or failure of any means of communication).

6.12 The Escrow Agent shall not be called upon to advise any person or entity as to any investments with respect to any security, property or funds held in escrow hereunder or the dividends, distributions, income, interest or earnings thereon.

7. Termination.

Except as specifically set forth in Sections 5 and 6.4, this Agreement shall terminate ten (10) Business Days after the Termination Date (subject only to the distribution of the remaining Escrow Funds and the Escrow Notes in accordance with Section 4) or, if earlier, upon the release by the Escrow Agent of all the Escrow Funds and Escrow Notes in accordance with this Agreement; provided, however, that if the Escrow Agent has received a Claim Notice that has not been resolved by the Termination Date, then this Agreement shall continue in full force and effect until the claim has been resolved and the Escrow Funds released and distributed in accordance with this Agreement.

8. Successor Escrow Agent.

8.1 In the event the Escrow Agent becomes unavailable or unwilling to continue as escrow agent under this Agreement, the Escrow Agent may resign and be discharged from its

duties and obligations hereunder by giving its written notice of resignation to JPUD and PSE. Such resignation shall take effect on the date specified in the written notice, provided, however, such date shall not be less than 30 days after such written notice is received by JPUD and PSE.

8.2 The Escrow Agent may be removed at any time prior written notice given jointly by JPUD and PSE.

8.3 If any notice of resignation or removal shall have been given pursuant to Section 8.1 or 8.2, then a successor Escrow Agent shall be appointed by JPUD who shall be reasonably satisfactory to PSE.

8.4 The successor Escrow Agent shall execute and deliver to the Escrow Agent, JPUD and PSE an instrument accepting such appointment. Upon appointment and acceptance as Escrow Agent, each successor Escrow Agent shall forthwith, without further act or deed, succeed to all the rights and duties of its predecessor under this Agreement. Such predecessor shall promptly deliver to such successor Escrow Agent the Escrow Funds held in the Escrow Account, together with all records and other documents necessary or appropriate in connection with the performance of the duties of the successor Escrow Agent under this Agreement. Upon the written request of the successor Escrow Agent, JPUD and PSE, such predecessor shall transfer, assign and confirm to the successor Escrow Agent all its rights under this Agreement by executing and delivering from time to time to the successor Escrow Agent such further instruments and by taking such other action as may reasonably be deemed by such successor Escrow Agent, JPUD or PSE to be necessary or appropriate in connection therewith.

8.5 If JPUD fails to appoint a successor Escrow Agent within fifteen (15) days after receiving the Escrow Agent's written resignation or JPUD's and PSE's notice of removal, the Escrow Agent or PSE shall have the right to apply to a court of competent jurisdiction for the appointment of a successor Escrow Agent.

8.6 Any entity into which the Escrow Agent may be merged or converted or with which it may be consolidated, or any entity resulting from any merger, conversion or consolidation including the Escrow Agent, or any entity to which substantially all of the business of the Escrow Agent may be transferred, shall be the Escrow Agent under this Escrow Agreement without further act.

9. Miscellaneous.

9.1 Notices. Any notice or other communication required or permitted to be given or delivered to any Party or the Escrow Agent under this Agreement shall be in writing and shall be deemed properly delivered, given and received (a) three (3) Business Days after sent by registered mail, first class postage prepaid, return receipt requested or, (b) when delivered by hand, by courier or express delivery service, or via facsimile (to the extent receipt is confirmed), to the address or facsimile telephone number set forth below (or to such other address or facsimile telephone number as such party shall have specified in a written notice given to the other parties hereto):

JPUD: General Manager
Public Utility District No. 1 of Jefferson County
230 Chimacum Road
Port Hadlock WA 98339
Facsimile No.:

with a copy to: Ater Wynne LLP
601 Union St., Ste. 1501
Seattle, WA 98101-2341
Attention: Joel Paisner
Facsimile No.: (206) 467-8406

PSE: Eric M. Markell
Executive Vice President and Chief Financial
Officer
Puget Sound Energy, Inc.
P. O. Box 97034, PSE 12S
Bellevue, WA 98009-0868
Fax: (425) 462-4300

with copies to: Karl Karzmar
Puget Sound Energy, Inc.
P. O. Box 97034, PSE 8N
Bellevue, WA 98009-0868
Fax: (425) 462-3414

Steven R. Secrist, Esq.
Puget Sound Energy, Inc.
P. O. Box 97034, PSE 11N
Bellevue, WA 98009-9734
Fax: (425) 456-2707

The Escrow Agent: First American Title Insurance Company
2424 South Park Ave.
Port Townsend, WA 98368
Fax (360) 385-1877

Notwithstanding the foregoing, notices addressed to the Escrow Agent shall be effective only if in writing and upon receipt.

9.2 Headings. The bold-faced headings contained in this Agreement are for convenience of reference only, shall not be deemed to be a part of this Agreement and shall not be referred to in connection with the construction or interpretation of this Agreement.

9.3 Counterparts. This Agreement may be executed in several counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement. Facsimile signatures are binding with an exchange of original signatures to follow.

EXHIBIT B – ASSET PURCHASE AGREEMENT

9.4 Governing Law. This Agreement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State of Washington, without regard to principles of conflict of laws that would call for the application of any laws other than the laws of the State of Washington.

9.5 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of each of the Parties and the Escrow Agent and each of their respective successors and assigns, if any.

9.6 Waiver. No failure on the part of any Party or the Escrow Agent to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of any person or entity in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy. No person or entity shall be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of such person or entity; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

9.7 Amendment. This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of both Parties and the Escrow Agent.

9.8 Conflicts and Severability. In the event of any conflict between the terms and provisions of this Agreement and those of the Asset Purchase Agreement relating to the escrow and administration of the Escrow Funds and the Escrow Notes, the terms and conditions of this Agreement shall control. In the event that any provision of this Agreement, or the application of any such provision to any Party or the Escrow Agent or set of circumstances, shall be determined to be invalid, unlawful, void or unenforceable to any extent, the remainder of this Agreement, and the application of such provision to persons or entities or circumstances other than those as to which it is determined to be invalid, unlawful, void or unenforceable, shall not be impaired or otherwise affected and shall continue to be valid and enforceable to the fullest extent permitted by law. Upon such determination that any term or other provision of this Agreement is invalid, unlawful, void or unenforceable, the Parties and the Escrow Agent shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties and the Escrow Agent as closely as possible in an acceptable manner to the end that transactions contemplated under this Agreement are fulfilled to the greatest extent possible.

9.9 Parties in Interest. Except as expressly provided herein, none of the provisions of this Agreement, express or implied, is intended to provide any rights or remedies to any person or entity other than the Parties and the Escrow Agent, and their respective successors and assigns, if any.

9.10 Entire Agreement. This Agreement sets forth the entire understanding of the Parties and the Escrow Agent relating to the escrow and administration of the Escrow Funds and

the Escrow Notes and supersedes all prior agreements and understandings among or between any of the Parties and the Escrow Agent relating to the relating to the escrow and administration of the Escrow Funds and the Escrow Notes.

9.11 Tax Reporting Information and Certification of Tax Identification Numbers.

(a) JPUD and PSE agree (i) to treat the Escrow Account as a “contingent at-closing escrow” as defined in Proposed Treasury Regulation Section 1.468B-8(b); and (ii) that pursuant to such regulations all items of taxable income or gains shall be reported as taxable income or gain of JPUD; and (iii) that JPUD shall deliver such certificates and other documents as the Escrow Agent may reasonably request in connection with the foregoing. The Parties acknowledge that the Escrow Agent does not have any interest in the Escrow Funds or the Escrow Account, but is serving only as escrow holder hereunder.

(b) Each Party agrees to provide the Escrow Agent with a certified tax identification number by furnishing Form W-9 and any other forms and documents that the Escrow Agent may reasonably request (collectively, “Tax Reporting Documentation”) within thirty (30) days after the date hereof. Each Party understands that, if such Tax Reporting Documentation is not so furnished to the Escrow Agent, the Escrow Agent may be required by the Internal Revenue Code of 1986, as amended, to withhold a portion of any interest or other income earned by such Party on the investment of monies or other property held by the Escrow Agent pursuant to this Agreement, and to immediately remit such withholding to the Internal Revenue Service.

9.12 Cooperation. PSE and JPUD agree to cooperate fully with the other and the Escrow Agent and to execute and deliver such further documents, certificates, agreements and instruments and to take such other actions as may be reasonably requested by the other or the Escrow Agent to evidence or reflect the transactions contemplated by this Agreement and to carry out the intent and purposes of this Agreement.

9.13 Construction.

(a) For purposes of this Agreement, whenever the context requires: the singular number shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; the feminine gender shall include the masculine and neuter genders; and the neuter gender shall include masculine and feminine genders.

(b) The Parties and the Escrow Agent agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this Agreement.

(c) As used in this Agreement, the words “include” and “including and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words “without limitation.”

(d) Except as otherwise indicated, all references in this Agreement to “Sections” and “Exhibits” are intended to refer to Sections of this Agreement and Exhibits to this Agreement.

9.14 Investments. So long as the Escrow Agent is holding the Escrow Funds or any other funds or cash in the Escrow Account in accordance with this Agreement, the Escrow Agent hereby is authorized and directed to hold the Escrow Funds in United States Dollars and shall invest the Escrow Funds in a United States Treasury Money Market Fund to be mutually selected by PSE, JPUD and the Escrow Agent. All interest earned on the Escrow Account shall become part of the Escrow Account and the Escrow Funds. The Escrow Agent shall have no duty, responsibility or obligation to invest any funds or cash held in the Escrow Account other than in accordance with this Section 9.14.

9.15 Compliance With Process. Notwithstanding anything in this Agreement to the contrary, if at any time the Escrow Agent is served with any judicial or administrative order, judgment, decree, writ or other form of judicial or administrative process which in any way affects the Escrow Agent, the Escrow Account, the Escrow Notes or the Escrow Funds (including without limitation orders of attachment or garnishment or levies or injunctions), the Escrow Agent is authorized to comply therewith in any manner it deems appropriate, and shall be fully protected from doing so even if such order, judgment, decree, writ or process may be subsequently amended, modified, vacated or otherwise determined to be invalid or without legal force or effect.

9.16 Representations. JPUD and PSE each represent and warrant to the Escrow Agent, as to itself, that (i) it has all requisite power and authority to execute, deliver and perform its obligations under the Asset Purchase Agreement and this Agreement, (ii) each of the Asset Purchase Agreement and this Agreement has been duly authorized, executed and delivered by it and constitutes its valid, binding and enforceable obligation in accordance with its respective terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and except that the availability of the equitable remedies of specific performance and injunctive relief are subject to the discretion of the court before which any proceeding may be brought and (iii) the execution, delivery and performance by it of this Agreement does not and will not violate or require consent under any of its organizational documents, any law, statute, rule, regulation or ordinance or contract, agreement, instrument, indenture or other undertaking to which it is a party or by which it or its property may be bound.

9.17 Ambiguity and Disputes.

(a) In the event the Escrow Agent believes any ambiguity or uncertainty exists hereunder or in any notice, instruction, direction, request or other communication, paper or document received by the Escrow Agent hereunder, Escrow Agent, may, in its sole discretion, refrain from taking any action, and shall be fully protected and shall not be liable in any way to JPUD, PSE or any other person or entity for refraining from taking such action, unless the Escrow Agent receives written instructions signed by JPUD and PSE which eliminates such ambiguity or uncertainty to the satisfaction of Escrow Agent. In the event that any such ambiguity or uncertainty exists, the Escrow Agent shall promptly notify JPUD and PSE of the circumstances creating such ambiguity and/or uncertainty.

(b) If any dispute between or conflicting claims by or among JPUD, PSE, the Escrow Agent or any other person or entity with respect to this Agreement, the Escrow Funds,

the Escrow Notes or the Escrow Account arises, the Escrow Agent may, in its sole discretion, at its option (i) initiate an action in interpleader or another appropriate action, suit or proceeding in a court of competent jurisdiction seeking to resolve such dispute or claims and/or (ii) refrain from complying with any claim, notice, instruction, direction, request or other communication, paper or document, so long as such dispute or conflict shall continue, and (in either case) shall be fully protected and shall not be liable in any way to JPUD, PSE or any other person or entity for failure or refusal to comply with such conflicting claims, notices, instructions, directions, requests, communications, papers or documents until the Escrow Agent is satisfied, in its sole discretion, that such conflicting claims, notices, instructions, directions, requests, communications, papers or documents have been definitively determined by a final, non-appealable order, judgment, decree or ruling of a court of competent jurisdiction or settled by agreement between the Parties as evidenced in a writing satisfactory to the Escrow Agent.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Parties and the Escrow Agent have duly caused this Agreement to be executed as of the day and year first above written.

PUGET SOUND ENERGY, INC.:

By: _____
Print Name: _____
Print Title: _____

**PUBLIC UTILITY DISTRICT NO. 1 OF
JEFFERSON COUNTY:**

By: _____
Print Name: _____
Print Title: _____

ESCROW AGENT:

**FIRST AMERICAN TITLE INSURANCE
COMPANY**

By: _____
Print Name: _____
Print Title: _____

**EXHIBIT C
FORM OF BILL OF SALE**

Bill of Sale

This Bill of Sale (the "Bill of Sale") dated as of _____, 2010, is made and entered into by and between Public Utility District No. 1 of Jefferson County, a Washington public utility district, ("JPUD") and Puget Sound Energy, Inc., a Washington corporation ("PSE").

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, PSE does hereby sell, transfer, convey, assign and deliver to JPUD, and JPUD hereby accepts, all of PSE's right, title and interest, if any, in and to the assets, facilities and property described in the attached Schedule I.

This Bill of Sale is being delivered in connection with the Asset Purchase Agreement dated as of _____, 2010 between JPUD and PSE and is subject to the terms, conditions, and disclaimers of that Agreement.

This Bill of Sale shall be binding upon and inure to the benefit of JPUD and PSE and their respective successors and assigns.

IN WITNESS WHEREOF, this Bill of Sale has been duly executed and delivered by the duly authorized office of each Party as of the date first above written.

PSE:

Puget Sound Energy, Inc.
a Washington corporation

By: _____
Its: _____

JPUD:

Public Utility District No. 1 of
Jefferson County, a Washington
public utility district

By: _____
Its: _____

SCHEDULE I
To
BILL OF SALE

EXHIBIT C – ASSET PURCHASE AGREEMENT

LEGAL18363437.3

Exhibit No. KRK-3
Page 71 of 91

**EXHIBIT D
FORM OF QUIT CLAIM DEED**

WHEN RECORDED RETURN TO:

QUIT CLAIM DEED

Grantor: Puget Sound Energy, Inc.
Grantee: Public Utility District No. 1 of Jefferson County
Legal Description: _____
(additional legal description on page _____)
Tax Parcel Nos.
Reference No.

PUGET SOUND ENERGY, a Washington corporation ("Grantor") does hereby sell, assign, transfer, convey, and quitclaim to PUBLIC UTILITY DISTRICT NO.1 OF JEFFERSON COUNTY, a Washington public utility district, all of its right, title and interest in the real property situated in Jefferson County, Washington as more particularly described in the attached Schedule I and all after acquired title therein:

Dated _____, 2010.

Puget Sound Energy, Inc.

By: _____

Its: _____

STATE OF WASHINGTON)
) ss.
COUNTY OF _____)

On this _____ day of _____, 2010, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared _____, to me known to be the person who signed as _____ of Puget Sound Energy, Inc., the corporation that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned, and on oath stated that _____ was duly elected, qualified and acting as said officer of the corporation, that _____ was authorized to execute said instrument and that the seal affixed, if any, is the corporate seal of said corporation.

IN WITNESS WHEREOF I have hereunto set my hand and official seal the day and year first above written.

Print Name: _____
Notary Public in and for the State of Washington,
residing at _____
My commission expires: _____

SCHEDULE I
To
QUIT CLAIM DEED

EXHIBIT D – ASSET PURCHASE AGREEMENT

LEGAL18363437.3

Exhibit No. KRK-3
Page 74 of 91

EXHIBIT E
EXPECTED IMPROVEMENTS

The following table identifies improvements that PSE may make to the Assets, on an annual basis, consistent with PSE's past operating practices in the Service Territory and Prudent Utility Practice:

Facility Type	Expected Improvements
1/0 Cable Replacement (miles)	5 to 7 miles per year
Pole Replacement (unit)	75 to 105 units per year
OH Transformers (unit)	70 to 75 units per year
Pad Mounted Transformers (unit)	50 to 55 units per year

Expected Improvements do not include Planned Improvements. Planned Improvements are listed in Exhibit F.

**EXHIBIT F
PLANNED IMPROVEMENTS¹**

PSE is planning to make the following Planned Improvements to the Assets during the Transition Period

2010

1.	Kala Pt Dr Cable Remediation Project – 3.5 Miles	\$600K
2.	Oak Bay Rd Cable Remediation Project – ½ Mile	\$58K
3.	IRO-17 Recloser	\$54K
4.	HAS-12 INSTALL G.O. SWITCH	\$15K
5.	IRO-17 Gang Operated Switches	\$15K
6.	KEA-15 INST 3- GO SW'S	\$45K
7.	HAS-15 INSTALL G.O. SWITCH	\$15K
8.	KEA Pole Replacement	\$380K

2011

9.	CHM-13 New Double Circuit Underbuild along Beaver Valley Road (Egg & I to PTL sub) – 1.3 Miles	\$400K
10.	PTL-13 UG 12 remaining spans OH along Swansonville road – ½ Mile	\$500K
11.	QUI-26 Install Single Phase UG along Toandos road 1 ½ Miles	\$150K
12.	PTL-13 UG Feeder Replacement – 1 Mile	\$1M
13.	QUI-26 Feeder extension – ¼ Mile	\$75K
14.	UG Conversion Olele Pt Rd – 1 Mile	\$381K
15.	Beach St Cable Remediation Project – ¼ Mile	\$32K
16.	PTL Cable Remediation Project – 1.5 Miles	\$273K
17.	HAS Cable Remediation Project – 1 Mile	\$154K

2012

18.	PTL-13 UG Feeder Replacement – 1 Mile	\$1M
19.	DIS Cable Remediation Project – 1 Mile	\$232K
20.	CHI Cable Remediation Project – 2.5 Miles	\$366K
21.	CHM-11 Reconductor #2 Tree Wire along Flagler road – 4 Miles	\$450K

2013

22.	PGA-15 UG Feeder Project along Paradise Bay Road - 3 Mile	\$2.5M
23.	CHM-11 Reconductor Feeder W/336 Tree Wire along Indian Island road – 2 Miles	\$650K
24.	KEA-13 Extend Feeder to IRO-16 OH &UG – 2 Miles	\$800K

Planned Improvements do not include Expected Improvements listed in Exhibit E.

¹ Planned Improvements for 2011, 2012 and 2013 are proposed by PSE but have not, as of the Effective Date, been approved by PSE.

**EXHIBIT G
SERVICE TERRITORY MAP ATTACHED**



EXHIBIT H
FORM OF PROMISSORY NOTE

PROMISSORY NOTE

\$2,500,000

_____, Washington
_____, 2010

1. Promise to Pay. As Liquidated Damages under that certain Asset Purchase Agreement (the "Asset Purchase Agreement") among Puget Sound Energy, Inc., a corporation organized under the laws of the state of Washington, and Public Utility District No. 1 of Jefferson County, a public utility district organized under the laws of the state of Washington, the undersigned ("Maker") hereby promises to pay on demand to the order of _____ ("Holder") [address] in accordance with the terms hereinafter provided, the principal amount of Two Million Five Hundred Thousand Dollars (\$2,500,000), together with interest thereon as provided in Section 3 below.

2. Payment. All payments under or pursuant to this Note shall be made on demand in United States Dollars in immediately available funds to the Holder at the address of the Holder first set forth above or at such other place as the Holder may designate from time to time in writing to the Maker or by wire transfer of funds to the Holder's account, instructions for which are attached hereto as Schedule I.

3. Default; Acceleration. If payment of this Note is not made to Holder within one (1) business day from Holder's demand, then, at Holder's option, without notice to Maker of the default, the entire indebtedness represented by this Note shall become immediately due and payable. At Holder's option upon prior written notice to Maker, commencing on the date the entire indebtedness becomes immediately due and payable, and as long as default continues, this Note shall bear interest at the lesser of: (1) the rate of eighteen percent (18%) per annum; and (2) the highest rate of interest permitted by applicable law.

4. Nature of Debt. Maker represents and warrants that the debt evidenced hereby has been incurred exclusively for business and commercial purposes, and not for consumer, personal, family or household purposes.

5. Attorneys' Fees. If any action, judicial or nonjudicial, is brought on this Note, or if it is placed in the hands of an attorney for collection, representation or advice following any default, then Maker shall pay all of Holder's costs and expenses in connection therewith from that point forward, including without limitation the reasonable attorneys' fees incurred and paid by Holder in connection herewith through any appeal or in bankruptcy.

6. Waivers. Maker, all endorsers, and all persons liable or to become liable on this Note hereby waive presentment, demand, protest and notice of demand, protest and nonpayment, and any defense or claim that resort must first be had to any security or to any other person, and authorize Holder, without affecting their liability hereunder, from time to time, to renew, extend, or change the time for payment or the other terms of this Note, to take and hold security for the

payment of this Note, to apply any such security to such obligations as Holder may determine in Holder's sole discretion, and to release, substitute, or add to those liable or to become liable on this Note.

7. Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Washington, without regard to its conflict of law rules. Maker irrevocably consents to the jurisdiction and venue of the federal and state courts located in Thurston County, Washington in any action or proceeding arising out of or relating to this Note and will not commence any such action or proceeding in any other court. This provision does not limit or impair the right of Holder to bring any action or proceeding against Maker or Maker's property in the courts of any other jurisdiction(s) that may be proper. Maker and Holder each represents that the consents, waivers and agreements contained in this paragraph are knowingly, willingly and voluntarily given.

**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.**

MAKER:

By: _____
Title: _____

SCHEDULE I
To
PROMISSORY NOTE

EXHIBIT H – ASSET PURCHASE AGREEMENT

LEGAL18363437.3

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**EXHIBIT I
SITE ACCESS AGREEMENT**

**Site Access Agreement
(Permit No. _____)**

THIS SITE ACCESS AGREEMENT (hereinafter "Permit") is made this _____ day of _____, 2010 (the "Effective Date") by and between PUGET SOUND ENERGY, INC., a Washington corporation ("PSE") and Public Utility District No. 1 of Jefferson County, a public utility district organized under the laws of the state of Washington ("Permittee").

WHEREAS, PSE and Permittee entered into that certain Asset Purchase Agreement, dated _____ (the "APA"), providing for Permittee's purchase of certain Assets more particularly described in the APA;

WHEREAS, PSE desires to provide Permittee access to one or more such Assets in order to undertake Phase II Environmental Assessments in accordance with the APA; and

WHEREAS, PSE and Permittee desire to cooperate as to the scheduling and undertaking of such Phase II Environmental Assessment in accordance with Section 2.9 of the APA, on the terms and conditions as more particularly described in this Permit.

NOW THEREFORE, subject to the terms and conditions of this Permit, PSE hereby grants permission to Permittee to enter upon the following described real property (the "Property):

*[Insert description of real property where the
Phase II Environmental Assessment will occur]*

The Property is situated in Jefferson County, Washington

1. Term. The term of this Permit shall commence on the Effective Date, and unless terminated prior to such date, and shall end on **[date]**.

2. Permittee's Use of Property is Limited. Permittee's use of the Property is limited to such activities that are reasonably necessary to undertake a Phase II Environmental Assessment upon the Property in accordance with ASTM Standard E1903 - 97(2002) (the "Permitted Activities"). The Permitted Activities may include soil and ground water sampling, excavation, drilling, boring and similar activities involving the physical disturbance of the Property.

3. Limitations on Use. Except as provided in paragraph 2 above, Permittee shall not enter upon the Property or make any use thereof. Without limiting the generality of the foregoing:

3.1 Permittee shall, at all times, undertake the Permitted Activities in a manner so as to prevent bodily harm to persons (whomsoever) and damage to property (whatsoever). Precautionary measures shall include, without limitation, reasonable site security

EXHIBIT I – ASSET PURCHASE AGREEMENT

measures (e.g., fencing, signage, lighting, security guards as appropriate) necessary to prevent access to the Property during such times as the Permitted Activities may cause the Property to be in an unsafe condition. Permittee shall at all times comply with any and all laws, rules, regulations and ordinances applicable to the Property and the Permitted Activities.

3.2 Permittee shall, at all times, undertake Permitted Activities in a manner that does not disturb, interfere with, or otherwise impair the safe, continuous and reliable operation of PSE's electrical system. Without limiting the generality of the foregoing, Permittee shall at all times (i) conduct the Permitted Activities so as to maintain legal and safe clearances from PSE's electrical system; (ii) take all prudent precautions to ensure that no persons or property come into contact with PSE's electrical system; and (iii) conduct the Permitted Activities so as to maintain an access corridor along and across the Property to PSE's electrical system sufficient to allow the free passage of all equipment, vehicles and personnel as may be necessary for the maintenance, repair and replacement of PSE's electrical system. If, at any time, the Permitted Activities shall disturb, interfere with or otherwise impair the safe, continuous and reliable operation of PSE's electrical system, Permittee shall immediately cease and discontinue such Permitted Activities. If Permittee anticipates that Permitted Activities may disturb, interfere with or otherwise impair the safe, continuous and reliable operation of PSE's electrical system, Permittee shall request in writing, not less than fourteen (14) days in advance of the date required, that PSE take such action with respect to its electrical system as is necessary to accommodate such Permitted Activities. PSE may elect to accommodate such Permitted Activities in response to such request; provided, however: (i) all costs and expenses incurred by PSE thereby shall be reimbursed to PSE upon demand, and (ii) PSE may refuse any or all such requests or may discontinue actions undertaken in response to such requests, as PSE, in its sole discretion, may choose.

3.3 Permittee shall not cause or permit any equipment, supplies, vehicles or other items to be kept or stored upon the Property. Permittee shall at all times keep the Property clear of all rubbish, refuse and other debris associated with the Permitted Activities. Upon completion of the Permitted Activities that may disturb the surface or subsurface of the Property (or any improvements thereon), Permittee shall remove any property which Permittee has placed upon the Property and restore the Property (and any improvements thereon) to a condition as good or better than the condition the Property (or such improvements) was in prior to such disturbance. If and to the extent Permittee may cause any excavations of the Property, such excavations shall be done and completed with the highest degree of care so as not to disturb or impair the structural integrity of PSE's electrical system. Permittee shall undertake the Permitted Activities in a manner to ensure the safe, orderly and regular drainage of surface waters.

3.4 Permittee shall promptly pay (and secure the discharge of any liens against the Property asserted by) all persons and entities furnishing any labor, equipment, services, supplies, materials or other items in connection with the Permitted Activities.

3.5 Permittee shall designate in writing an authorized representative who shall be present at the Property at all times during the course of any Permitted Activities that may physically disturb the Property or any improvements thereon. Such authorized representative shall be so designated prior to the commencement of the Permitted Activities requiring the presence of an authorized representative. The authorized representative shall have authority to

act on Permittee's behalf. Upon PSE's request, Permittee will provide PSE (without cost) copies of all tests, studies, surveys, drawings or other documents prepared in connection with Permitted Activities.

4. Indemnity. Permittee agrees to release, defend (with counsel acceptable to PSE), indemnify and hold PSE, PSE's directors, officers, employees, agents, servants and representatives (and the respective successors and assigns of each of the foregoing) (collectively, "PSE Indemnitees") harmless from and against any and all claims, liens, demands, actions, costs, losses, expenses, harm, damages and liability (including, but not limited to, attorneys' fees) of any kind or character asserted or arising directly or indirectly from, on account of, or in connection with: (a) Permittee's exercise of (or failure to exercise) the rights, benefits and privileges granted to Permittee by this Permit, or (b) the acts or omissions of Permittee (and Permittee's agents, servants, employees, consultants, contractors, subcontractors (of any tier), representatives, licensees, invitees or visitors), including, without limitation, any contribution to or exacerbation of any environmental condition in or upon the Property. To the fullest extent permitted by applicable law, Permittee's obligation to so release, defend, indemnify and hold PSE harmless shall apply regardless of the negligence or strict liability of the PSE Indemnitees; provided, however, (a) nothing herein shall require Permittee to indemnify PSE Indemnitees for damages arising out of bodily injury to persons or damage to property caused by or resulting from the sole negligence of the PSE Indemnitees, and (b) in the event such damages for bodily injury to persons or damage to property is caused by the concurrent negligence of the Permittee and the PSE Indemnitees, then Permittee's obligation to indemnify is enforceable only to the extent of Permittee's negligence. Without limiting the generality of the foregoing, Permittee hereby waives any immunity, defense or other protection that may be afforded by any workers' compensation, industrial insurance or similar laws (including, but not limited to, the Washington Industrial Insurance Act, Title 51 of the Revised Code of Washington).

5. Operating Property. The Property is operating property of PSE and PSE may use the same for the purpose of its utility business as fully as if this Permit had not been given. If at any time PSE elects to de-energize that portion of its electrical system as may be maintained upon the Property, Permittee shall, at PSE's request, take such action as PSE shall direct as is necessary to enable PSE to energize its electrical system upon advance notice of one (1) hour.

6. Assignment, Termination. This Permit is not assignable and it may be terminated by PSE at any time upon ten (10) days' written notice given to Permittee in person or by mail. Upon termination of this Permit, Permittee shall take such action as is reasonably necessary to restore the Property in accordance with the requirements set forth in paragraph 3.3 above.

7. Survival. The obligations imposed upon Permittee under paragraphs 3, 4, and 6 of this Permit shall survive the expiration or termination of this Permit.

8. Notice. Any notice, request, approval, designation, direction, statement or other communication (collectively, "Notice") required or permitted to be given under this Permit shall be in writing and shall be delivered in person or mailed, properly addressed and stamped with the required postage to:

PSE:

Fax: _____

Permittee:

Fax: _____

9. Miscellaneous. The invalidity or unenforceability of any provision of this Permit shall not affect the other provisions hereof, and this Permit shall be construed in all respects as if such invalid and unenforceable provisions were omitted. This Permit may be amended only by an instrument in writing executed by the Parties that expressly refers to this Permit and states that it is an amendment hereto. This Permit shall be interpreted, construed and enforced in all respects in accordance with the laws of the State of Washington.

EXECUTED as of the date first above written.

PUBLIC UTILITY DISTRICT
No. 1 OF JEFFERSON
COUNTY

PUGET SOUND ENERGY,
INC.,

By: _____
Its: _____

By: _____
Real Estate Representative

**SCHEDULE 1.3
EXCLUDED ASSETS**

The Assets to be sold to JPUD pursuant to this Agreement are described in Exhibit A. Section 2.1(c) of the Agreement provides terms and conditions pursuant to which the Parties may make additions and deletions to Exhibit A prior to Closing. However, for avoidance of doubt, the following real property interests located in the Service Territory (or an improvement or fixture located thereon) shall be excluded from Exhibit A and shall not, pursuant to Section 2.1(c) or any other term or condition of this Agreement, be identified as or deemed to be an "Asset" to be included on Exhibit A.

1. Port Townsend Business Office: (Leasehold interest and improvements)

2. Shine Cable Station 821354005 (16-0021)

Por of Lot 4, Sec 35, Twn 28N, R 01E Described as: Beginning at the meander corner of the South line of said Section 35 and running thence South 84° 19' 8" West 140.5 feet along the South line of said section; thence North 48° 05' 15" East 327.5 feet; thence South 76° 45'30" East 138 feet, more of less, along a line approximately the center line of a drainage ditch, to the ordinary high water line of Hood Canal; thence Southwesterly along the said ordinary high water line of Hood Canal to the South line of Section 35; thence South 84° 19' 08" West along the South line of said Section to the point of beginning, comprising 0.9 acres, more of less.

3. Shine Cable Station 821354005 (16-0039)

Beginning at the Northwest corner of N.E. ¼ of Section 10, township 29 North, Range 1 West, running thence East 100 feet; thence South 225 feet; thence West 100 feet to quarter section line; thence North 225 feet to the point of beginning. This tract comprises .52 acres more or less. 2. Beginning at the Northeast corner of the Northwest ¼ of the Northeast ¼ of Section 10, Township 29 North, Range 1 West; thence West 64 feet along the North line of said Section; thence South 178 feet; thence East to the North and South line between the Northeast ¼ and the Northwest ¼ of the Northeast quarter of above Section; thence North along said line to point of beginning, containing about .25 acres. 3. All that part of Lot 2, of Section 2, Township 27 North, Range 1 East, W.M., in Jefferson County, Washington, lying East of he following described tract, to-wit: Beginning at the Northwest corner of the afore said Lot 2, and running thence East on the North line of said Lot 950 feet; thence South parallel to the West line of said lot to the meander line of Hoods Canal; thence Westerly along said meander line to the West line of said Lot 2; thence North along said West line to the place of beginning, containing 16 acres, more of less. The Easterly portion of the aforesaid Lot 2 above described is known on the tax rolls of Jefferson County, Washington, as Lot 2 (Less Tax No. 1) in Section 2, Township 27 North, Range 1 East, and contains 7.50 acres, more of less. 4. All tide lands of the second class, formerly owned by the State of Washington, situate in front of, adjacent to or abutting upon that part of Lot 4, Section 35, Township 28 North, Range 1 East, W.M., measured along the meander line as follows:

Beginning at the meander corner on the South line of said Section 35 and running thence North 61° East 2.35 chains and North 31° East 6.00 chains to the terminal point of this

description, with a frontage of 8.35 lineal chains measured along the meander line according to a certified copy of the government field notes of the survey thereof on file in the office of the Commissioner of Public Lands at Olympia, Washington. 5. All tide land of the second class, owned by the State of Washington, situate in front of, adjacent to or abutting upon that portion of the government meander line described as follows: Beginning at the meander corner to Section 2, Township 27 North, Range 1 East, of the Willamette Meridian, and Section 35, Township 28 North, Range 1 East of the Willamette Meridian, and running thence South 61.75° West 1.80 chains; South 81° West 6.20 chains to the terminal point of this description, with a frontage of 8.00 lineal chains, measured along the meander line in front of a part of Lot 2, Section 2, Township 27 North, Range 1 East of the Willamette Meridian, according to a certified copy of the government field notes of the survey thereof on file in the office of the Commissioner of Public Lands at Olympia, Washington.

3. Shine Heights Cable Station 821355012 (16-0044)

Parcels 11 & 12 of Bridge View Estates, Tracts No. 1, as per survey recorded in Volume 9 of Surveys, page 221, under Auditor's file No 318947, records of Jefferson County, Washington, being a portion of the NW ¼ of the SE ¼, the SW ¼ of the SE ¼, and the SE ¼ of the SE ¼, and the NE ¼ of the SE ¼, all in Section 35, Township 28 North, Range 1 East W.M., in Jefferson County, Washington; EXCEPT those portions conveyed to Jefferson County by instruments recorded under Auditor's file No. 169820 and 94556; AND EXCEPT any portion lying Swly of Paradise Bay Road. Also known as Parcel B of Jefferson County Boundary line Adjustment recorded under Jefferson County Recording No. 405570.

4. Distribution Circuits and Associated Electrical Apparatus and Easements:

- **SIL-13** (inclusive of submarine cable): South of Hood Canal
- **PGA-15** (inclusive of submarine cable): South of Hood Canal

5. Shine Cable Station Aquatic Lands Lease (DNR # 51-034550)

6. Mt Blyn Communications Facility (real property and improvements)

7. Other Communications Facilities and Systems. The Assets do not include any communication sites, towers, antenna, cables, facilities or systems in the Service Territory that are used by PSE for communications outside of the Service Territory, nor do the Assets include any FCC licenses to operate any radio or communication systems or facilities in and around Jefferson County.

SCHEDULE 2.4
CLOSING STATEMENT

_____, _____
General Manager
Public Utility District No. 1 of Jefferson County
230 Chimacum Road
Port Hadlock WA 98339
Fax: _____

RE: Purchase Price

This Closing Statement is being submitted pursuant to Section 2.4 of the Asset Purchase Agreement dated _____, 2010 between Jefferson County Public Utility District No.1 and Puget Sound Energy, Inc.

The calculation of the Purchase Price in accordance with that Agreement is as follows:

- (a) One Hundred and Three Million Dollars (\$103,000,000);
- (b) **Plus** the additions set forth in the attached Attachment I in the aggregate amount of _____ Dollars (\$_____); and
- (c) **Minus** the deductions set forth in the attached Attachment II in the aggregate amount of _____ Dollars (\$_____); for a

Final Purchase Price = _____ Dollars (\$_____).

PUGET SOUND ENERGY, INC.

By: _____
Name:
Title:

Attachment I
to
Closing Statement

ADDITIONS TO PURCHASE PRICE

Attachment II
to
Closing Statement

DEDUCTIONS TO PURCHASE PRICE

SCHEDULE 3.5
COMPLIANCE WITH LAWS

SCHEDULE 3.6
LEGAL PROCEEDINGS

SCHEDULE 3.6 – ASSET PURCHASE AGREEMENT

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