EXHIBIT NO. ___(RG-12HC)
DOCKET NO. UE-11___/UG-11___
2011 PSE GENERAL RATE CASE
WITNESS: ROGER GARRATT

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-11____** **Docket No. UG-11____**

ELEVENTH EXHIBIT (HIGHLY CONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF ROGER GARRATT ON BEHALF OF PUGET SOUND ENERGY, INC.

REDACTED VERSION

JUNE 13, 2011

Purchase of Remaining 50% Interest in Lower Snake River Wind Project Development Rights

PSE Board of Directors

Roger Garratt
Director, Resource Acquisition & Emerging Technologies

July 27, 2009

PSE PUGET SOUND ENERGY
The Energy To Do Great Things

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RESOLUTIONS OF THE BOARD OF DIRECTORS OF

PUGET SOUND ENERGY, INC.

APPROVAL OF PURCHASE OF REMAINING INTEREST IN LOWER SNAKE RIVER WIND PROJECT DEVELOPMENT RIGHTS AND INCREASE IN 2009 CAPITAL BUDGET RELATED THERETO

WHEREAS, this Board of Directors of Puget Sound Energy, Inc. (the "Company") has determined that it is in the best interests of the Company, its customers, shareholder and other stakeholders to add energy resources to the Company's energy resource portfolio consistent with the Company's least cost planning and analysis;

WHEREAS, in November 2008 the Company entered into a Joint Development Agreement (the "JDA") with RES America Developments Inc. ("RES Development") and Blue Sky Wind, LLC ("Blue Sky" and collectively with RES Development, the "RES Development Parties") regarding the planning, permitting and development of wind powered electric generation facilities in Columbia and Garfield Counties, Washington, having a nameplate capacity of approximately 1,250 MWs and that the parties presently anticipate will be developed in five phases (collectively, the "Lower Snake River Projects");

WHEREAS, pursuant to the JDA, the Company and the RES Development Parties each own fifty percent (50%) undivided interests in the Project Assets (as defined in the JDA) and the Lower Snake River Projects (the "Ownership Interests");

WHEREAS, now the Company desires to acquire from the RES Development Parties, and the RES Development Parties desire to sell to the Company, (i) all of the RES Development Parties' Ownership Interests and (ii) the RES Development Parties' rights and obligations with respect to certain transmission queue positions with the Bonneville Power Administration ("BPA"), pursuant to the terms and conditions set forth in an Asset Acquisition Agreement (the "Purchase Agreement");

WHEREAS, the purchase price for the Ownership Interests and all other rights and obligations under the Purchase Agreement is approximately $[redacted] plus the amount of certain payments made by the RES Development Parties to BPA relating to the interconnection of the Lower Snake River Projects with the BPA transmission system (the "Purchase Price"), payable to the Sellers upon closing, subject to reduction for specified holdback amounts;

WHEREAS, the Company anticipates that the purchase of the Ownership Interests under the Purchase Agreement and the further development of the Lower Snake River Projects in 2009, including the payment of estimated wind turbine generator deposits and further interconnection-related payments to BPA, will result in an increase of approximately $60 million in the total 2009 capital expenditure budget relating to such projects, for a total

2009 capital expenditure budget for the Lower Snake River Projects of up to $125,500,800 (the "Adjusted Budget Amount");

WHEREAS, the Company's review and analysis of the purchase of the RES Development Parties' Ownership Interests in accordance with the Purchase Agreement has determined such development assets to be a component of a least cost resource for additional energy resource generation;

WHEREAS, the Lower Snake River Projects, the Purchase Agreement and the Adjusted Budget Amount are described more fully in a memorandum provided to the Board of Directors in advance of this meeting and filed with the minutes (the "Lower Snake River Wind Project Proposal"); and

WHEREAS, the officers now seek Board approval of and authority to enter into the Purchase Agreement and all other contracts and actions described in the Lower Snake River Purchase Proposal and relating to the acquisition and further development of the Lower Snake River Projects, as well as Board approval of the Adjusted Budget Amount.

IT IS, THEREFORE

RESOLVED, that the Board, after full consideration and due deliberation, deems it advisable and in the best interests of the Company, its customers, shareholder and other stakeholders to approve (i) the acquisition of the RES Development Parties' Ownership Interests in the Lower Snake River Projects pursuant to the Purchase Agreement, (ii) the payment of the Purchase Price, (iii) the expenditure of up to the full amount of the Adjusted Budget Amount, and (iv) any related agreements and the other transactions described in the Lower Snake River Wind Project Proposal; and be it further

RESOLVED, that the Board hereby authorizes the Company's Chief Executive Officer, its Chief Financial Officer, its Chief Resource Officer, its General Counsel, and any such other officers they deem appropriate (the "Authorized Officers") to execute the Purchase Agreement and all other agreements or contracts described in the Lower Snake River Project Proposal, which may include such further additions, amendments or changes to the terms thereof as are deemed necessary and appropriate by the Authorized Officers, and to make any expenditures contemplated within the Adjusted Budget Amount; and be it further

RESOLVED, that the Authorized Officers are further authorized to waive any conditions precedent to the closing of the Purchase Agreement in order to facilitate the closing of such agreement, provided that each of the Authorized Officers agrees to such waiver and deems it to be in the best interest of the Company, its customers, shareholder and other stakeholders.

GENERAL AUTHORITY

AND IT IS FURTHER

RESOLVED, that any and all actions taken by the officers of the Company, or any of them, as deemed by such officers to be necessary or advisable to effectuate the transactions contemplated by the foregoing resolutions, including the filing of appropriate documentation with the WUTC, whether prior to or subsequent to this action by this Board of Directors, are hereby authorized, approved and ratified, and the taking of any and all such actions and the performance of any and all such things in connection with the foregoing shall conclusively establish such officers' authority therefor from the Company and the approval and ratification thereof by this Board of Directors.

Purchase of Remaining 50% Interest in Lower Snake River Wind Project Development Rights

PSE Board of Directors

Roger Garratt
Director, Resource Acquisition & Emerging Technologies

July 27, 2009

PSE PUGET SOUND ENERGY
The Energy To Do Great Things

Recommendation to Board of Directors

What is PSE recommending to the Board of Directors?

- Purchase from RES the remaining 50% interest in the Lower Snake River Project (the "Project") and thereby obtain 100% interest in exclusive rights for the Project

What are PSE's specific recommendations?

- Continue execution of PSE's original strategy to develop 50% of the project
  - $[redacted] in 2009 capital budget, including estimated turbine deposits of $[redacted]
  - Purchase the remaining 50% undivided interest from RES for $[redacted]
- Reimbursement of BPA payments totaling $11,974,600
- Increase total 2009 capital budget to $[redacted] for the Project

What does the recommendation include?

- Purchase of the late-stage development rights
- An option to proceed, but not a commitment
- Approval of incremental 2009 development costs:
  - Payments to BPA for interconnection costs ($33,100,000)

What approvals will PSE seek from the Board in the future?

- Authorization for turbine purchases and engineering and construction of each Project phase

REDACTED VERSION

Comparison of Options

Alternative	Pro	Con
1) 100% PSE Ownership	1. Provides control of project and better opportunity to obtain tax incentives 2. Allows potential sale of development rights unencumbered by RES' interest	1. Increased capital expenditures over current plan 2. Opens long wind position
2) RES Sells Interest to Unknown Partner	Maintains planned wind capacity and budget for PSE	1. New partner will bring uncertainty and will slow development 2. New partner may not execute development plan
3) RES remains as Partner	Development schedule approval and remedy provisions of JDA allow PSE to proceed without RES	RES unlikely to meet its near-term development obligations, but may litigate JDA remedies if forced out of early projects

Capital Expenditure Summary

All $ in Millions

Year	In Service Date	(MW)	TOTAL 2008-2014	2008	2009	2010	2011	2012	2013	2014	TOTAL 2015-2022	TOTAL 2008-2022
Lower Snake River Phase 1	12/1/2011	250	[redacted]									
Lower Snake River Phase 2	12/1/2012	250										
Lower Snake River Phase 3	12/1/2015	250										
Lower Snake River Phase 4	12/1/2019	250										
Lower Snake River Phase 5	12/1/2021	250										
Subtotal												
BPA Interconnection												
EXPENDITURE TOTAL												
Previous Estimate (3/09)												
Increase / Decrease												
Previous Estimate (6-30-09)												
Increase / Decrease												

REDACTED VERSION

Assumptions:

> Does not include AFUDC or financing cost
> Assumes 100% of expenditures paid by PSE, not reduced for potential contribution of tax equity investors
> Assumes project cost approximately $[redacted] per kW escalated at [redacted] per year for future phases
> $[redacted] excludes AFUDC and BPA prepaid transmission expense

*BPA Interconnection Cost is regulatory cost; 80% assumed to be refunded as transmission credits

Renewable Portfolio Standard and 100% PSE Ownership

REDACTED VERSION

PSE Development Strategy Review

- Move up development chain to control options
- Minimize acquisition cost, as compared to more fully developed projects
- Be in a position, with respect to development partner, to utilize leverage to step up to a larger position if and when our partner was unable to move forward

- Strategy playing out as we had hoped (although earlier than expected due to market events)

LSR Project Timeline & Board Approvals

[redacted]

REDACTED VERSION

Benefits of Proposed Transaction

- Positions Company well –
  - Option for future ownership of attractive renewable resources
  - Alternative to Power Purchase Agreements with limited credit backstops and less favorable terms
  - Potential sale of Renewable Energy Credits (RECs) under favorable market conditions
  - Hedge against upward price pressure in development fees
  - Reduces timing risk by full control of development schedule
  - Potential sale of "carved-off" development rights at higher prices

Recommendation to Board of Directors

What is PSE recommending to the Board of Directors?

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What are PSE's specific recommendations?

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What approvals will PSE seek from the Board in the future?

- Authorization for turbine purchases and engineering and construction of each Project phase

REDACTED VERSION

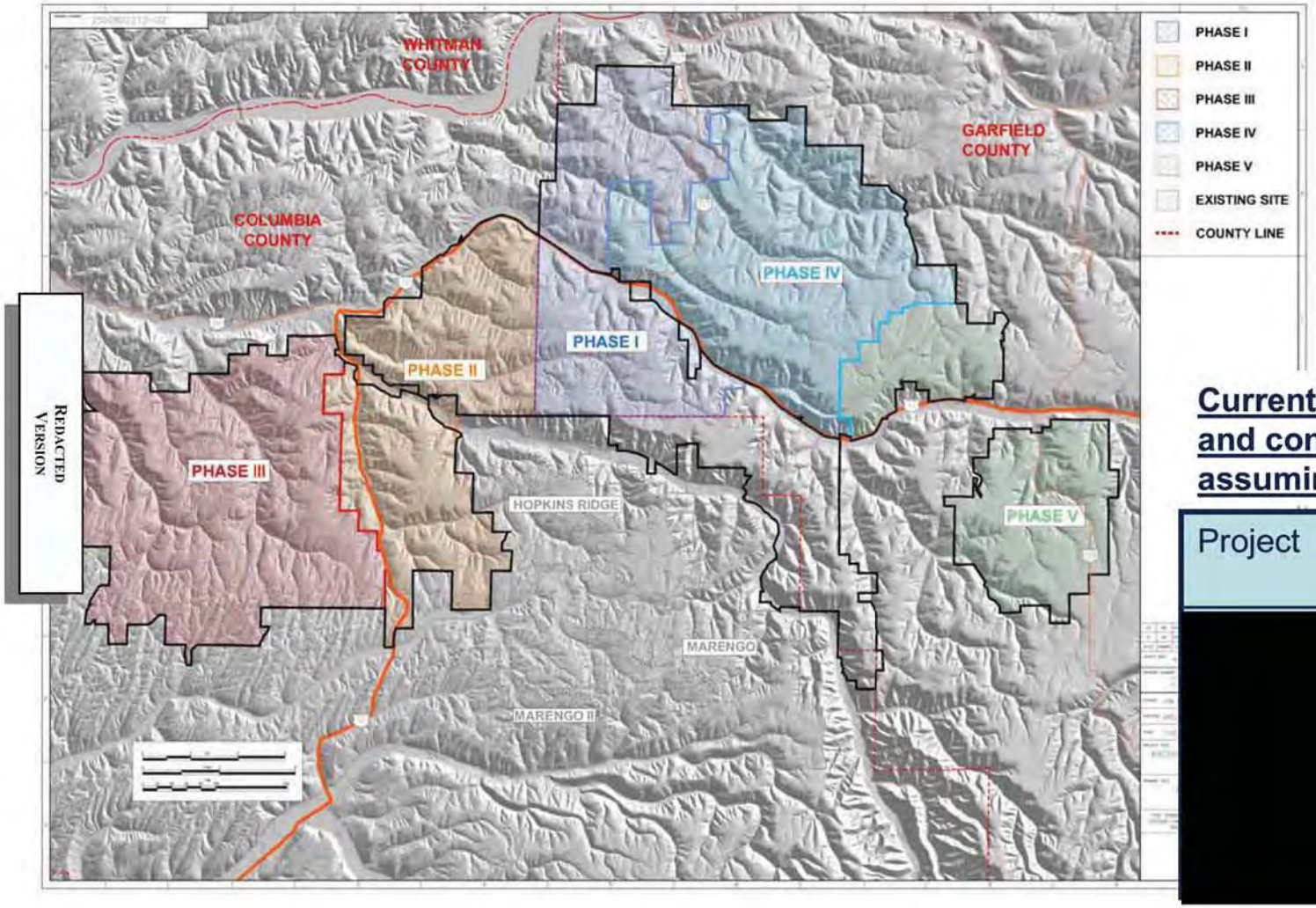
Purchase of Remaining 50% Interest in Lower Snake River Wind Project Development Rights

Appendix

PSE PUGET SOUND ENERGY

The Energy To Do Great Things

Lower Snake River Wind Project Description



Currently forecast development and construction schedule assuming 100% PSE ownership

Project	Capacity (MW)	COD
[redacted]		

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Project History/Proposed Transaction

Date	Event
May 1, 2008	PSE offers $[redacted]/kW plus royalty for second half of Lower Snake River development rights; RES asks for $[redacted]/kW and no deal is reached. PSE and RES verbally agree to $[redacted]/kW for first half of development rights
Sep 15, 2008	*Lehman Brothers files for bankruptcy protection*
Nov 26, 2008	PSE & RES sign Joint Development Agreement. (DJIA at 8,726)
Dec 5, 2008	PSE & RES close Joint Development Agreement transaction.
Mar 23, 2009	RES issues marketing material for sale of their 50% interest. (DJIA at 7,775)
May 15, 2009	PSE signs Option Letter for the purchase of the RES 50% undivided interest for $[redacted] (about $[redacted]/kW). • [redacted] • [redacted] • Key Conditions: • Closing Conditions define RES delivered work products • [redacted] • PSE still obligated to use RES Construction under JDA BOP forms • [redacted]

REDACTED VERSION

Recent PSE Activities

REDACTED VERSION

REDACTED VERSION

Developer and Location	Capacity (MW)	Est. COD	Date of PSE offer	PSE offer	Result
[redacted]	[redacted]	2010	Mar 5, 2009	$[redacted]/kW plus turbine obligation	Counterparty countered at ~$[redacted]/kW
		2010	Apr 7, 2009	$[redacted]/kW plus turbine obligation	Rejected by Counterparty
		2010	Feb 17, 2009	$[redacted]/kW plus turbine obligation	Rejected by Counterparty

Note: Project valuations ultimately must reflect stage of development, location, timing, market conditions, and energy resource characteristics.

Comparison of Purchase Price

REDACTED VERSION

Purchase of First 50%: $[redacted]

- Development Work Products
  - Preliminary Wind Resource Analysis
  - Anemometer agreements
  - Incomplete real estate package

Purchase of Second 50%: [redacted]

- Development Work Products
  - CUP permit application filed Jan, 2009
  - EIS scoping meetings held in Pomeroy and Dayton
  - Draft EIS scheduled to be issued July 6, 2009
  - Environmental, cultural, socioeconomic, avian studies well underway
  - Turbine Layout, OH collection system, O&M facilities through preliminary design
  - 22 additional leases executed

RES Delivered Products at Closing

As Conditions to Close, RES delivers

- Complete real estate packages for Phases I through IV. Anemometer agreements for Phase V
- Layout drawings and engineering plans for Phases I and II:
  - Turbine layouts, including turbine details
  - 30% road design package
  - Underground and Overhead collections systems and SCADA systems
  - Substation locations
  - Transmission line locations
  - O&M building locations
  - Facility communications and fiber optic layouts
- RES deliverables support valuation in late pre-construction stage

Contract Holdbacks

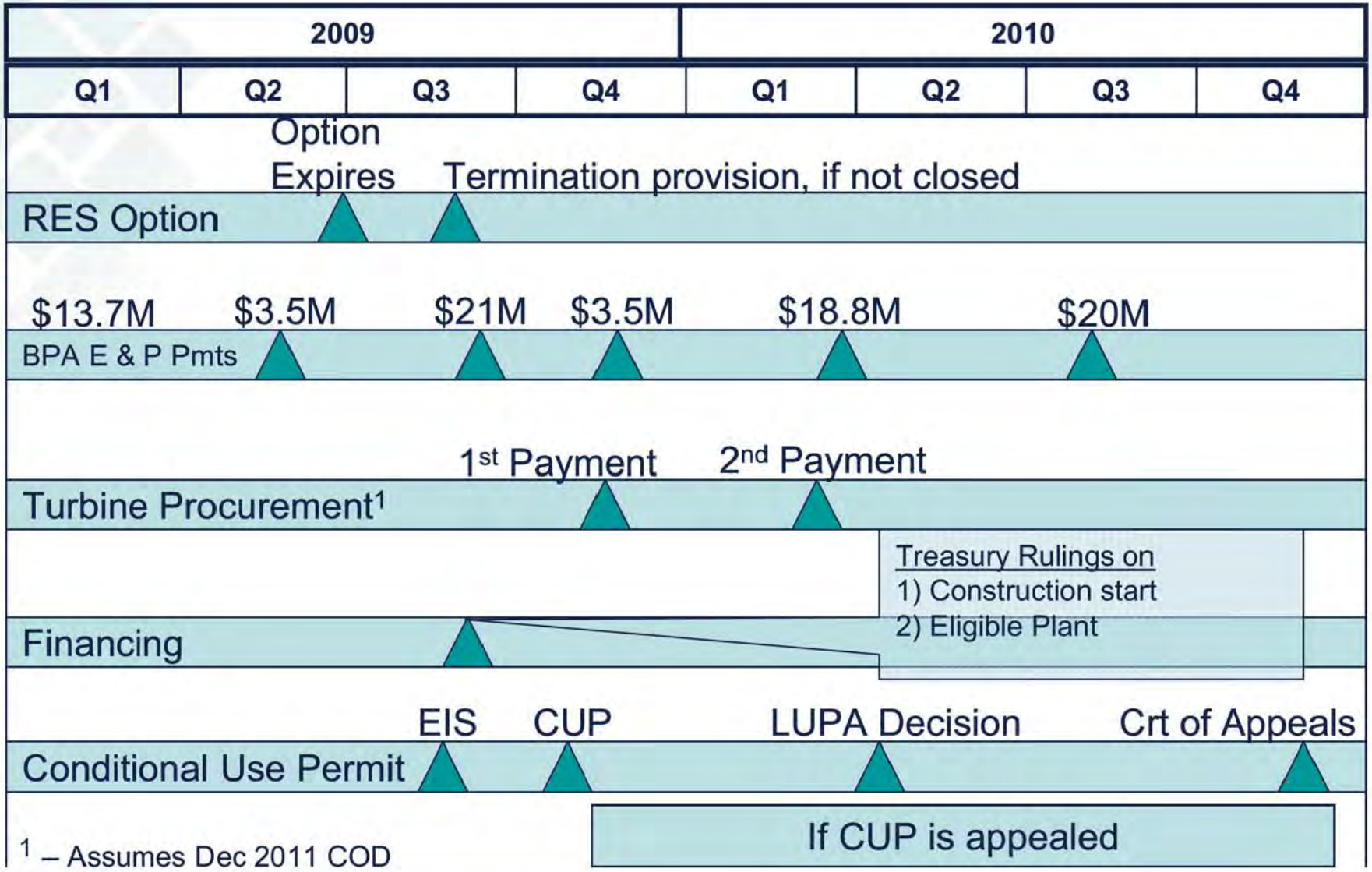
Holdback Item	Holdback Amount
Mortgage-related agreements (e.g., subordination documents)	$[redacted] each ($[redacted] total)
Settlements with key project opponents	$[redacted]
Lease acquisitions (7 open agreements)	$[redacted] total

REDACTED VERSION

Key Decisions and Open Issues

Item	Description
Purchase RES 50% Share of LSRP	Purchase of exclusive late-stage development rights. Real estate leases will start to require renewal in 2012
Turbine Procurement	Majority expense of plant requires 18-24 month lead time
Project Financing	Open issues regarding implementation of February 2009 Federal Stimulus Bill create uncertainty regarding project financing: PTC with Flip v. ITC/Grant
Conditional Use Permit	Delivery date of unappealable permit could be as early as December 2009 or as late as December 2010, if appealed.

Timeline of Key Information and Decisions



Tax Incentives - Timing Considerations

- Production Tax Credit extended through 2012
  - PSE ability to utilize uncertain due to limited tax appetite
  - Third party tax equity in regulated utility context poses significant regulatory and accounting challenges
- 30% Investment Tax Credit/Treasury Grant
  - To qualify for Grant "construction" of project must begin before end of 2010 and project must be placed in service before end of 2012
  - July Treasury guidance states "[c]onstruction begins when physical work of a significant nature begins." This can include off-site construction of WTGs.
- Projected in service date for first LSR project is not until late 2011 due to need for new BPA facilities
  - Key issue: delays caused by, or due to, RES (e.g., delays or inability to obtain financing), potentially may jeopardize PSE's ability to meet tax deadlines

Factors Supporting Renewables

- Federal Stimulus provisions require 2012 COD
- Pending Federal RPS legislation and 'cap & trade' system would require increased renewables development
- Potential sale of Renewable Energy Credits (RECs) under favorable market conditions
- Expected upward price pressure in development fees, wind turbine pricing, and construction costs
  - Hedge against rising renewable cost
- Reduces risk by controlling development schedule
- Community support; development shelf life

2009 Capex Reconciliation

REDACTED VERSION

	($000)
March 2009 Project Budget (50% ownership case)	$
50% of BPA September 2009 interconnection payment	
Miscellaneous adjustments	
Current Project Forecast (50% ownership case)	$
Purchase remaining 50% ownership interest	
Reimbursement of BPA payments	
Remaining 50% of 2009 BPA interconnection costs	
Remaining 50% of other 3rd party development costs	
Total 2009 Capex Budget (100% ownership case)	$

Exhibit No. ___(RG-12HC)
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2009 Capital Expenditures

PSE Forecast Cash Flows for Lower Snake River Wind Project

Case I: 50% PSE Interest, 50% RES Interest as TIC

	YTD[1]	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	2009
Purchase Price - First Half	[redacted]										
BPA Payment - Mod 4											
Develop Cost - RES JDA[2]											
WTG deposits[3]											
Total	$ 31,155,500	$ -	$ -	$2,675,500	$ -	$ -	$ 29,772,500	$ -	$ 1,750,000	$ 246,000	$ 65,599,500

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Case II: 100% PSE owned - Assume RES Closing Jun-09

	YTD	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	2009
Purchase Price - First Half	[redacted]										
Purchase Price - Second Half											
BPA Reimbursement to RES for BPA Pmts prior to Closing											
BPA Payments - Mod 4											
Develop Cost - RES JDA[2]											
Foward Develop Cost											
Incremental WTG deposits[4]											
Total	[redacted]										$ 125,500,800

Notes
1) Includes Aug 08 BPA Pmt
2) See Development Cost Schedule
3) Assume WTG schedule in approved development Plan: [redacted]
4) Assumes 250 MW

Exhibit No. ___(RG-12HC)
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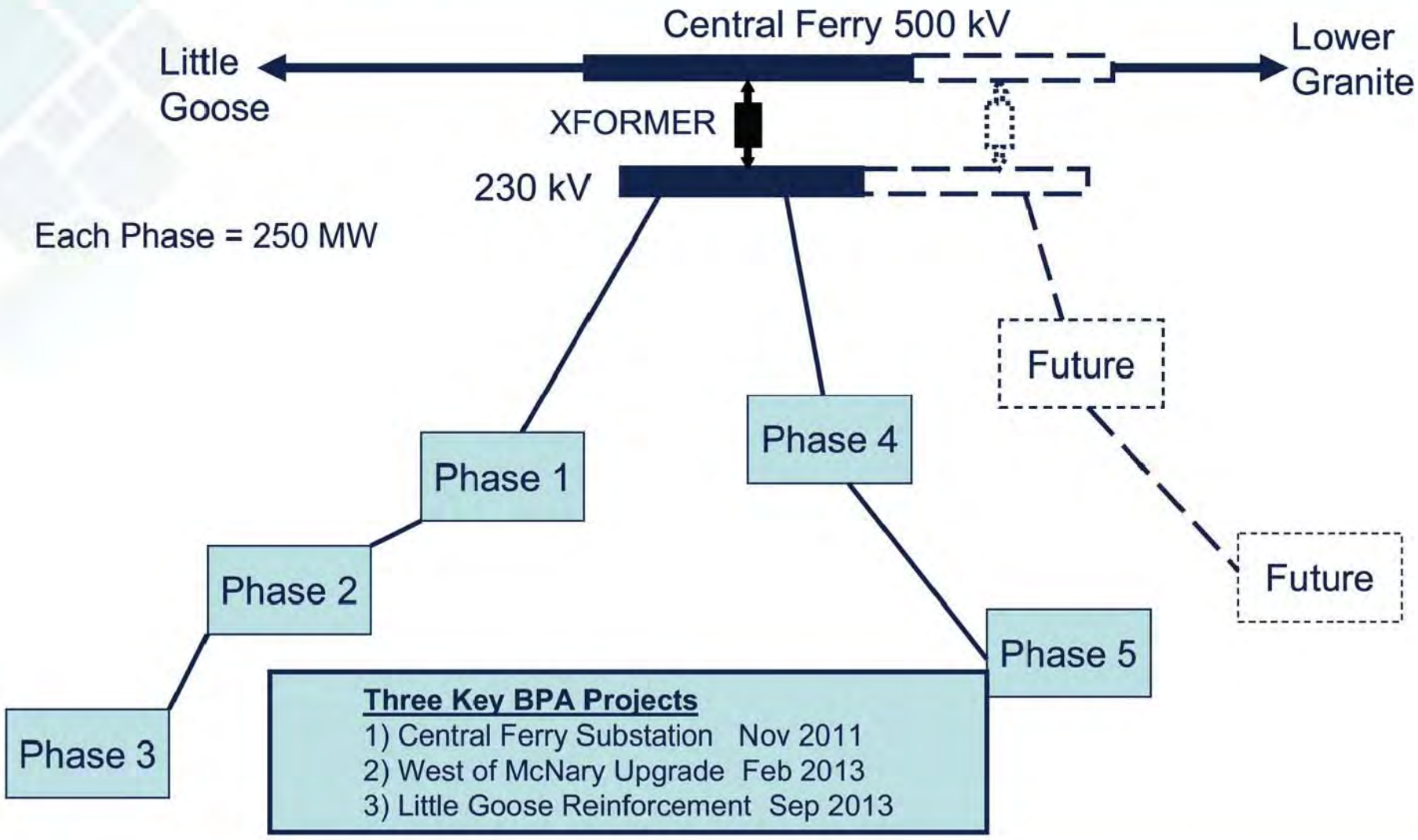
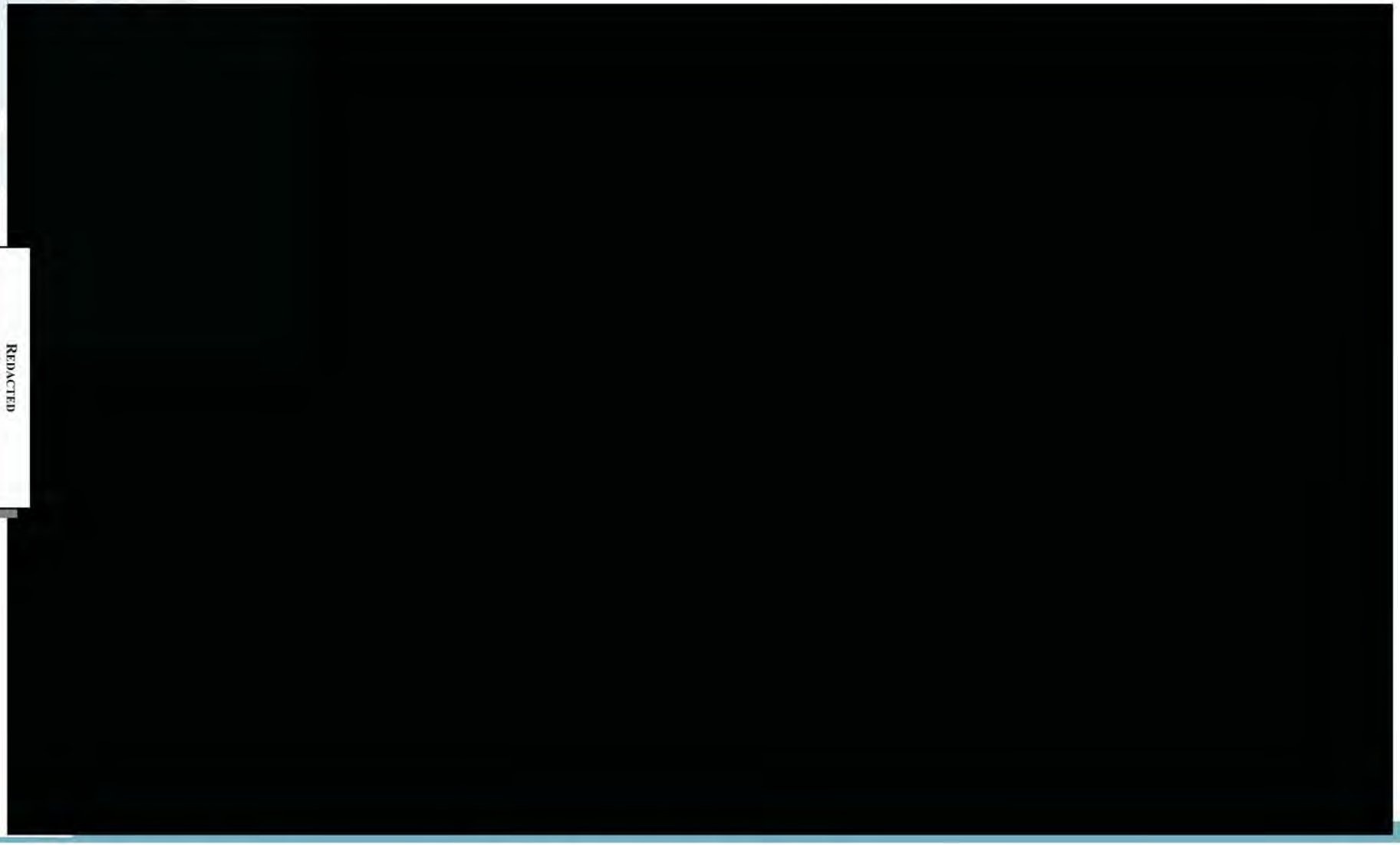
Simplified LSR Wind Project Interconnection



Transmission Strategy



REDACTED VERSION

Development Schedule and Financing

Lower Snake River Wind Project

Develop Schedules and Financing Assumption

REDACTED VERSION

* assumes normalization and 10-year amortization

Community Benefits

Community Involvement

- Offices in Dayton (Columbia County) and Pomeroy (Garfield County)
- Support for local community events such as
  - Dayton Days
  - All Wheels Weekend
  - Pomeroy Tumbleweed Run
- Local employee active participation in the community
- Support for local fire and rescue services

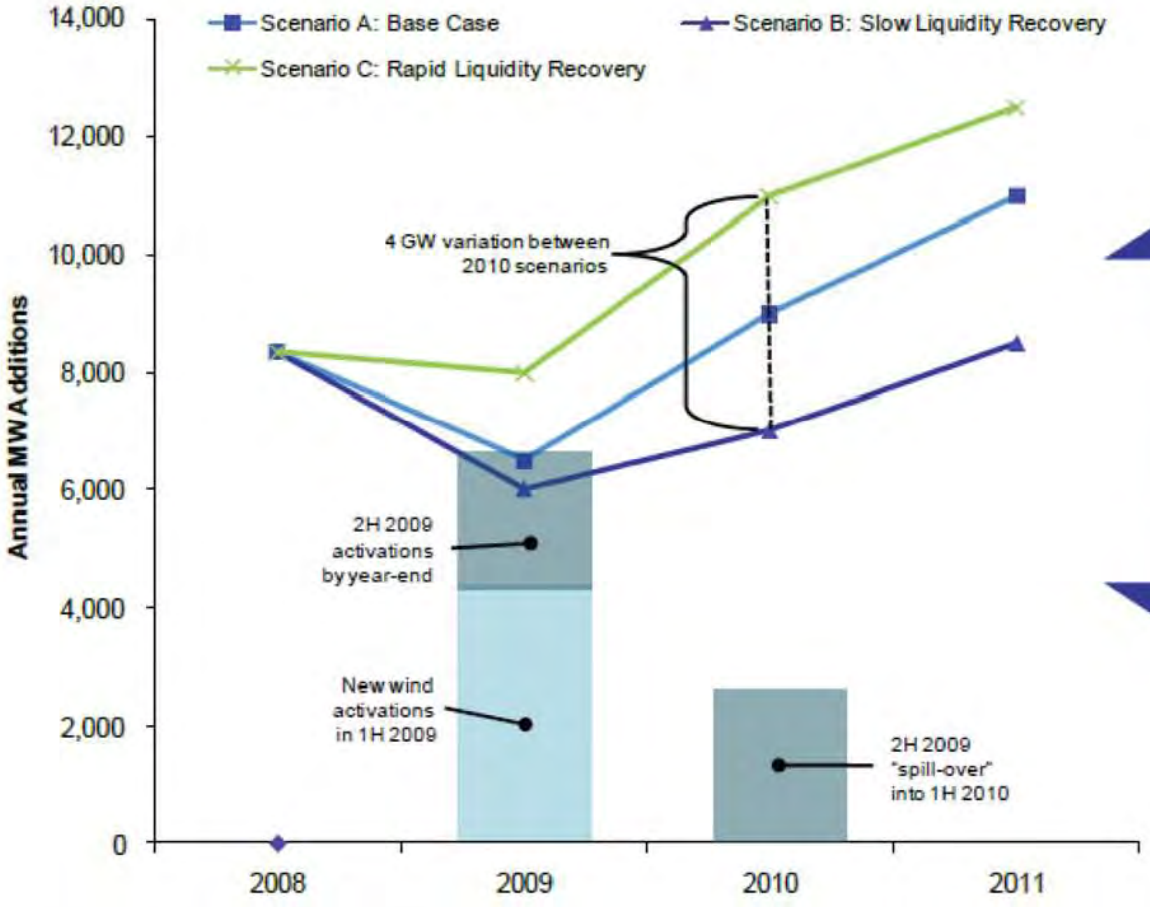
Economic Development[1]

- Between 1,611 and 2,174 new jobs estimated during construction phase
- Total Labor income estimated between $67 million and $91 million during construction
- Regional impact of direct O&M spending over life of the project estimated between $41 million and $51 million annually
- Increase in non-farm, relatively stable tax base for Garfield and Columbia Counties
  - ~$1.4 million in property taxes/year/250 MW phase

[1] – Source: Preliminary Draft EIS

US Wind Power Near-Term Forecast

Exhibit 4-3: EER US Wind Power Near-Term Forecast Scenarios, 2009–2011



Factors Impacting Near-Term US Wind Growth Potential

Rate of Return of Liquidity in Financial Sector

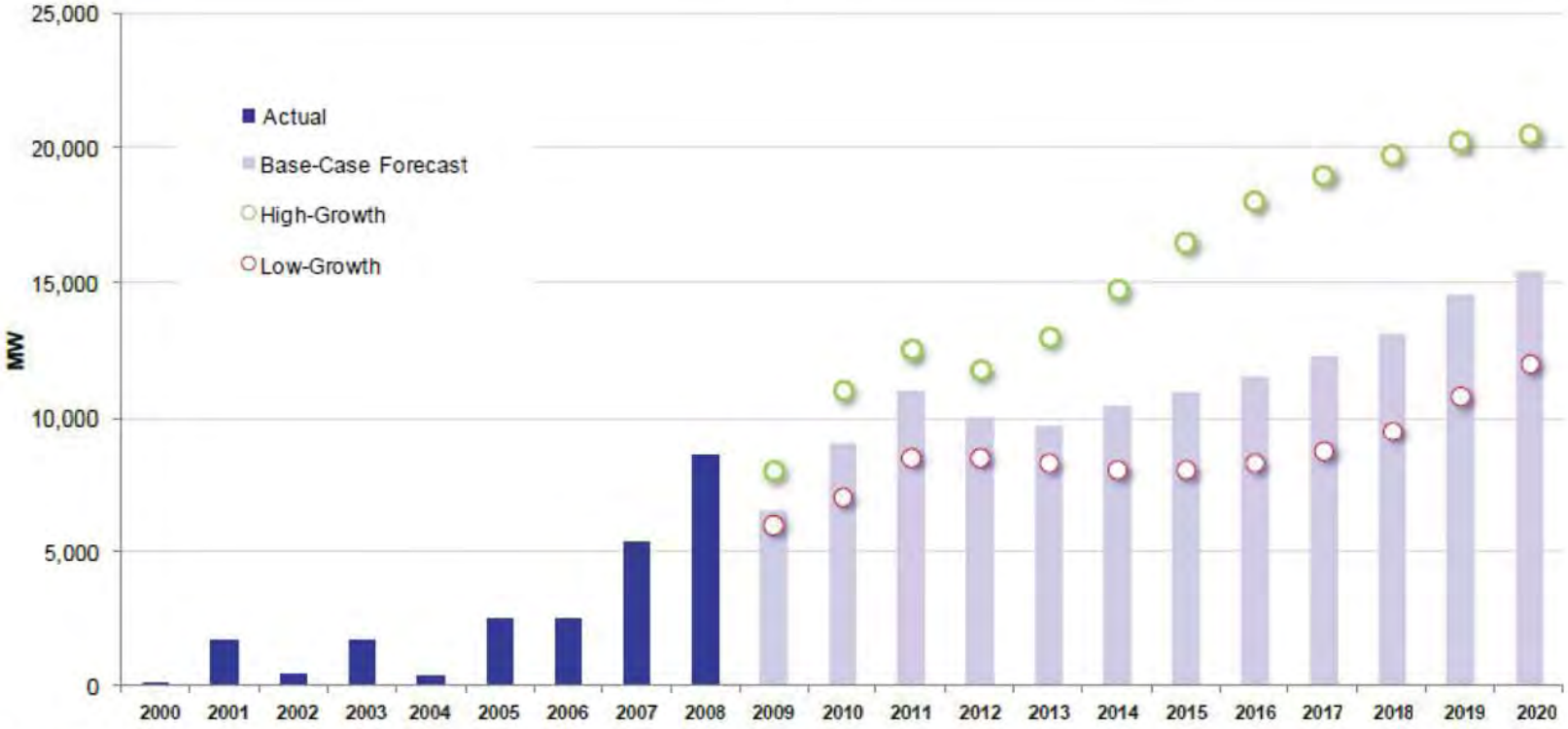
Success of ARRA Implementation

Price of Natural Gas Power Generation

Source: Emerging Energy Research

US Wind Power Long Term Forecasts

Exhibit 4-6: EER US Wind Power Forecasts: High-Growth vs. Low-Growth



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
High-Growth	-	-	-	-	-	-	-	-	-	8,000	11,000	12,500	11,750	13,000	14,750	16,500	18,000	19,000	19,750	20,250	20,500
Base-Case Forecast	67	1,697	388	1,695	379	2,440	2,454	5,332	8,546	6,500	9,000	11,000	10,020	9,734	10,434	10,940	11,500	12,300	13,100	14,550	15,450
Low-Growth	-	-	-	-	-	-	-	-	-	6,000	7,000	8,500	8,500	8,250	8,000	8,000	8,250	8,750	9,500	10,750	12,000

Source: Emerging Energy Research

Risk Analysis – Development Phase

Risk	Possible Cause	Mitigation Plan
Real Estate	Expiration of lease option periods prior to construction of later phases	Leverage positive local relationships to negotiate extensions of leases as required for later phases.
Permitting	Opponents appeal CUP on procedural issues	PSE has supported and funded Garfield County's retention of outside counsel (Jay Derr) to review, develop, and implement a robust permitting process. As recommended by PSE's permitting counsel, County permitting staff has established a local Hearings Examiner and well-defined SEPA implementation procedures.
Community Acceptance	Community acceptance limits Project capacity	PSE is an established member of community with positive local relationships Develop and execute an effective Community Relations plan to inform and engage the community relative to the Project benefits.
Wind Resource Assessment	RES Wind Resource Assessments over estimate Project output	GEC-DNV provides independent assessment of data to confirm wind resource assessments

Risk Analysis – Development Phase

Risk	Possible Cause	Mitigation Plan
WTG Technology	Changes in WTG standards and performance	Acquire WTGs in phased procurements so that improvemetns in technology are acquired as they become commercially available
Interconnection	Delays in BPA Construction of Central Ferry substation	BPA environmental review keyed to Project SEPA products Advance funding of Central Ferry to support on-time schedule.
Transmission	Delays in transmission improvements curtail Project output	BPA is highly incented to deliver projects that will bring more renewable power to customers and has Stimulus Bill funding.
Project Economics	Written-off cost due to changes in development plan	PSE would seek recovery of written-off costs, if and when at they occur, via accounting petitions or rate filings
Financing	Uncertainty around implementation of Stimulus Bill provisions limit financing options	Five-year plan economics assume normalization of grant with 10-year amortization. PSE is exploring all structural alternatives if normalization does not offer favorable economics.

Risk Analysis – Development Phase

Risk	Possible Cause	Mitigation Plan
Change in Law Repeal RPS Tax law changes	Federal legislation repeals State RPS or Stimulus Bill provisions	Active lobbying efforts at state and federal levels Likelihood of future green house gas ("GHG") legislation and Federal RPS should increase value of renewables in portfolio

Risk Analysis – Construction Phase

Risk	Possible Cause	Mitigation Plan
Construction Schedule	Turbine supplier fails to deliver in a timely fashion	[redacted]
Construction Schedule	Transportation accidents	
Construction Schedule	BOP contractor fails to complete construction	
Construction Schedule	Construction accidents	

REDACTED VERSION

Risk Analysis – Construction Phase

Risk	Possible Cause	Mitigation Plan
Construction Schedule	Erection delay	[redacted]
Capital Budget	Cost overruns exceeds budget estimate	

REDACTED VERSION

Risk Analysis – Operation Phase

Risk	Possible Cause	Mitigation Plan
Rate Recovery	Failure to obtain favorable rate treatment from WUTC of PSE's investment in the Project.	As part of a recommendation to the Board of Directors to proceed with a particular phase of the Project, rigorous financial analysis documentation will be included which will demonstrate that phase is a least cost resource.
Project Under-Performance	Poor initial long-term wind projection	Independent energy estimate by an industry expert DNV-GEC. Note: In the event of wind resource projection error, it could take several years to identify such error based on inter-annual wind variability.
Project Under-Performance	Upwind conditions change	There is no likely development of wind turbines upwind of any significant portion of the project.
Resource Change	Site wind resource change; climate change	Unable to mitigate. However, it is possible climate change could have the effect of making all wind resources more valuable than presently envisioned.
Turbine Availability	Low availability from any cause	[redacted]

REDACTED VERSION

Memorandum

July 17, 2009

Privileged and Confidential Attorney – Client Communication

To: PSE Board of Directors

cc: Dewey & LeBoeuf LLP

From: Kimberly Harris

Subject: Proposed purchase of remaining 50% undivided interest in the Lower Snake River Wind Project (the "RES LSR Interest")

The purpose of this memorandum is to describe the proposed purchase from RES America Developments, Inc., ("RES Development") and Blue Sky Wind LLC[1] (collectively with RES Development, "RES") of the RES LSR Interest. Acquisition of the RES LSR Interest, coupled with PSE's existing 50% undivided interest, would permit PSE to potentially own up to approximately 1,250 MW of wind facility resources, assuming it were to elect to pursue full development thereof. The memorandum addresses the following items:

- PSE's relationship with RES and the background of the Lower Snake River wind project (the "Project") joint development with RES under the existing Joint Development Agreement ("JDA").
- An overview of PSE's development strategy for wind energy projects.
- The scope of the Project and status of development.

[1] Blue Sky Wind, LLC, is a wholly-owned subsidiary of RES Development and owner of certain Project development rights.

- The terms of the proposed acquisition of the RES LSR Interest and the continued involvement of RES's construction affiliate in future Projects.
- The pros and cons of the proposed acquisition of the RES LSR Interest.
- Management's recommendation to PSE's Board of Directors for approval to purchase the RES LSR Interest, so as to provide PSE with ownership of the development rights to up to approximately 1,250 MW of wind resources.

PSE's Relationship with RES

PSE first began formally working with RES in early 2005, when PSE acquired development assets from RES for the Hopkins Ridge 150 MW project on a turnkey basis. Discussion and contractual negotiations started a couple of years earlier. Although all development work had been completed at the time of definitive agreements were signed, PSE worked closely with RES on the late-stage development work including completion of real estate rights. Upon acquisition, PSE signed a construction contract with RES America Construction, Inc. ("RES Construction")[2] to build the facility, including the acquisition/erection of wind turbines. PSE worked closely with RES Construction personnel during the construction and commissioning of Hopkins Ridge, which was successfully completed in December 2005.

In late 2005, PSE acquired the Wild Horse development assets from another developer, Horizon Renewable Energy ("Horizon"). On PSE's recommendation, Horizon entered into a construction contract with RES Construction for the construction of the project. Although Horizon was technically in between PSE and RES Construction from a contractual standpoint, PSE was closely involved in the construction contract

[2] RES America Construction Inc. is an affiliate of RES Development and is the construction arm.

negotiations with RES, monitored the construction of Wild Horse and worked closely with RES Construction personnel during construction and commissioning of that project. Wild Horse, with a nameplate capacity of 229 MW, was completed in late 2006.

In 2008, PSE contracted with RES Construction to add four additional units at Hopkins Ridge. Currently, RES Construction is adding 22 additional units at the Wild Horse project. With the help of RES Development and RES Construction, all of the PSE wind projects have come in under budget and either ahead of or on schedule. RES Construction has demonstrated that it is a reputable contractor and PSE has experienced minimal change orders on these projects. A complete North America project list for RES Development and RES Construction is attached to this memorandum as Exhibit 3.

RES Development and RES Construction are U.S. subsidiaries of Renewable Energy Systems Limited ("RES Ltd."), a leading worldwide developer, constructor, and operator of wind energy projects with over 20 years experience in the industry. RES Ltd. was formed in 1981 and is a member of the Sir Robert McAlpine Group, one of the UK's major engineering and construction companies.

PSE Development Strategy Overview

In late 2006, PSE began to create a strategy of moving up the development chain, especially for renewable resources. This strategy was a natural progression of PSE's experience with the Hopkins Ridge and Wild Horse facilities. As part of implementing this strategy, the Company expanded upon its internal development team. The purpose of this strategy was for PSE to capture opportunities for customers and minimize the

cost of new resources. It enables the Company to control its own destiny, to minimize acquisition costs as compared to more fully developed projects, and to provide an alternative option to entering into PPAs where full development fees and higher costs of capital are fully reflected in the final price paid for energy. In summary, the strategy was a business decision based on the fact that PSE has established an outstanding acquisition and development team, and is in a strong position to capitalize on that talent and experience.

This strategy established the guidelines by which PSE would pursue wind development and results from increasing market competitiveness, a lack of mature wind projects, escalating project costs, and passage of the Energy Independence Act in Washington State, which established a Renewable Portfolio Standard ("RPS"). For example, in the Company's 2006 Request for Proposal ("RFP"), fewer wind project proposals were submitted, as compared to the 2004 RFP, with several withdrawn and contracted with other counterparties under PPAs, prior to the time PSE could complete its evaluation. During that time period, a shift in the business model for independent wind developers began to solidify. Prior to that time, the market tended to consist of many small, undercapitalized developers. In order to continue in the business, they were typically willing to consider a variety of commercial arrangements to generate cash flow for the future. However, as consolidation began to take place among development entities, most developers wanted to develop, construct, own, and operate wind projects because they were able to (i) obtain development or turbine loans to manage their large development-period cash outflows, (ii) capture favorable development fees via construction financing, (iii) obtain favorable operational period cash flows as a result of partnering with tax investors able to capture the production tax credits ("PTCs")

associated with wind generation, and (iv) develop a small portfolio of operating projects and earn an attractive multiplier by "flipping" the portfolio to a financial or strategic investor. This business model relied on PPAs with utilities, which, generally speaking, exposed utility customers to higher costs and less favorable commercial terms.

Project History

In the Spring of 2007, RES approached PSE regarding the joint development of new projects in the areas surrounding Hopkins Ridge with a projected nameplate capacity of 1,250 MW. PSE initially sought to own all of the development rights associated with the Project. At that time, RES was itself working to implement a portfolio ownership business model and the two parties could not agree on the value for the second half of the Project development rights. So, discussions did not become more serious until early in 2008.

During the interim period, RES began to further develop the Project, obtaining interconnection rights and land leases. Meanwhile, PSE had been seeking to acquire a number of smaller scale early-stage development assets from other developers. These acquisition efforts were not successful as the projects were either too difficult to complete or valued too highly. In addition, the pursuit of these smaller projects consumed substantial development resources. PSE also pursued larger projects, where the independent developer would consider selling an ownership interest to PSE in exchange for a PPA in return with respect to the energy associated with the developer's "retained" ownership interest. PSE held discussions with [redacted] about a large development project in [redacted] Washington; however, [redacted]

was only willing to offer a minority interest and, again, only in exchange for a guaranteed PPA.

As a result of those failed efforts and RES's willingness to offer a 50% ownership stake with no PPA requirement, PSE came to recognize the value of the Project. The Project, still in the early stages of development, quickly became the preferred option to address the Company's renewable energy objectives and its RPS obligations, consistent with the Company's integrated resource plan and resource acquisition and development strategy. Part of the Project's attraction to PSE was the desire to work with RES and to capitalize on its track record for successfully completing projects.

In discussions in early 2008, PSE and RES Development reached verbal agreement whereby PSE would purchase a 50% interest in the Project development rights for $[redacted] million, or approximately $[redacted] kW. PSE offered RES Development [redacted] RES and PSE ultimately decided to limit the transaction to the first 50% ownership interest in the Project.

The parties began to negotiate the terms of the JDA to set forth how the parties would jointly work together going forward. [redacted]

[redacted]

[redacted] As a result, PSE has the opportunity now to increase its stake in the Project under very favorable terms.

Although the joint ownership structure was agreed to early in the discussions, negotiation of the JDA and related agreements took over six months to finalize due, in part, to the complexities of addressing the concerns of differently situated parties – namely, a regulated utility versus an independent power company that needs a long-term off-take agreement to finance its interest. Certain complexities of the joint ownership structure, [redacted] While PSE's concerns regarding RES's ability to finance its share of the Project's budget grew significantly against the backdrop of the global financial crisis, PSE believed that acquiring the first 50% ownership interest [redacted] On November 26, 2008, PSE, RES and RES Construction executed the JDA and, at an initial closing on December 5, 2008, PSE paid RES 25% of the purchase price for the LSR Interest. In late January 2009, after negotiation of certain subsidiary agreements under the JDA – principally the "form" agreements necessary to implement transactions under the JDA – the balance of the purchase price was paid.

Joint Development Agreement

The existing JDA provides for the development of the separate Project phases through the time that PSE and RES are ready to commence construction of a particular phase. RES has primary development responsibility, but PSE has the lead in community and

governmental relations. Development is overseen by a Management Committee composed of two senior members of the RES and PSE teams. Material decisions and budgets require unanimous approval. In the event of a deadlock with respect to a material issue for a phase, there is a buy-sell mechanism that involves successive bids for the subject phase.

Under the JDA, each of PSE and RES own undivided interests in each of the Project's assets. [redacted]

The JDA also provides for the form of agreements that will be used to construct, jointly own and operate each phase that is approved for construction. [redacted] The construction cost is determined using an "open book" process where all sub-contractor bids and materials costs are reviewed and approved by PSE and RES [redacted]

At the time they determine to proceed with the construction of a phase, PSE and RES will enter into a [redacted]

[redacted]

Sale of the RES LSR Interest

On March 23, 2009, RES issued marketing materials soliciting interest in the sale of the RES's LSR Interest, motivated by a desire to avoid large, upcoming development expenditures. Shortly thereafter, PSE initiated negotiations regarding the purchase of that interest which, due to further development work, is now considered to be "late stage pre-construction" development rights. On May 15, 2009, PSE signed an Option Letter for the purchase of the RES LSR Interest. The Option Letter is attached to this memorandum as Exhibit 1. Although the Option Letter expired on July 6, 2009, RES has confirmed that it will proceed with a transaction on that basis following PSE Board consideration of the transaction outlined therein. Key provisions of the proposed transaction are:

- Purchase Price of $[redacted] and reimbursement of certain BPA payments totaling $11,974,600.[3]
- Closing conditions require RES's completion of specified development products.
- [redacted]

[3] Includes interconnection facility expenses and refunding of an approximately $3 million security deposit related to transmission rights also being acquired from RES by PSE.

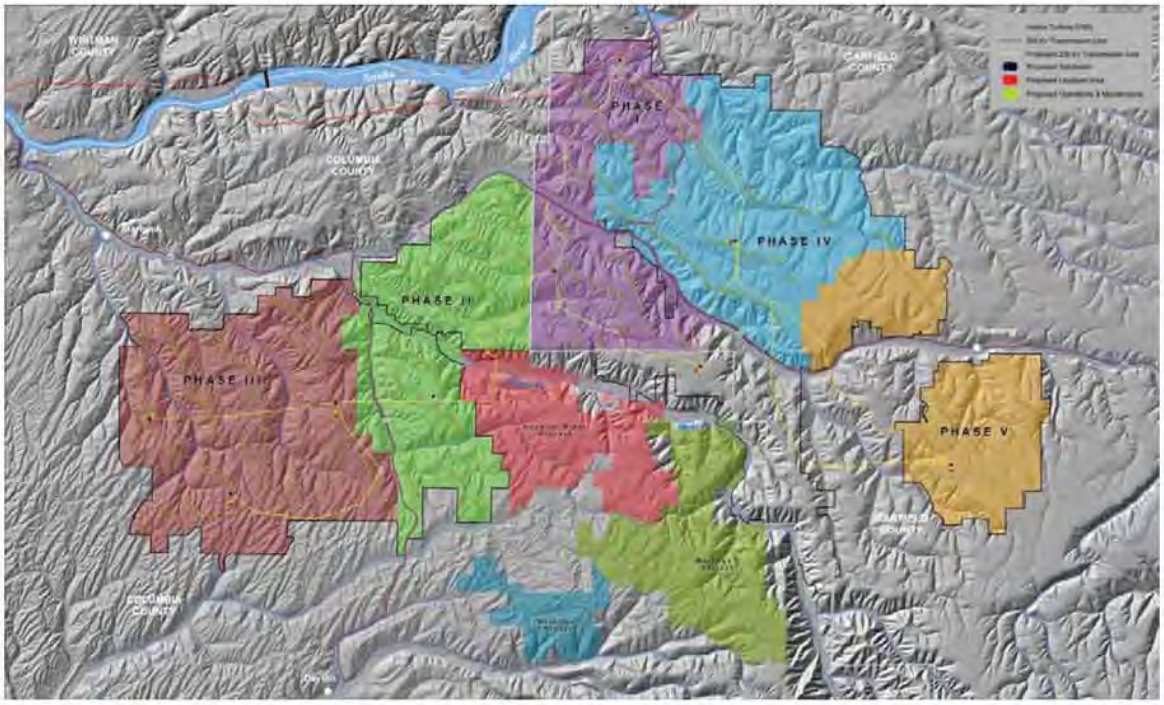
- PSE is obligated to use RES Construction under the Balance of Plant ("BOP") form construction agreement defined in the JDA.
- [redacted]

The parties have completed the negotiation of the Asset Acquisition Agreement for the proposed transaction. Attached as Exhibit 2 to this memorandum is a summary of the key terms of the draft Asset Acquisition Agreement, the Construction Rights Agreement (pursuant to which PSE agrees to use RES Construction to build any phases built during a set term), and the form BOP contract, which embodies the principal terms that would be included in any such construction contract.

In order to preserve maximum flexibility with respect to the development of the Project, Management recommends that the Board of Directors approve the purchase of the RES LSR Interest pursuant to the terms of the Asset Acquisition Agreement. For clarity, this recommendation is only for the purchase of the late-stage development rights and, for financial planning purposes, for an increase in the 2009 capital budget up to $[redacted] Separate authorizations to proceed with any project phases, turbine purchases or entry into engineering and construction agreements will be sought at the appropriate time and will be supported by a package that will demonstrate the business case and prudence of the applicable decision. The purchase of the RES LSR Interest would provide the Company with an option for the future ownership of up to approximately 1,250 MW of wind resources.

Project Description

The proposed Project will be located on over approximately 120,000 acres of leased lands within Columbia and Garfield counties (see map). The portion of the Project in Garfield County is comprised of lands south of Pomeroy, north of the Pataha River, and between the Pataha and the Tucannon Rivers. The Columbia County lands consist of property that is generally five miles north of the city limits of Dayton and bordered on the north and west by US Highway 12 and bordered on the south by Tucannon Road. Certain economies of scale can be realized as a result of the proximity of each of the Project phases to each other and the Hopkins Ridge facility.



Wind turbine generators ("WTGs") will be located along ridge tops to utilize winds which typically come from the southwest. Supporting infrastructure includes access roads, underground and overhead electric collector lines, substations, meteorological towers, operations and maintenance centers, and temporary construction access and staging

areas. The Project will be built in five or more phases, with construction of the first phase scheduled to begin in 2010.

The Project will be interconnected to the Bonneville Power Administration's ("BPA's") Little Goose-Lower Monumental #1 and #2 transmission lines. BPA will design, construct, own and operate a new substation (Central Ferry Substation) and will be responsible for environmental review of the substation and associated interconnection facilities under the National Environmental Policy Act. BPA's environmental review will be tiered off their programmatic Environmental Impact Statement ("EIS") and the Project's EIS under the Washington State Environmental Policy Act ("SEPA"). The substation will be designed to accommodate the full output of the Project, and could be expanded to accommodate future regional development.

Each Project phase will typically take approximately 9-12 months to construct and construction will be concentrated in the spring, summer and fall months. Construction of the first phase is expected to take two construction seasons, driven by BPA's schedule for the construction of the Central Ferry Substation.

Proposed Development Schedule

The Project would be developed in five Phases. The commercial operation date ("COD") for the five phases are forecasted in the table below, assuming 100% PSE ownership, and for the purposes of the Company's Five-Year Plan.

Project Phase	Capacity (MW)	COD
Phase I	[redacted]	[redacted]
Phase II	[redacted]	[redacted]
Phase III	[redacted]	[redacted]
Phase IV	[redacted]	[redacted]
Phase V	[redacted]	[redacted]

The first two Phases of the proposed development schedule take advantage of either the PTC or a Treasury Grant (in lieu of the PTC), each of which requires commercial operation by the end of 2012. (See "Tax Incentives" below) The proposed development schedule beyond the first two phases is designed to ensure Company compliance with the State RPS which goes into full effect in 2020.

Permitting Schedule

To ensure a well-defined permitting process, PSE and RES Development worked with Garfield and Columbia County to develop standards of development for commercial wind turbine energy projects. To assist in implementing these standards, PSE and RES Development provide funding for an outside counsel with land use planning expertise to support the Counties. The milestone schedule for the major permitting activities is as follows:

Milestone	Anticipated Date
Garfield County CUP application filed	January 2009
EIS scoping meetings held in Pomeroy and Dayton, WA	March 2009
Draft Environmental Impact Statement ("DEIS"), which will apply to the entirety of the Project	August 4, 2009
Public Comment Period on DEIS Ends	September 4, 2009
Garfield County Conditional Use Permit ("CUP") Hearing	Mid-October, 2009
CUP Application to Columbia County	November 2, 2009
SEPA Compliance and Additional Studies	January 31, 2010
If Appealed, Superior Court Hearing on Garfield County CUP	April, 2010
Complete Columbia County CUP Process	June, 2010
If Appealed, Superior Court Hearing on Columbia County CUP	February, 2011

Transmission and Interconnection Issues

The Project will interconnect with the BPA transmission system at BPA's planned 230/500 kV Central Ferry Substation, currently forecast for completion in November 2011. Completion of the Central Ferry Station is required for the operation of the Project. BPA requires advance payments for its interconnection facilities. To date, PSE and RES have funded $17.2 million toward these facilities with additional payments of $24.5 million scheduled for later this year. All told, the BPA interconnection facilities are expected to cost approximately $121 million. Of this amount, approximately 20% is assumed to be direct assignment facilities and the balance will be network upgrades. The amounts deemed network upgrades will be refunded with interest to PSE in the form

of BPA transmission credits. The unused credit and the amount associated with the direct assignment facilities will be eligible for rate recovery as a regulatory asset.

In the future, if PSE were to sell a portion of the Project development rights to a third party, that third party would be obligated to fund a pro rata portion of the interconnection facility costs. Similarly, if another developer were to interconnect at Central Ferry, whether PSE completes development of all 1,250 MW of the Project or not, that developer would be required to reimburse PSE with a pro rata portion of these costs. (Currently five to six other wind developers are actively pursuing projects in these two counties, so the possibility of such payments is not remote.)

Transmission of the Project's energy will take place over the BPA system. A schematic showing the timing of planned transmission availability and project development is shown below.

PSE has applied for and received 600 MW of firm point-to-point ("PTP") transmission from BPA's Central Ferry Substation to PSE's load center. Of this 600 MW, 200 MW is available in late 2011 and 50 MW is available in June 2012, both consistent with PSE's request. The balance of 350 MW is available in late 2013 after BPA completes its West

of McNary Reinforcement Project[4] and the Little Goose Reinforcement Project[5]. As part of the proposed transaction, PSE would take assignment of 200 MW of firm PTP BPA transmission held by RES Development. That 200 MW of transmission is also contingent upon the McNary and Little Goose projects. If PSE is short on transmission rights in the early phases of the Project, it would rely on short-term firm, conditional firm, or non-firm rights. For instance, PSE has submitted a transmission request with BPA for 50 MW of short-term firm point-to-point transmission beginning in late 2011, to support Phase I of the Project. PSE is optimistic about this request since it already has this right starting in June 2012.

With respect to the 250 MW transmission shortfall in 2013, BPA is considering creating a conditional firm transmission product across its Lower Snake River system.[6] This is one of four transmission paths which BPA currently is studying for this product. Conditional firm transmission would be subject to up to 400 hours per year of curtailment, which would most likely occur in the spring when runoffs are high. An initial response is expected from BPA later this quarter.

To the extent that PSE is long on transmission, as is expected in 2013 through 2019, excess rights will be deferred. BPA allows deferral of rights at a cost of approximately $[redacted]MW/year. Transmission in excess of 800 MW for phases IV and V will be requested later.

[4] BPA's West of McNary Reinforcement Project is independent of the Project, is approved and proceeding, with funding made available via the Stimulus Bill.

[5] BPA's Little Goose Reinforcement Project is dependent on the Project or other generation development in the vicinity. Funding will come from the Stimulus Bill.

[6] BPA's Lower Snake River transmission lines connect federal hydroelectric projects along the Lower Snake River at Lower Monumental and Little Goose to the Federal transmission system.

PSE Post-Closing Development Plan

If the Board approves the proposed transaction, PSE will become solely responsible for development of the Project. As outlined below, PSE has the organizational team and experience to manage development activities.

The JDA calls for PSE and RES Development to jointly develop the Project, with RES Development assigned the lead role in the majority of development activities and PSE with the lead for community and government relations and negotiating affiliate contracts.[7] In reality, PSE has been working collaboratively with RES Development on virtually all project development activities. The principal exceptions to this are for preliminary engineering and design work and wind resource assessment, which have been performed by RES Development. However, PSE retained DNV Global Energy Concepts ("DNV-GEC") as an independent engineer to review RES Development's wind assessment work. DNV-GEC is a multi-discipline engineering and technology consulting firm, recognized as a global leader in the wind energy industry, which has acted as project engineer on behalf of lenders, insurers and owners on numerous projects. As part of its work, it has performed due diligence with respect to wind turbine technology and wind resource assessment. PSE's relationship with DNV-GEC goes back approximately four years.

Once the proposed acquisition closes, PSE will manage on-going development activities with the development team shown below.

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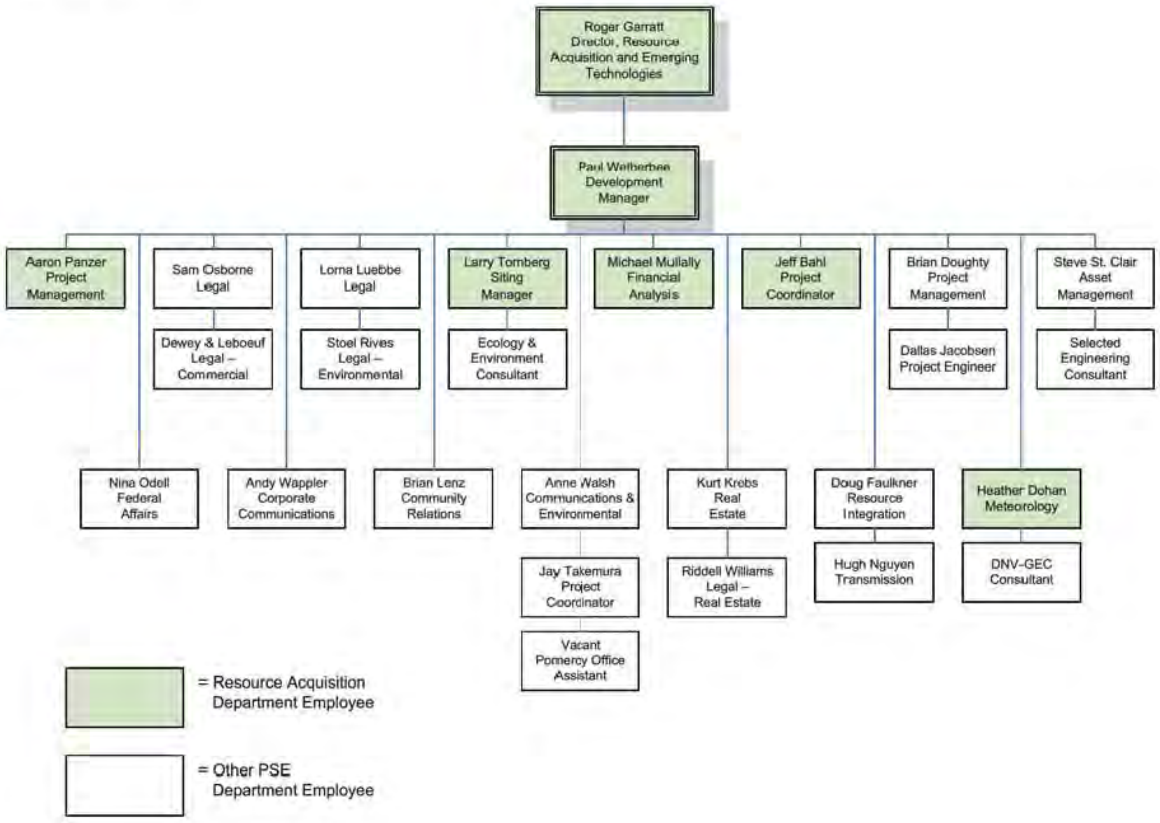
[7] Affiliate contracts, in this case, refer to the BOP EPC contract between PSE and RES Development (as the owners of the Project phase) and RES Construction as the contractor.



PSE Development Experience

PSE has a strong development team, which will be able to manage this development project without assistance from RES Development post-closing. PSE has relevant experience from both its existing wind project and its acquisition activities, where extensive due diligence is conducted. For example, with the Hopkins Ridge Facility, which the Company placed in service in 2005, PSE originally purchased the development rights from RES Development. Although RES Development performed all the early-stage development work on Hopkins Ridge, PSE became actively engaged in late-stage development and, in particular, work relating to real estate. This work included Phase I environmental site assessment, obtaining needed transmission line and other easements, securing an ALTA survey, obtaining appropriate closing consents,

obtaining non-disturbance and subordination agreements, renegotiating options and leases, as appropriate, obtaining title insurance, and negotiating major project agreements, such as the EPC agreement, the turbine O&M agreement, and the large generator interconnection agreement ("LGIA").

For the Wild Horse Facility, which was placed in service in late 2006, PSE purchased the development rights from the predecessor to Horizon Renewable Energy ("Horizon"). Although Horizon performed early-stage development work, PSE, again, played a significant role in later-stage efforts. In particular, PSE not only performed the same scope of development as it did for Hopkins Ridge, but also led the efforts relating to local permitting, local community and government relations, negotiating the first wind lease in the State of Washington with the Department of Fish & Wildlife, purchasing most of the remaining land associated with the project, and negotiating a turbine supply agreement for the supply and erection of the wind turbine generators.

For the Hopkins Ridge in-fill project, which went into service in 2008, and the Wild Horse Expansion Project, which is currently under construction and is planned to go into service later this year, PSE led all development activities, with no involvement by outside developers.

Engineering/Design and Wind Resource Assessment

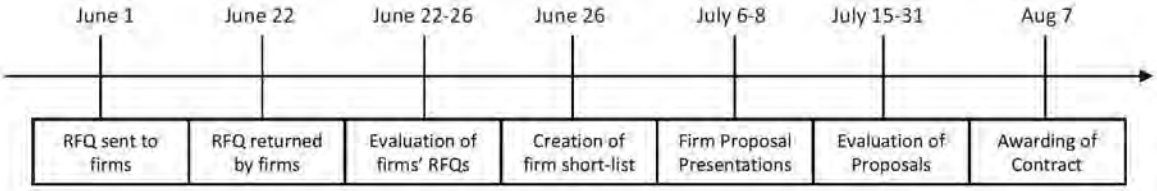
To complete its development team and replace skills lost with the departure of RES Development, PSE is conducting a request for qualifications ("RFQ") process. PSE intends to retain an outside design firm to provide appropriate preliminary engineering and design work, which will be used in siting and permitting of the Project, and wind

resource assessment. This work will be used by PSE for siting and turbine selection. Firms invited to participate in the RFQ include:

1. [redacted]
2.
3.
4.
5.
6.

PSE intends to select engineering consultants no later than mid-August as described in the schedule below.

2009 Consultant Selection Process



PSE intends for DNV-GEC to continue its participation on the development team as the independent wind resource consultant.

Summary of Key Development Activities

Since execution of the JDA in December 2008, development activities conducted by PSE and RES Development have been progressing under the direction of the Management Committee, which is made up of representatives from PSE and RES Development. The following sections summarize the main activities completed to date.

Environmental and Permitting

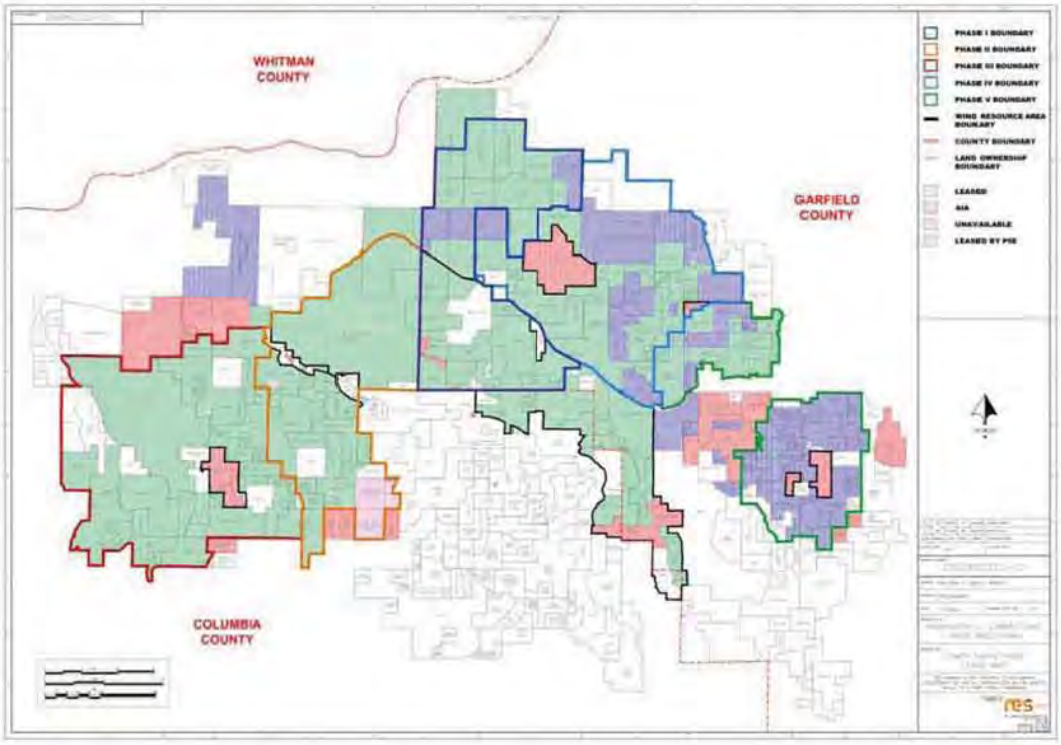
Studies supporting the EIS have been largely concluded and the Preliminary Draft EIS ("PDEIS") is currently under review by the project team. Work on the effect of the Project include studies to evaluate:

- Cultural resource issues
- Avian and bat impacts
- Habitat
- Threatened and endangered species
- Wetlands
- Socioeconomics
- Visual resources

The EIS review and comment period is proceeding per the schedule listed earlier in this memorandum. A public comment period on the DEIS will be conducted in August.

Real Estate

Real estate activities have been aimed at completing lease packages for Phases I through IV. As of April 21, 2009, the leased properties are shown in the map below.



As negotiation of the Asset Acquisition Agreement has proceeded, PSE has developed a detailed understanding of the leasing agreements and has been instrumental in resolving several lease negotiations. Only one lease remains open for Phases I through IV; however, execution of this lease is one of the closing conditions of the proposed transaction and PSE expects it to be secured.

Community and Communication

PSE has led the development efforts with respect to community affairs and communications. PSE developed a comprehensive communication program which

touted the community benefits of the Project and leveraged the positive local image of the Company. Communication mechanisms include:

- Open houses and informal events to highlight Project successes
- Media stories placed in local, regional and state publications highlighting PSE's commitment to the Lower Snake River project.
- Support of the communication efforts of the Pomeroy Chamber and various pro-wind organizations
- A continued commitment to improving the community through sponsoring local events and organizations.
- Creating and distributing communications materials including project fact sheets, a project newsletter, project web pages (www.snakeriverwind.com) and PSE and RES background information.

The Project will provide community benefits related to economic development and community involvement and support by PSE. In terms of economic development, the PDEIS estimates that between 1,611 and 1,274 new jobs will be added to the region during the construction phase of the Project which will add between $67 million and $91 million in labor income to the region. After the construction phase, the PDEIS estimates the regional economic impact of direct spending for operation and maintenance between $41 million and $51 million per year.

In addition to economic development, the Project provides community benefits relative to support for local activities and civic events. With offices in Dayton and Pomeroy, PSE staff are active participants in the community. PSE provides financial support for local

community events such as Dayton Days, All Wheels Weekend, and the Pomeroy Tumbleweed Run. PSE also provides support for local fire and rescue services.

Preliminary Engineering and Procurement

RES Development has made progress on preliminary Engineering and Procurement for Phases I and II. Specifically, RES Development has completed preliminary draft products for Phase I and Phase II for the following plant elements:

- Turbine layouts including details for each turbine
- Preliminary road design package (30% design)
- Underground and overhead collection system and related supervisory control and data acquisition system
- Substation locations
- Transmission line locations
- Locations for operations and maintenance buildings
- Locations for all facility communications and fiber optic lines

PSE has reviewed this work product and is willing to accept the materials it has received in satisfaction of RES's closing deliverable.

Project Agreements

PSE and RES Development are conducting the studies and analyses to support negotiation of the major project agreements. With respect to BPA, RES Development and PSE have shared the BPA cost of the facilities study that will support the LGIA. BPA has recently completed the facilities study. BPA also requires an agreement for engineering and procurement ("E&P Agreement") for design and procurement of

materials related to the Central Ferry Substation prior to the LGIA. PSE and RES Development jointly executed the E&P Agreement in June 2009 and have shared the BPA payments to date per the JDA.

Bids from pre-selected turbine supply providers [redacted] Siemens, and [redacted] were solicited in January 2009. The current financial crisis has slowed turbine orders and the suppliers have aggressively priced their bids. Several vendors "refreshed" their bids with lower pricing and in April 2009 PSE and RES Development issued a letter to the four suppliers asking for their best bids. Economic conditions continue to pressure turbine suppliers however, and several vendors further reduced pricing or offered more attractive WTG performance.

Economic analysis of the WTG bids is supported by PSE and RES Development. PSE analysts conduct bid comparisons based on input (balance of plant and operation and maintenance costs) provided from RES Development and RES Construction. Complete pro forma analysis is completed by PSE such that the offered WTG alternatives can be compared on a $/MWh basis.

Wind Resource Analysis

RES Development completed a wind resource analysis for the Project and updates the analysis on a quarterly basis as new data from the Project area are compiled. GEC-DNV provides a third-party review of the data to confirm the analysis provided by RES Development. The wind resource analysis for Phases I and II is attached to this memorandum as Exhibit 4.

Risk Analysis

The proposed Project related to the Lower Snake River Wind Project is subject to certain risks that, generally speaking, vary in nature and/or extent based on the phase of the Project. Risks associated with the Project can be categorized according to the Development, Construction, and Operation phases. PSE has identified these risks and developed plans to eliminate or mitigate them to the maximum extent that is commercially reasonable and practicable. A detailed analysis of risk associated with each project phase and mitigation plans to manage that risk is attached to this memorandum as Exhibit 5.

Capital Budget

The estimated capital budget requirements for the Project are shown in the following table.

All $ in Millions

Year	In Service Date	(MW)	TOTAL 2008-2014	2008	2009	2010	2011	2012	2013	2014	TOTAL 2015-2022	TOTAL 2008-2022
Lower Snake River Phase 1	12/1/2011	250	[redacted]									
Lower Snake River Phase 2	12/1/2012	250										
Lower Snake River Phase 3	12/1/2015	250										
Lower Snake River Phase 4	12/1/2019	250										
Lower Snake River Phase 5	12/1/2021	250										
Subtotal												
BPA Interconnection												
EXPENDITURE TOTAL												
Previous Estimate (3/09)												
Increase / Decrease												
Previous Estimate (6-30-09)												
Increase / Decrease												

Assumptions:
> Does not include AFUDC or financing cost
> Assumes 100% of expenditures paid by PSE, not reduced for potential contribution of tax equity investors
> Assumes project cost approximately $[redacted] per kW escalated at [redacted] per year for future phases
> $[redacted] excludes AFUDC and BPA prepaid transmission expense

**BPA Interconnection cost is a Regulatory Cost; Assumed 80% refund as transmission credits.*

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VERSION

A preliminary project pro forma based on indicative pricing and BOP estimates that are subject to change is included as Exhibit 6. Pro forma development will continue as more information becomes available in order to support the project authorization decision. A stand alone financial pro forma will be provided to support the decision to proceed with Phase I of the Project.

Tax and Other Incentives

There are presently two key tax incentives that are available for renewable energy facilities such as the Project and their impact on the economics of wind projects is substantial. The first is the PTC, which is a tax credit of 2.1 cents per kWh, which has been the primary federal incentive for wind energy since 1992. PTCs are now available for wind projects that are placed into service prior to December 31, 2012. PTCs are credited based on actual production and may only be used to offset an owner's income tax liability. PSE presently generates sufficient PTCs from its existing wind projects to offset PSE's tax liability (and, indeed, has been carrying forward some unused PTCs). Because wind developers are also generally not able to fully utilize PTCs from their projects, they often engage in tax-equity financings with partners who have the tax appetite for the PTCs. While PSE has from time-to-time considered tax-equity financings for its wind projects, there are difficulties in structuring such transactions with assets that may otherwise be in a utility's ratebase.

A new incentive under the American Recovery and Investment Act of 2009, commonly referred to as the Stimulus Bill, enables owners of wind energy projects to elect a 30% Investment Tax Credit ("ITC") in lieu of the PTC and further elect a grant ("Grant") from

the US Department of the Treasury ("Treasury") in lieu of the ITC. To qualify for the Grant, "construction" of the project must begin before December 31, 2010 and the project must be placed in service no later than December 31, 2012. The Treasury Grant has certain advantages over either the ITCs or the PTCs; namely, to be able to efficiently profit from the two forms of tax credits the utility owner must have a tax liability against which those credits may be applied. The Treasury Grant is beneficial to taxpayers that don't have a tax appetite.

A possible disadvantage of the Treasury Grant for utilities versus the PTC is a requirement that the Grant be "normalized" to utility customers by spreading out the time period over which those benefits are passed through to customers. Recent Treasury guidance noted that normalization is required but did not provide specific instructions on normalization, including the time period over which such benefits must be normalized. PSE has not determined yet whether the 30% Treasury Grant, which resembles to some extent the 30% ITC, must be normalized in much the same or an identical manner as the ITC or whether, perhaps, regulated utilities may be free to apply another methodology for passing through the benefits of the Treasury Grant to its customers – for example, over a shorter period, similar to the manner in which it passes PTCs through to its customers.

The following table shows the potential benefit to PSE customers of the Treasury Grant and PTC under different normalization treatments:

A 250 MW Wind Project with a total cost of $625,000,000	
85%	Assumed percentage of qualifying property
30%	Grant percentage of qualifying property
$159,375,000	Grant $ = 25.5% of total investment cost (Each $1 of cash grant is equivalent to $1.54 reduction in customer rates)
$229,787,329	Potential Net Rate Reduction

Benefit to utility customers under various assumptions[1]	
Grant Normalized over 25 years	$95,015,924 (54% of PTC)
Grant Normalized over 10 years	$160,171,094 (92% of PTC)
PTC (assuming immediate use)[2]	$174,249,811

Notes:
(1) All benefits reflect reduction in accelerated depreciation benefit due to basis reduction
(2) Assumes all PTC can be used when generated, ignores limitations caused by taxable income that could result in carrying costs or additional financing costs to bring in financing partners who do have taxable income to shelter

Consideration of Alternative Wind Energy Projects

In accordance with its development strategy, PSE has regularly sought out opportunities for the acquisition of wind energy development assets. PSE solicits proposals under a formal RFP process and has also evaluated other proposals that it receives from time to time. The following sections discuss the results of PSE's most recent efforts.

2008 RFP

The 2008 RFP solicitation occurred on February 29, 2008. Twelve parties submitted wind energy proposals (including the RES JDA proposal which was not formally submitted through the RFP process) and seven proposals made the candidate "short list." Of the five parties excluded from this list, four evaluated poorly from an economic perspective, and the last proposal was withdrawn by the developer.

After initial screening, PSE continued to evaluate, negotiate, and pursue the proposals on the short list. During this stage of evaluation, two additional proposals were withdrawn from the RFP process. A third proposal was withdrawn and supplanted with an ownership interest in an alternate project with unfavorable terms that PSE was not able to work through with the counterparty.

Of the four proposals remaining, three were early stage development opportunities. PSE concluded one of the projects would be impaired by risks arising due to strong community opposition to the project and that project was subsequently terminated by its developer after PSE removed it from the short list.

The two remaining development opportunities were the Wild Horse Expansion and the JDA proposed by RES, both of which PSE chose to pursue. At the time of the RFP, the Wild Horse Expansion had a levelized cost estimated to be around $[redacted]/MWh. Under the terms of the JDA, RES contemplated selling the output from its half of the development to PSE under a 20-year PPA. The 20-year PPA price based on RES's financial modeling during the summer of 2008 was roughly $[redacted]/MWh. However, RES capital estimates at the time were approximately $[redacted]/kW and PSE currently estimates Phase I capital costs to be $[redacted]/kW when all pricing, including carrying costs, are factored in. Further the cost of a RES PPA would be expected to rise substantially as a result of the increased financing costs that RES would have to bear in the current financial market.

A 200 MW PPA proposal from a well known wind developer was the last project under consideration on the 2008 RFP short list. This project proposal is still under negotiation and currently, the levelized cost of the PPA offer is approximately $[redacted]MWh.

Post 2008 Proposals

Subsequent to the 2008 RFP process, PSE has evaluated additional wind project opportunities.

In the third quarter of 2008, PSE received a term sheet from [redacted] proposing a similar joint development opportunity as that contemplated under the PSE/RES structure. However, a key difference between the two proposals was [redacted] requirement obligating PSE to purchase power from [redacted] project. PSE indicated guaranteeing a PPA at a set rate of return would be deemed imprudent. [redacted] was unable or unwilling to accept terms without this requirement and negotiations ended.

PSE made formal offers ($[redacted]kW plus the assumption of accompanying turbine obligations) on three development opportunities in the first half of 2009. Two of the three proposing parties terminated discussions after the PSE offer without as much as a counter offer. A third party made a counter proposal at $[redacted]kW. PSE has endeavored to continue conversations with this party, but has failed to receive responses to information requests in order to continue negotiations.

Recently, PSE was approached by a [redacted] looking to sell [redacted] MWs worth of excess wind capacity. The project is currently under construction and is anticipated to

reach commercial operation in 2009. The levelized cost of the proposal is around $[redacted]/MWh.

Alternative Wind Project Summary

Since the close of the RFP process in early 2008, PSE has been evaluating and attempting to secure additional wind resources. When the renewable market was strong, PSE found ownership opportunities difficult to come by and PPA proposals evaluated poorly. While the recent economic and financial climate has led to greater availability of additional wind development assets, dropping power prices, and a host of other financial issues for developers, developers have opted to hold on to projects rather than sell out under the terms offered by PSE. The estimated levelized cost of the Project ($[redacted]/MWh) compares favorably with available alternative PPAs and development opportunities.

Evaluation of LSR Project Alternatives

PSE considered the potential concerns and benefits associated with three alternative potential outcomes of the sale of the RES Development interest in the Project:

1. 100% PSE ownership;
2. RES sells its interest to a third party; and
3. RES remains as a JDA co-owner.

There are pros and cons associated with each alternative. As compared to the existing framework, in which PSE has a development partner, the 100% PSE ownership alternative provides the Company with complete control of the Project and its development schedule, and increases the likelihood that the Company can realize the

benefits of the tax incentives that expire in 2012, due to its ability, if it chooses, to accelerate the construction of phases of the Project without having to wait for its partner to secure financing, which may be very difficult for awhile based on market conditions. This alternative also allows for the potential sale of development rights at a later date unencumbered by RES's interest, if the Company decides to reduce its position.

The 100% PSE ownership alternative does require an increase in capital expenditures over the current plan, as described below. The primary drivers increasing 2009 capital expenditures over previously budgeted amounts are the BPA payment schedule and the purchase price for the RES LSR Interest. This alternative also results in more wind generation than required by the State RPS from 2012 through 2019. The proposed development schedule would meet the RPS in 2020 (see chart that follows).

[redacted]

The second alternative, in the event that PSE does not purchase the remaining interests in the Project, would be the sale by RES of the RES LSR Interest to a third party. The potential benefit of this alternative is that it maintains the currently planned wind capacity and budget for the Company. A new co-owner, however, will create uncertainty in the execution of the strategy currently being undertaken. Further, it is likely that any new co-owner would require time to develop an understanding of the Project, which could have the potential effect of resulting in a slow down in the development schedule – or the new co-owner may fail to execute the development plan as currently defined.

If RES is unable to sell its interest, the third alternative is that RES would remain as a co-owner under the JDA. Given the required BPA payments (over $121,000,000 before December 2012), it is likely RES would not be able to proceed with the development schedule as planned. [redacted]

[redacted]

One hundred percent ownership of the Project provides substantial benefits and manageable concerns and is management's preferred alternative. PSE would control the development and construction schedule, which would best position the Company to take advantage of available tax and other incentives, and would allow PSE to maximize the Project's resource potential for its customers.

Benefits of Transaction

The proposed transaction positions the Company well, as follows:

- Provides an option for future ownership of attractive renewable resources.
- Creates an alternative to PPAs with limited credit backstops and undesirable commercial terms.
- Build-out of wind projects potentially enables PSE to sell renewable energy credits ("RECs") under favorable market conditions.
- Acts as a hedge against upward price pressure on wind project development fees.

- Reduces timing risk by having full control of the Project, providing greater certainty of completing two phases in time to obtain the Treasury Grant.
- Allows development rights to be "carved off" and sold potentially at higher prices, unencumbered by RES Development's interest.

For ease of reference, compiled questions regarding the proposed transaction and the associated responses are included as Exhibit 7.

Recommendation

Based on the described benefits of the proposed purchase, management recommends that the Board of Directors approve the purchase of the RES LSR Interest for $[redacted] plus reimbursement of certain BPA payments totaling approximately $[redacted] and increase in the total 2009 capital budget for the Project up to $[redacted] This purchase would provide the Company with an option for the future ownership of up to approximately 1,250 MW of wind resources. This purchase would not commit the Company to build out this Project or any phase thereof. Such authorizations will be sought under future separate recommendations and will be supported by appropriate business case and prudence documentation.

Exhibits

1. Letter Agreement dated May 15, 2009 containing the terms of PSE's Option to Purchase RES Development's 50% Interest in the Lower Snake River Project
2. Summary of Key Terms of Principal Project Agreements
3. List of RES Development and RES Construction projects in North America
4. Wind Resource Analysis
5. Risk Analysis
6. LSR Phase I Preliminary Stand-Alone Financial Pro Forma
7. Questions and Answers
8. Glossary of Abbreviations

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Exhibit 1

Letter Agreement dated May 15, 2009 containing the terms of the Option to Purchase the RES 50% Interest

PUGET SOUND ENERGY
The Energy To Do Great Things

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

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May 15, 2009

[redacted]

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[redacted]

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[redacted]

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[redacted]

[redacted]

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RES America Developments Inc

11101 W. 120th Avenue
Suite 400
Broomfield, CO 80021

Tel: (303) 439-4200
Fax: (303) 439-4299
E-mail: info@res-americas.com
Web: www.res-americas.com

June 30, 2009

Mr. Roger Garratt
Director, Resource Acquisition & Emerging Technology
Puget Sound Energy, Inc.
P.O. Box 97034
Bellvue, WA 98009-9734

[redacted]

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Acknowledged and Agreed:

Puget Sound Energy, Inc.

By: Paul Wetherbee

Name: Paul Wetherbee
Title: Manager Resource Development
Date: June 30, 2009

Exhibit 2
Summary of Principal Project Agreements

Acquisition of the Remaining 50% Ownership Interest in the Lower Snake River Wind Power Project (the "Project")

- **Development Rights Purchase.** Pursuant to an **Asset Acquisition Agreement ("AAA")**, PSE will acquire sole ownership of all ownership interests of RES America Developments Inc. and Blue Sky Wind, LLC (the "RES Development Parties") in the Project as of the closing date (the "RES LSR Interest"). PSE's purchase price for the RES LSR Interest consists of a fixed amount and the reimbursement of certain interconnection and transmission-related expenses incurred by the RES Development Parties prior to closing, subject to reduction by holdback amounts relating to specific development milestones not achieved prior to closing. Specifically, the purchase price is:

- **Security and Parent Guarantee.**

- Simultaneous with execution of the AAA, PSE will enter into a **Construction Rights Agreement** with RES America Construction Inc. ("RES Construction"),

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[redacted] Turbines and towers would be purchased from a turbine supplier pursuant to a turbine supply agreement, yet to be negotiated. The BOP Contractor may, in turn, contract with various subcontractors for the engineering and construction of all civil engineering and electrical engineering facets of the Project (such as the roads, WTG foundations and the electrical collection system).

- Set forth below is a synopsis of the principal terms of the major documents with respect to the proposed transaction, based on the status of the parties' negotiations to date.

Asset Acquisition Agreement

- The AAA sets out the structure by which the proposed transaction will take place and the terms and conditions with respect to its consummation.

- Transaction Structure. The AAA contemplates that, at the closing, the RES Development Parties will sell, and PSE will purchase, all of the RES Development Parties' remaining ownership interests in the Project, such that PSE will become sole owner of all Project ownership interests.

- Purchase Price. Pursuant to the terms of the AAA, PSE will pay a purchase price of $[redacted] and will reimburse the RES Development Parties for approximately $12 million in payments they have made to BPA in connection with their share of Project-related interconnection and transmission costs. [redacted]

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- All Assets Transferred; Specified Liabilities Assumed. As an asset purchase, PSE will acquire all assets of the RES Development Parties relating to the Project, and will assume certain specified liabilities under particular contracts acquired in the transaction and arising and to be performed on or after the closing. Any liabilities of the RES Development Parties not specified in the AAA will not become the liabilities of PSE.

- Representations and Warranties. The AAA contains representations and warranties typical for transactions of this kind. [redacted]

  Among other things, PSE represents and warrants to the RES Development Parties with respect to:

  - Organization of PSE and enforceability of the AAA;
  - That the AAA does not violate or breach any agreement by which PSE is bound; and
  - The consents required by PSE to consummate the transaction.

- Covenants. The parties have agreed to various covenants in the AAA. Among others, the parties have agreed to:

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- Use commercially reasonable efforts to obtain all regulatory approvals and third-party consents necessary to consummate the transaction, and cooperate and coordinate with each other with regard to any communications with state and local community organizations or the public generally about the Project.

In addition to the foregoing, the RES Development Parties have covenanted, as follows, to:

- [redacted]
- [redacted]
- [redacted]
- [redacted]

- Conditions to Closing.

The AAA contains several conditions to closing in favor of PSE and/or the RES Development Parties. Conditions to closing in favor of all parties include that:

- No orders or laws shall be in effect restraining or prohibiting the transaction; and
- All Required Regulatory Approvals shall have been obtained

In addition to the foregoing, the AAA contains conditions to closing that run in favor of PSE, including that:

- [redacted]
- [redacted]

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- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

- Indemnification. [redacted]

- Termination. [redacted]

Construction Rights Agreement

- [redacted]

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[redacted]

[redacted]

[redacted]

[redacted]

Form of Balance of Plant Engineering, Procurement and Construction Agreement

- As a condition to the closing of the JDA, PSE and RES Construction agreed upon the Form BOP Agreement to be utilized for the balance of plant work for any phase of the Project. [redacted]

- **Scope of the Work.** The BOP Contractor will be obligated to perform, in a good and workmanlike manner, as an independent contractor, and in compliance with all applicable laws, all civil infrastructure and electrical infrastructure work and services

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and to procure and supply all equipment for the Project, excepting wind turbine generators. The scope of the work includes the design and construction of all civil and electrical infrastructure facilities, the erection of the WTGs, and the design, scheduling and project coordination of the Project as a whole. The work is to be completed pursuant to a project schedule, starting upon issuance of a Notice to Proceed, with pre-determined milestones. The BOP Contractor will provide PSE with as-built drawings, spare parts lists, operating manuals and job books.

- **Subcontractors.** The BOP Contractor will be obligated to identify all major subcontractors, shall plan, schedule and coordinate the activities of all subcontractors, and shall provide PSE the right to inspect all aspects of the work.

- **Pricing Terms.** [redacted]

- **Notice to Proceed.** A condition precedent to the BOP Contractor's obligations under the Form BOP Agreement will be the issuance by PSE of a full scope of work Notice to Proceed. PSE will not issue the Notice to Proceed until various conditions have been satisfied, including receipt by the BOP Contractor of certain necessary permits (and assurance that other permits will be obtained in the ordinary course).

- **Liquidated Damages.** [redacted]

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[redacted]

- **Parent Guaranty and Security.** [redacted]

- **Completion.** The BOP Contractor will be obligated to perform its duties in accordance with a project schedule, including the completion of an individual foundation for each WTG, erection of each WTG, completion of all electrical works (including all work on infrastructure facilities necessary to energize the WTGs and other facilities and to connect and synchronize the WTGs to BPA's transmission system).

- **Force Majeure.** [redacted]

- **Indemnification.** [redacted]

- **Insurance.** [redacted]

- **Default, Termination and Suspension.** [redacted]

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[redacted]

- **Title and Risk of Loss.** [redacted]

- **Dispute Resolution.** [redacted]

- **Representations and Warranties.** [redacted]

- **Exhibits.** The Form BOP Agreement contemplates all necessary certificates and notices, all requisite technical specifications, project schedules, construction plans, permit and contractor lists, and other materials. Approximately 50 exhibits are likely to be made part of any contract based on the Form BOP Agreement.

Wind Energy Ground Leases

- A fairly standard form of Wind Energy Ground Lease ("Lease") has been entered into with the landowners within the boundaries of Phases I-IV of the Project, with minor deviations for particular landowners. The Leases allow construction, maintenance and operation of a wind-powered electrical generating facility for the conversion of

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wind energy into electrical energy and associated activities. The Leases have [redacted]

Other Agreements

Completion of the Project may require the Company to enter into a number of other agreements, including easements, interconnection agreements and other matters. To the extent any such agreements have been identified and impose costs, such costs are reflected in the pro forma financial statement for the Project.

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Exhibit 3
List of RES Development and RES Construction projects in North America

RES AMERICAS

RES Americas Projects List

No.	Project Name	Location	Rated Capacity (MW)	Wind Turbine Type	COD	Project Owner	RES' Role (*)
1	Cameron Ridge	California	60.0	NEGM 750kW	1999	FPL Energy	Dev/EPC
2	Pacific Crest	California	46.9	Vestas 660kW	1999	FPL Energy	EPC
3	Llano Estacado	New Mexico	0.7	Vestas .66 V-47	2000	Cielo Wind Power	BOP
4	Woodward Mount.	Texas	159.7	Vestas 660kW	2001	FPL Energy	Dev/EPC
5	King Mountain	Texas	278.2	Bonus 1300kW	2001	FPL Energy	Dev/EPC
6	Nine Canyons	Washington	48.1	Bonus 1300kW	2002	Energy Northwest	EPC
7	Nine Cayons II	Washington	15.6	Bonus 1300kW	2003	Energy Northwest	EPC
8	Wigton	Jamaica	20.0	NEGM 900kW	2004	PetroCorp Jamaica	Dev/EPC
9	Sweetwater II	Texas	91.5	GE 1500kW	2004	B&B / Catamount	BOP
10	Hopkins Ridge	Washington	150.0	Vestas 1.8 MW V80	2005	Puget Sound Energy	Dev/EPC
11	Ainsworth	Nebraska	60.0	Vestas 1.65 MW V82	2005	Nebraska Public Power	Dev/EPC
12	Wild Horse	Washington	228.6	Vestas 1.8 MW V80	2006	Puget Sound Energy	BOP
13	Lone Star-Mesquite	Texas	200.0	Gamesa G83/ G87	2006	Horizon Wind Energy	Dev/BOP
14	Sweetwater IV (B)	Texas	105.8	Siemens 2.3 MW	2007	B&B / Catamount	EPC
15	White Creek	Washington	204.7	Siemens 2.3 MW	2007	White Creek Wind I	BOP
16	Marengo	Washington	140.4	Vestas V80 1.8 MW	2007	PacifiCorp	Dev/BOP
17	Whirlwind	Texas	59.8	Siemens 2.3 MW	2007	RES Americas	Dev/EPC/Owner
18	Sweetwater V	Texas	80.5	Siemens 2.3 MW	2008	B&B / Catamount	EPC
19	Lone Star-Post Oak	Texas	200.0	Gamesa G87	2008	Horizon Wind Energy	Dev/BOP
20	Nine Canyon III	Washington	32.0	Siemens 2.3 MW	2008	Energy Northwest	Dev/EPC
21	Hopkins Ridge II	Washington	7.2	Vestas 1.8 MW	2008	Puget Sound Energy	Dev/EPC
22	Marengo II	Washington	70.2	Vestas 1.8 MW	2008	PacifiCorp	Dev/EPC
23	Mountain Wind I	Wyoming	60.9	Suzlon 2.1 MW	2008	Edison Mission	BOP
24	Mountain Wind II	Wyoming	80.0	Suzlon 2.1 MW	2008	Edison Mission	BOP
25	Hackberry Wind	Texas	165.6	Siemens 2.3 MW	2008	RES Americas	Dev/EPC/Owner
26	Buffalo Gap 3	Texas	170.0	Siemens 2.3 MW	2008	AES	BOP
27	South Trent	Texas	101.0	Siemens 2.3 MW	2008	B&B	BOP
28	Central Plains	Kansas	99.0	Vestas 3.0 MW	2008	Westar	Dev/EPC##
29	Gulf Wind Farm	Texas	283.0	Mitsubishi 2.4 MW	2008	B&B	BOP##
30	Bull Creek	Texas	180.0	Mitsubishi 1.0 MW	2008	Eurus	BOP
31	Butler Ridge	Texas	54.0	GE 1.5 XLE	2008	B&B	BOP
32	High Plains	Wyoming	99.0	GE 1.5 SLE	2009	PacifiCorp	BOP##
33	Armenia	Pennsylvania	100.5	GE 1.5 SLE	2009	AES	BOP##
34	Harvest Wind	Washington	98.9	Siemens 2.3 MW	2009	Various PUDs & Munis	BOP##
34	Wind Projects		3,751.8	Total Installed MWs in U.S. and Jamaica			

**Dev = Development: EPC = Engineering, Procurement & Construct: BOP = Balance of Plant; OM = Operation & Maintenance Contractor or manager; Partner = Own portion of Project: Owner = 100% Ownership of Project, ## = Under Construction*

Exhibit 4
Wind Resource Analysis

GEC
a DNV company

DRAFT

Preliminary Wind Resource and Energy Assessment Lower Snake River Wind Power Project – Phases I and II

EARP0074

CONFIDENTIAL

May 4, 2009

Prepared for:

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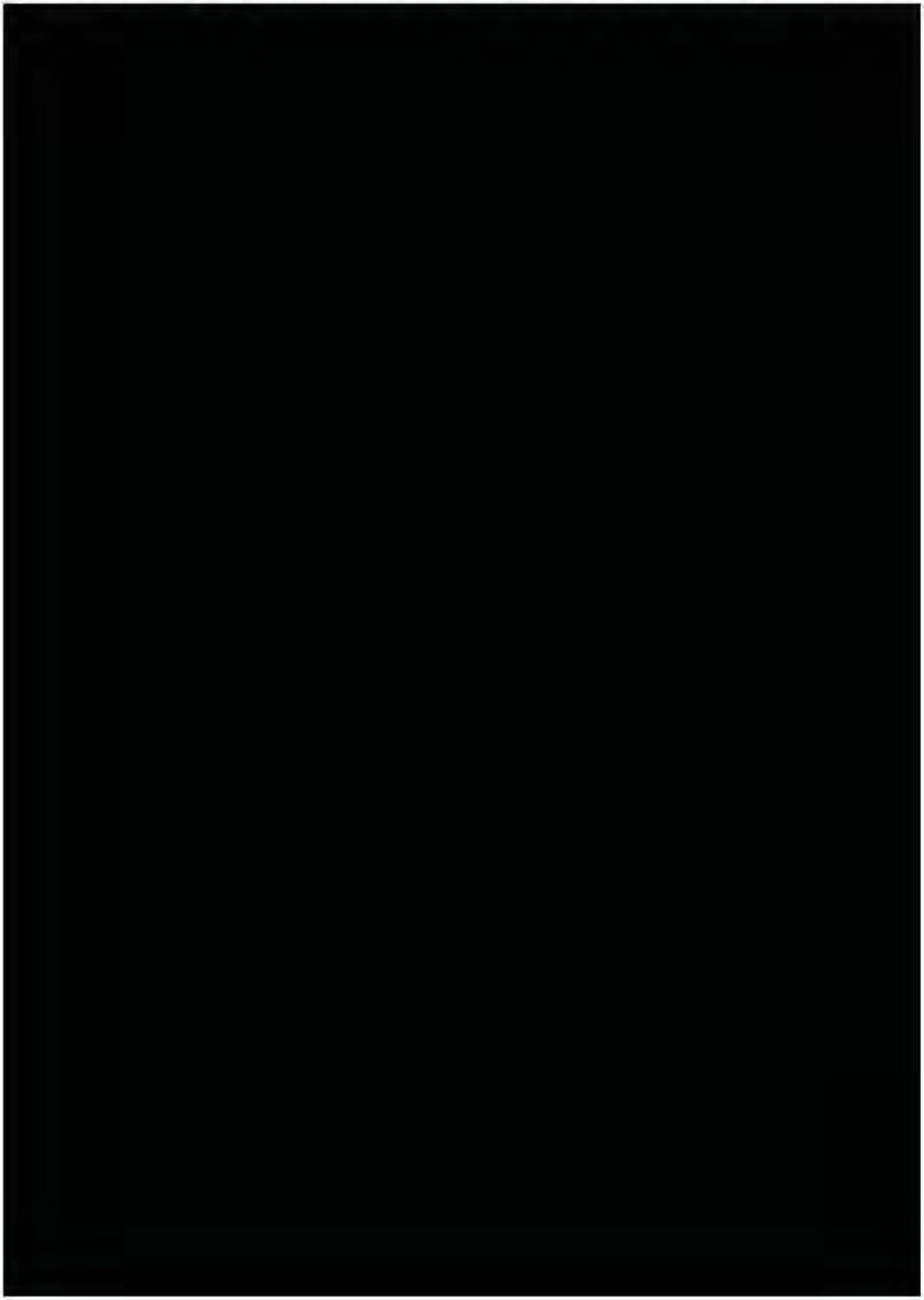
MANAGING RISK DNV



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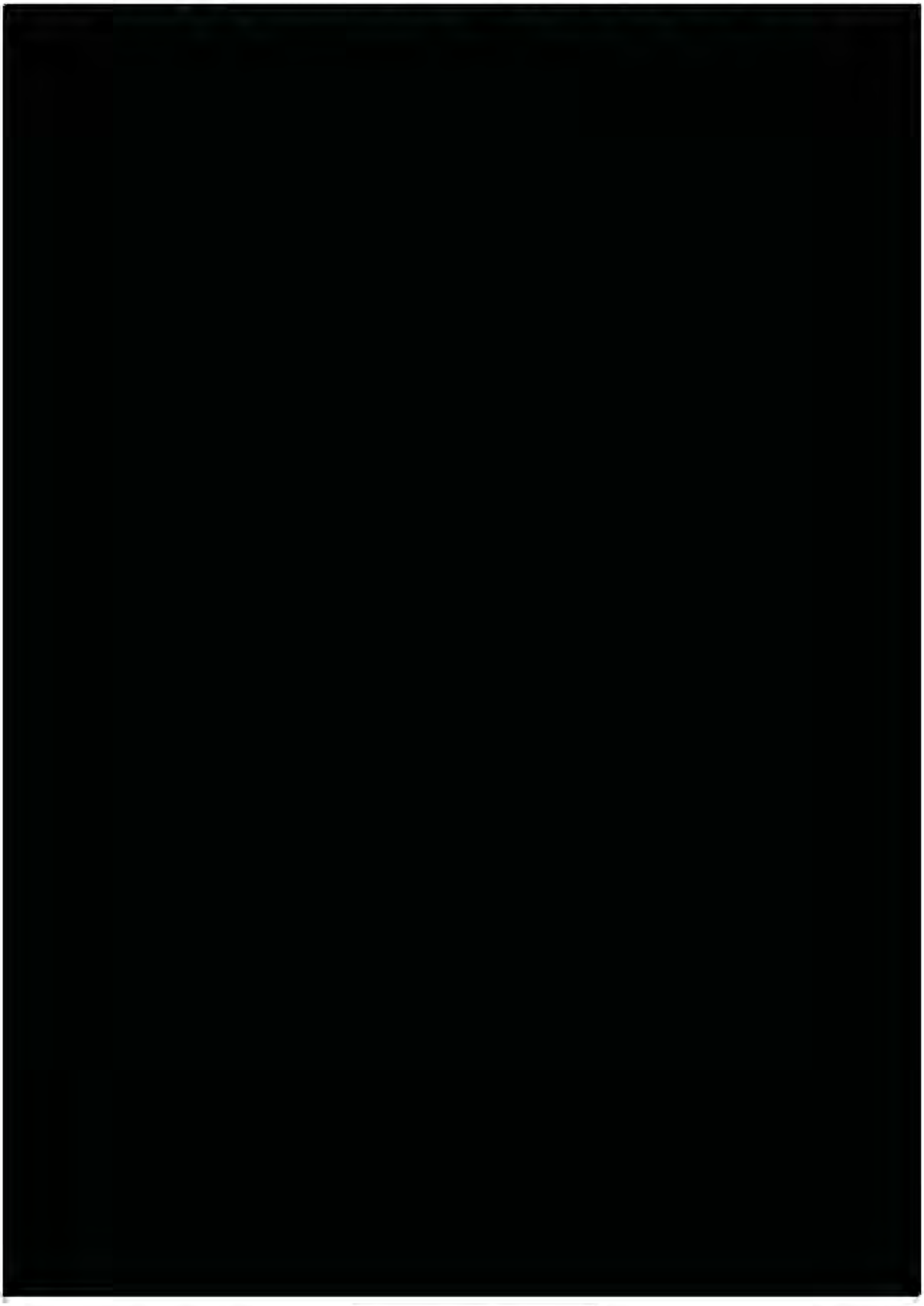

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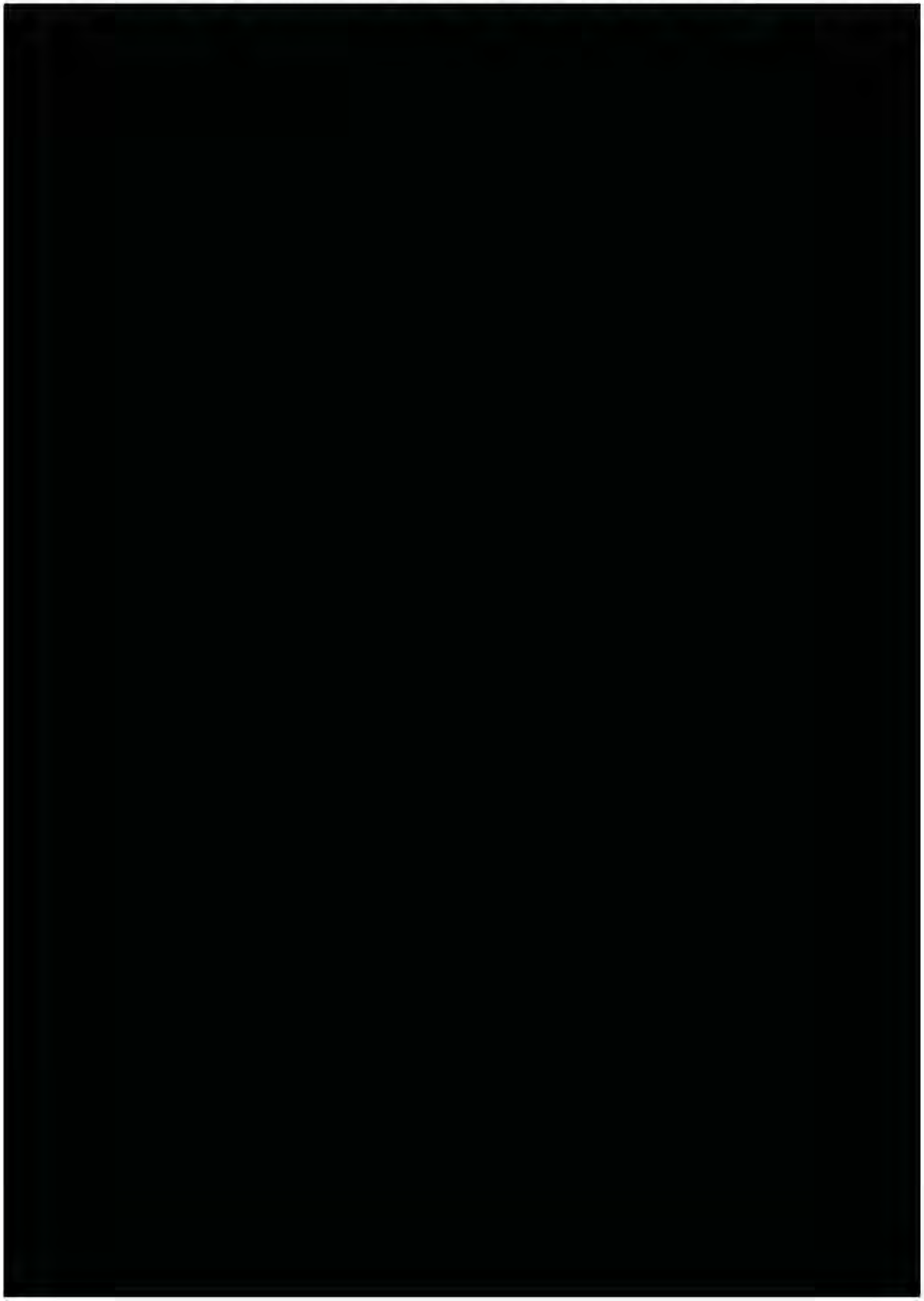

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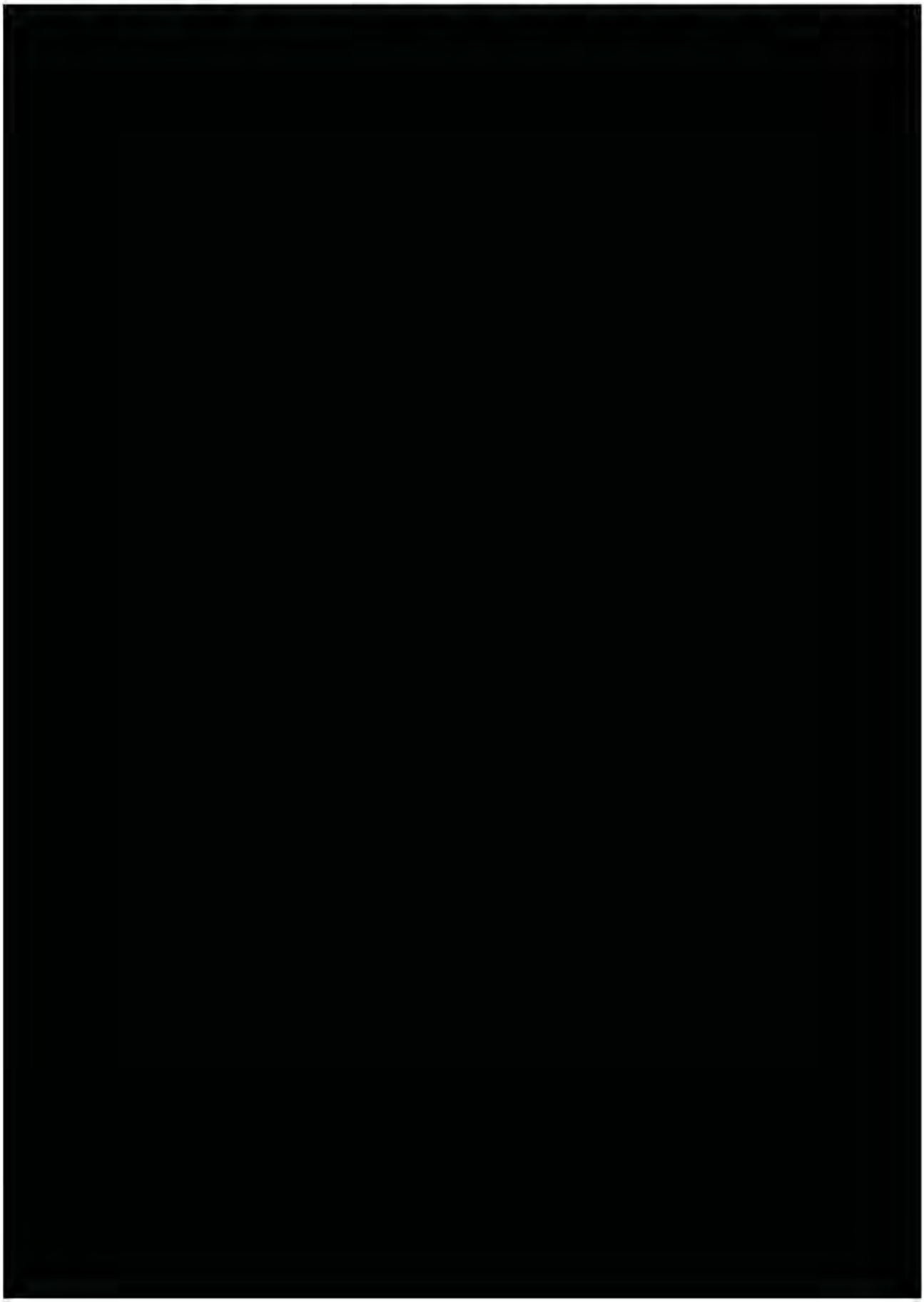

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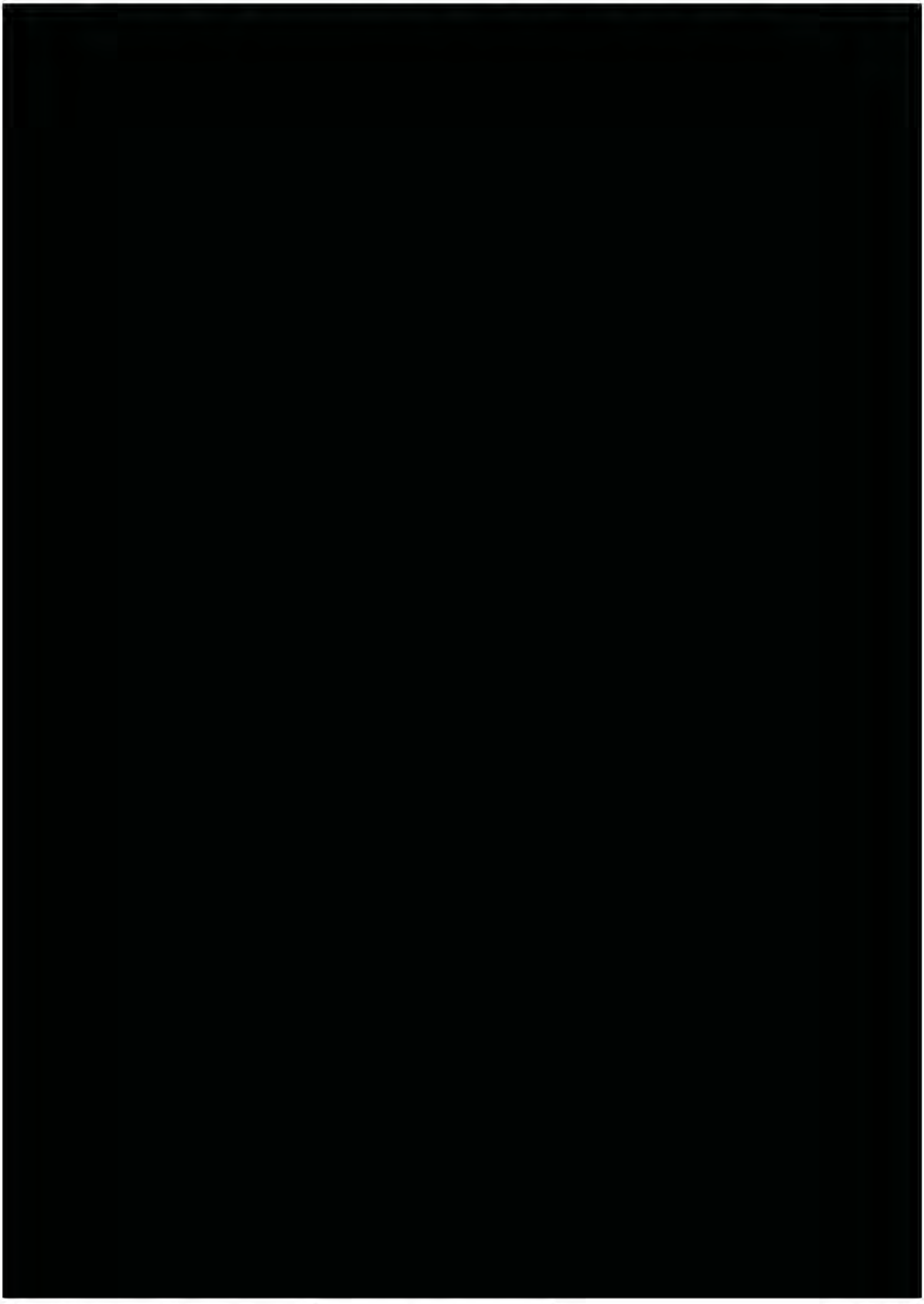

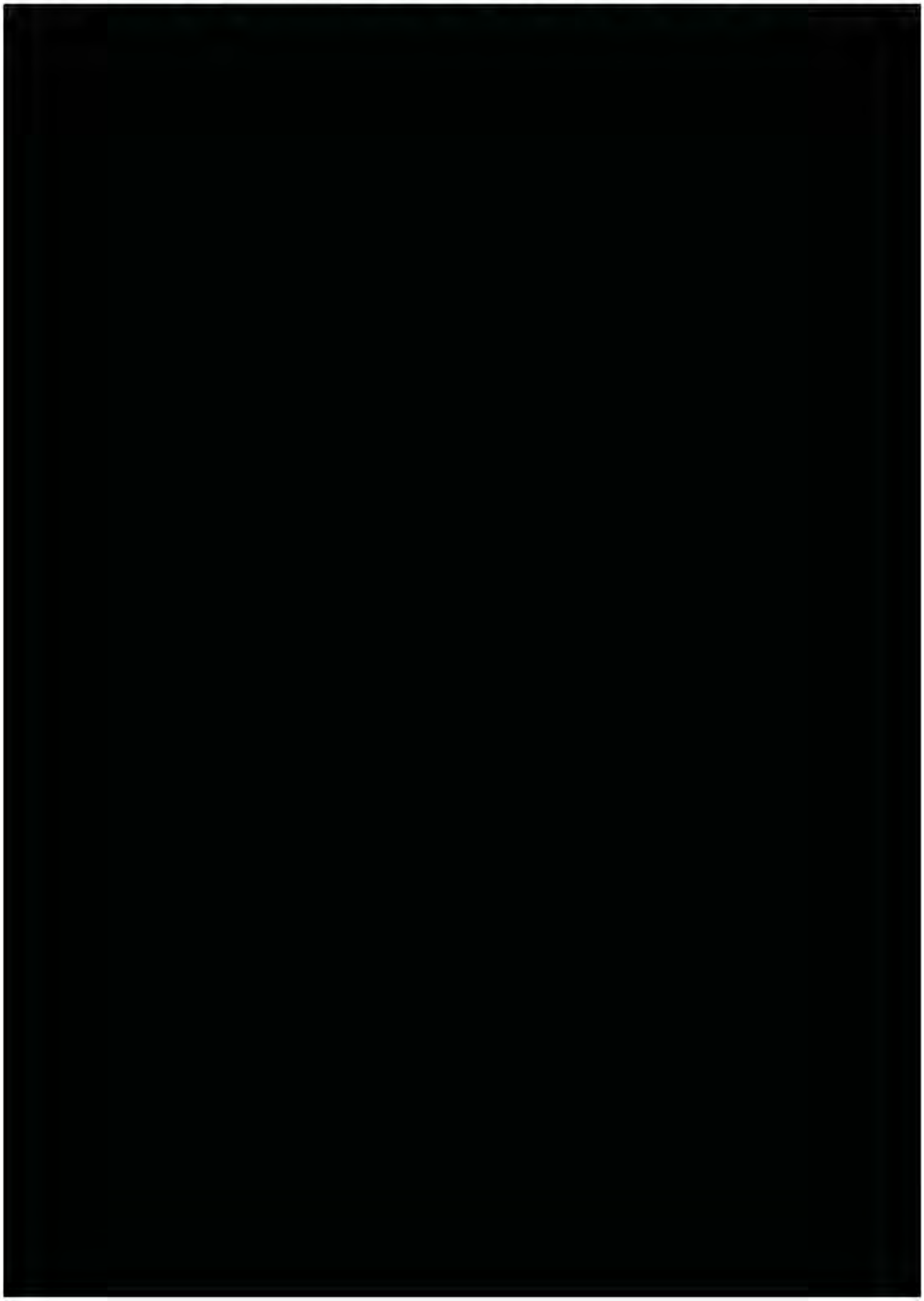

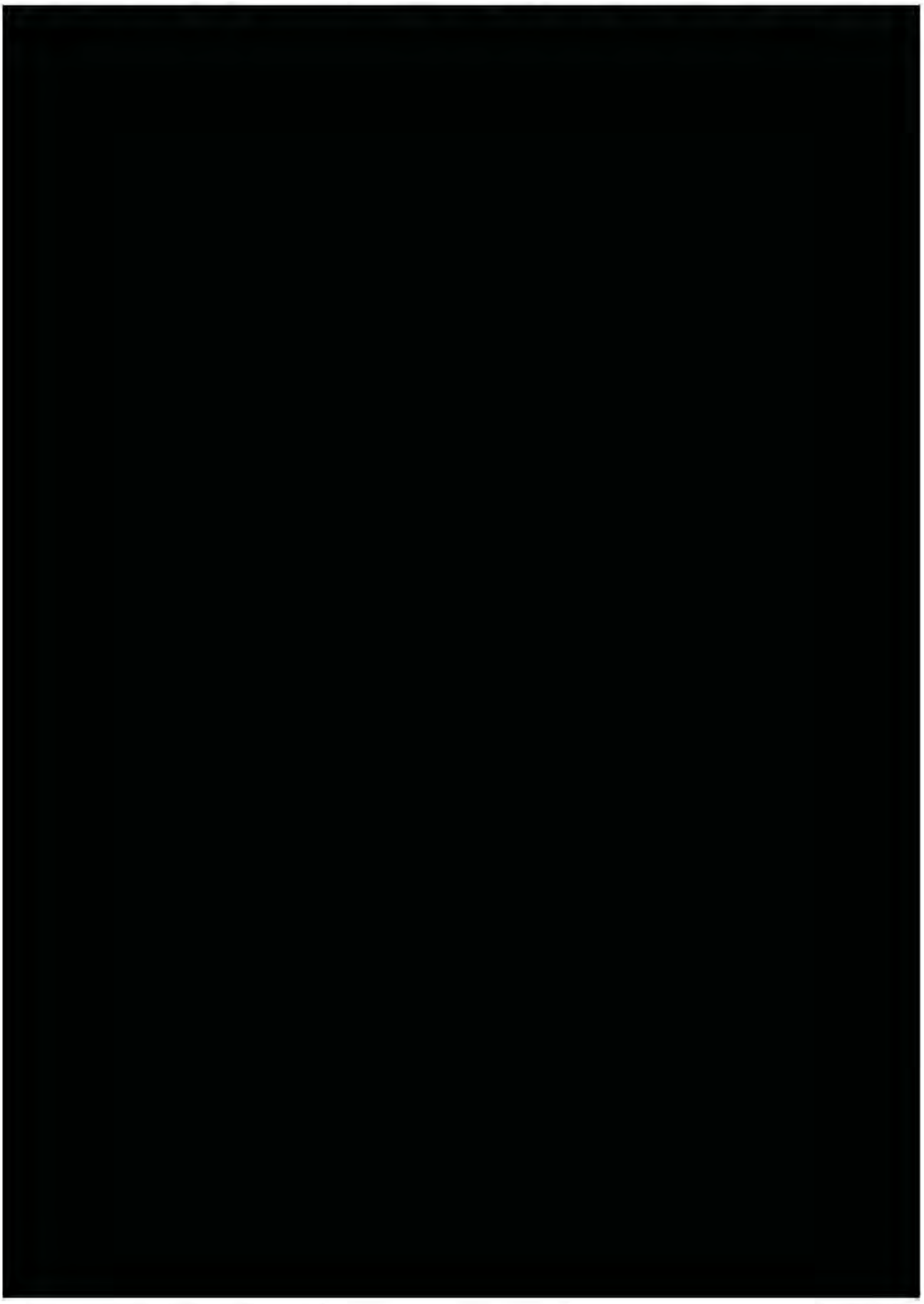

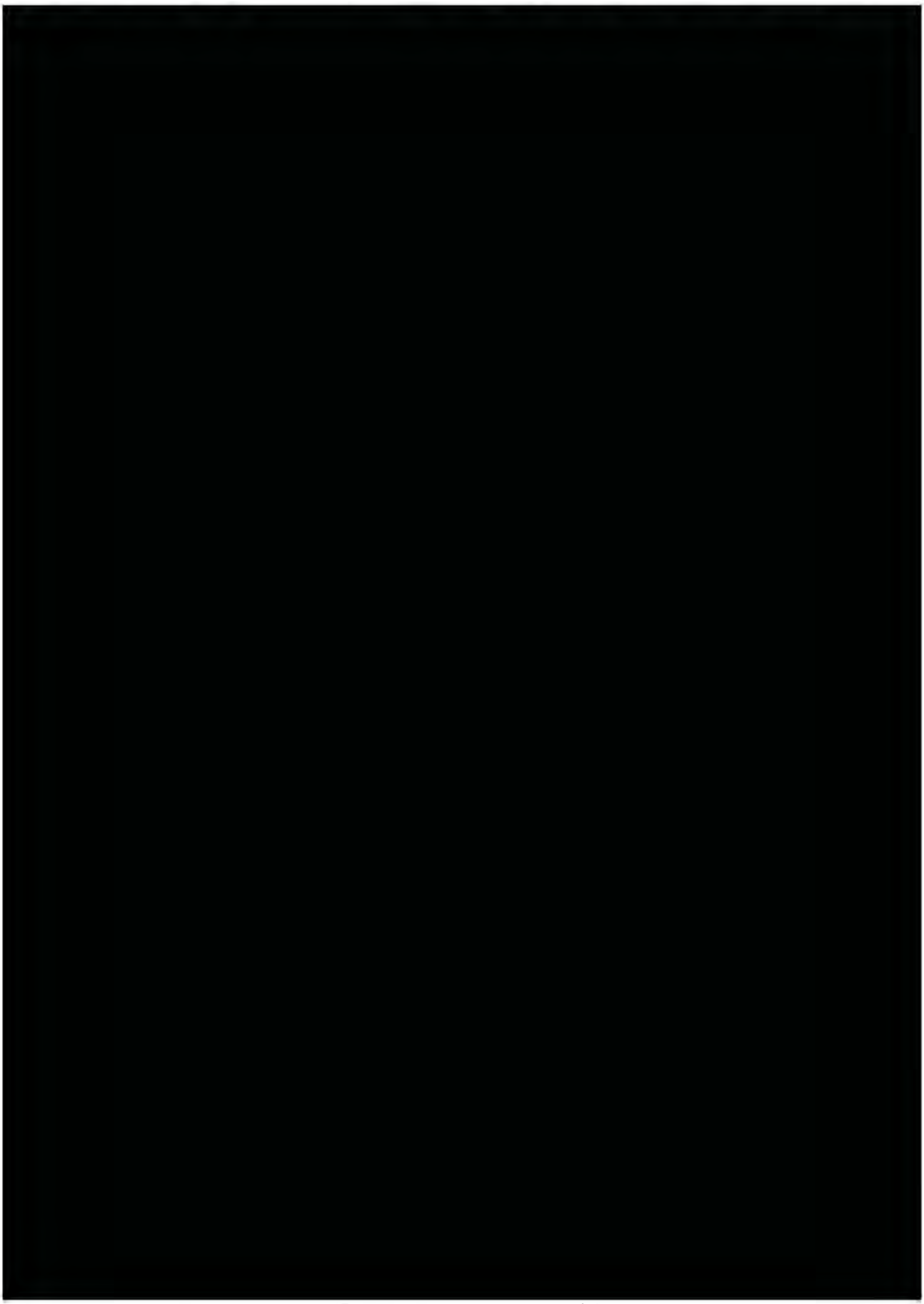

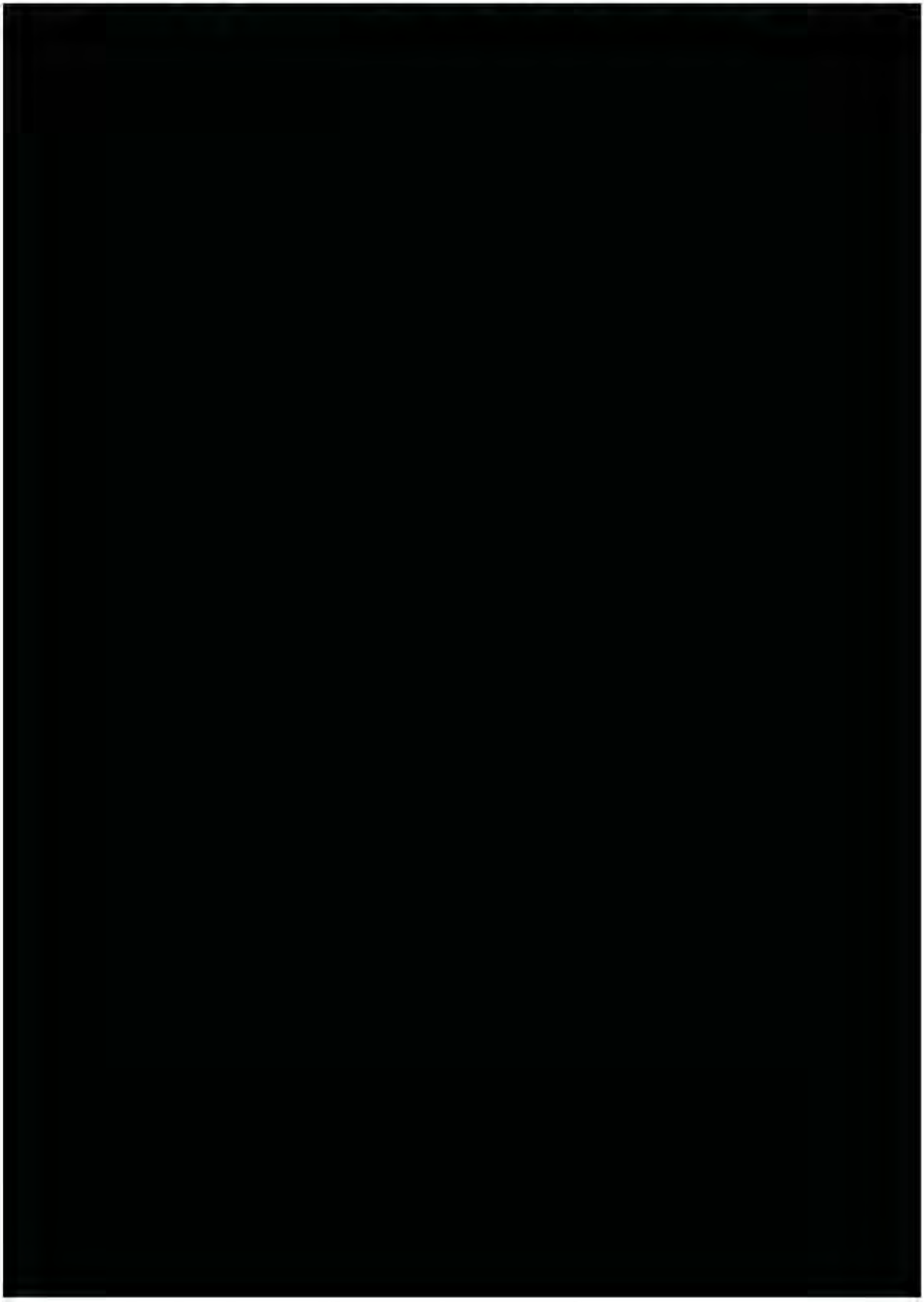

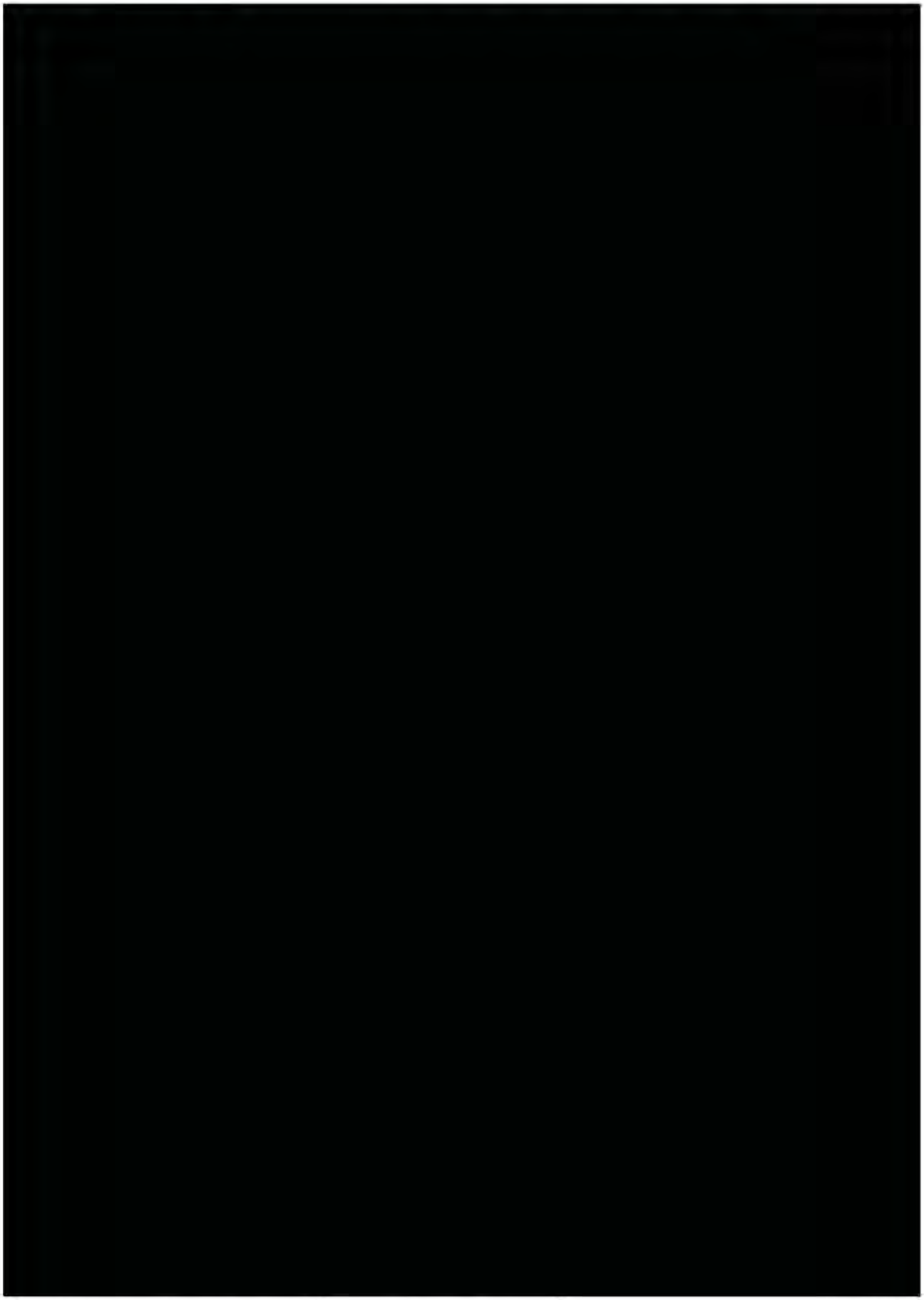

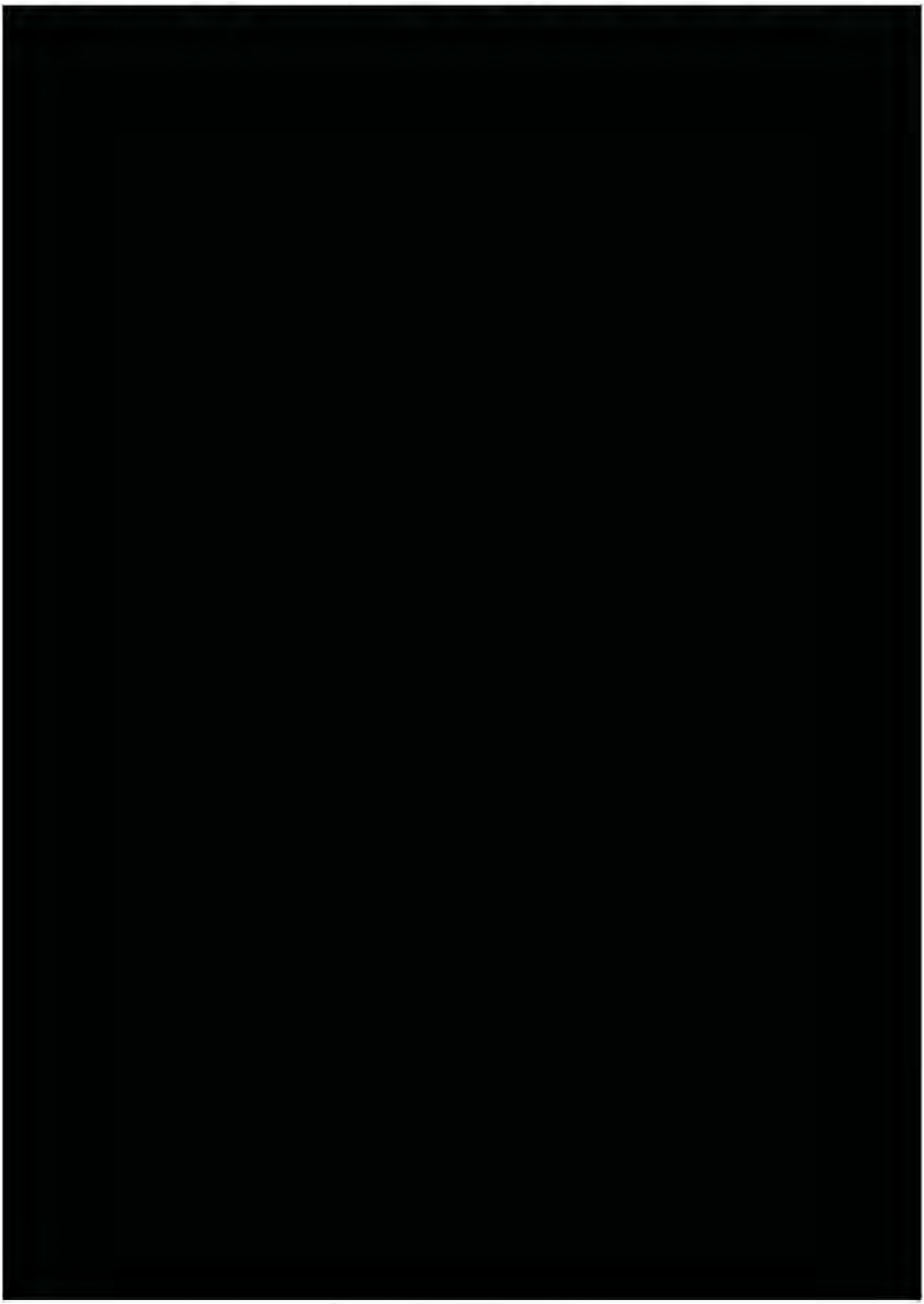

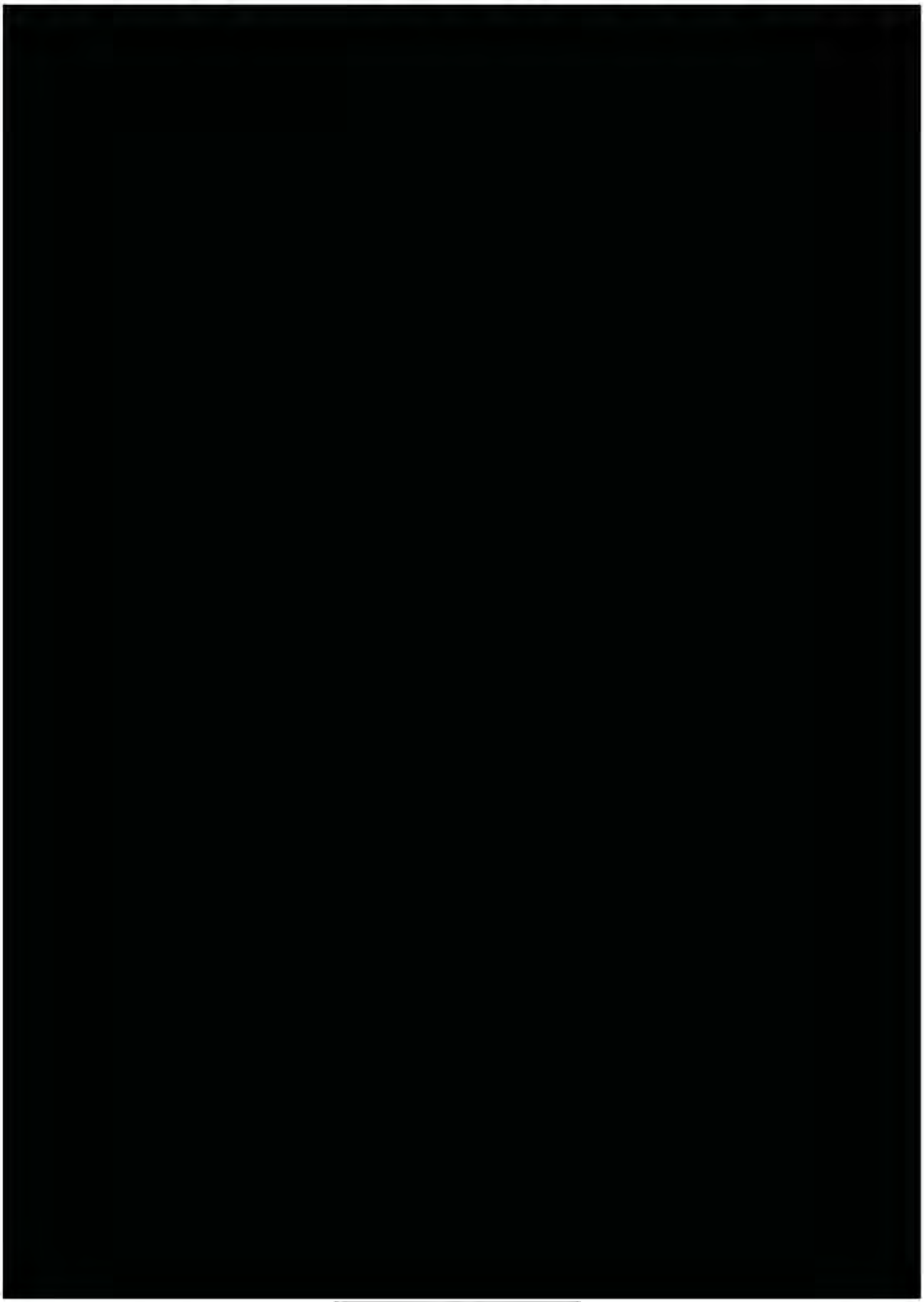

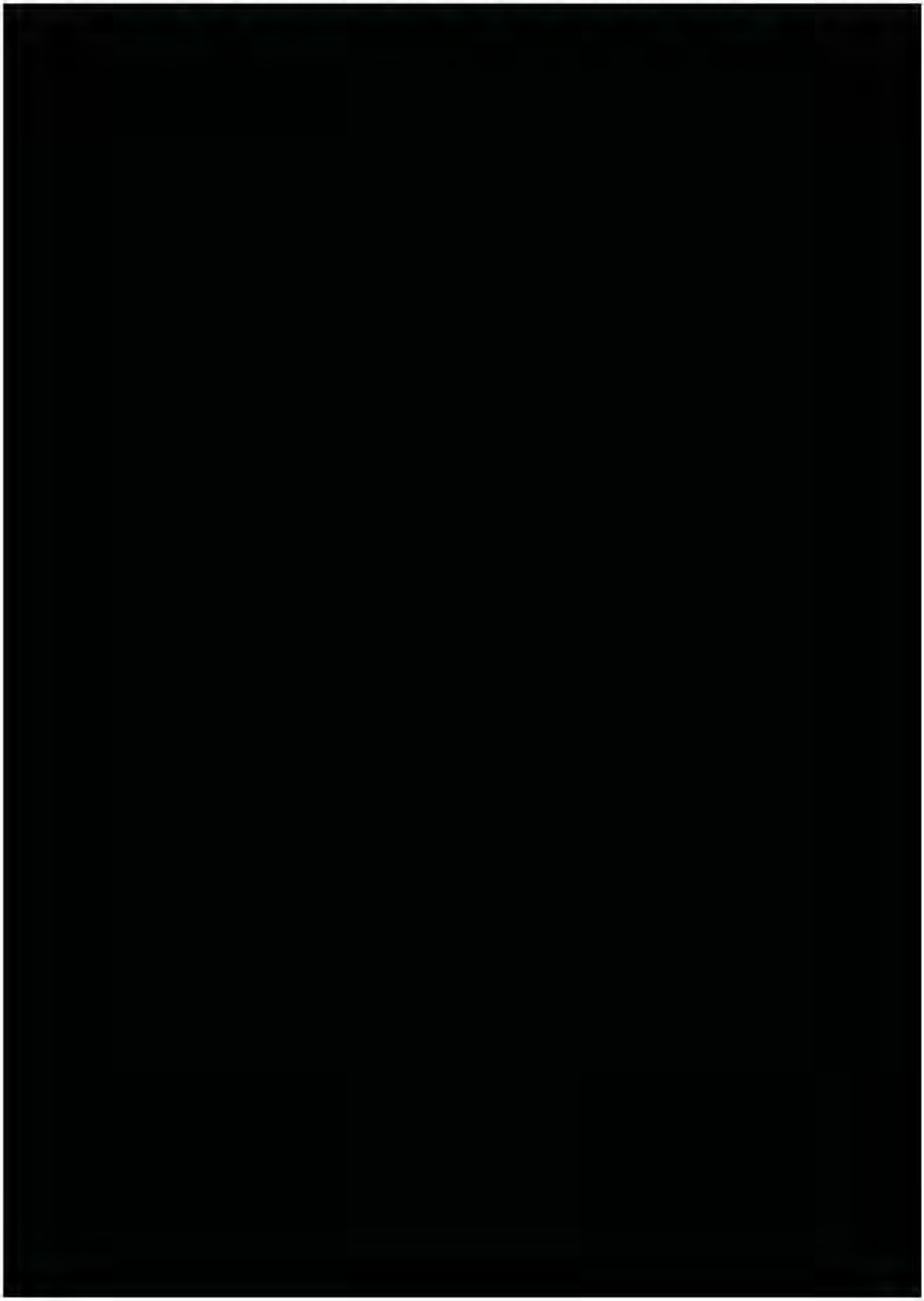

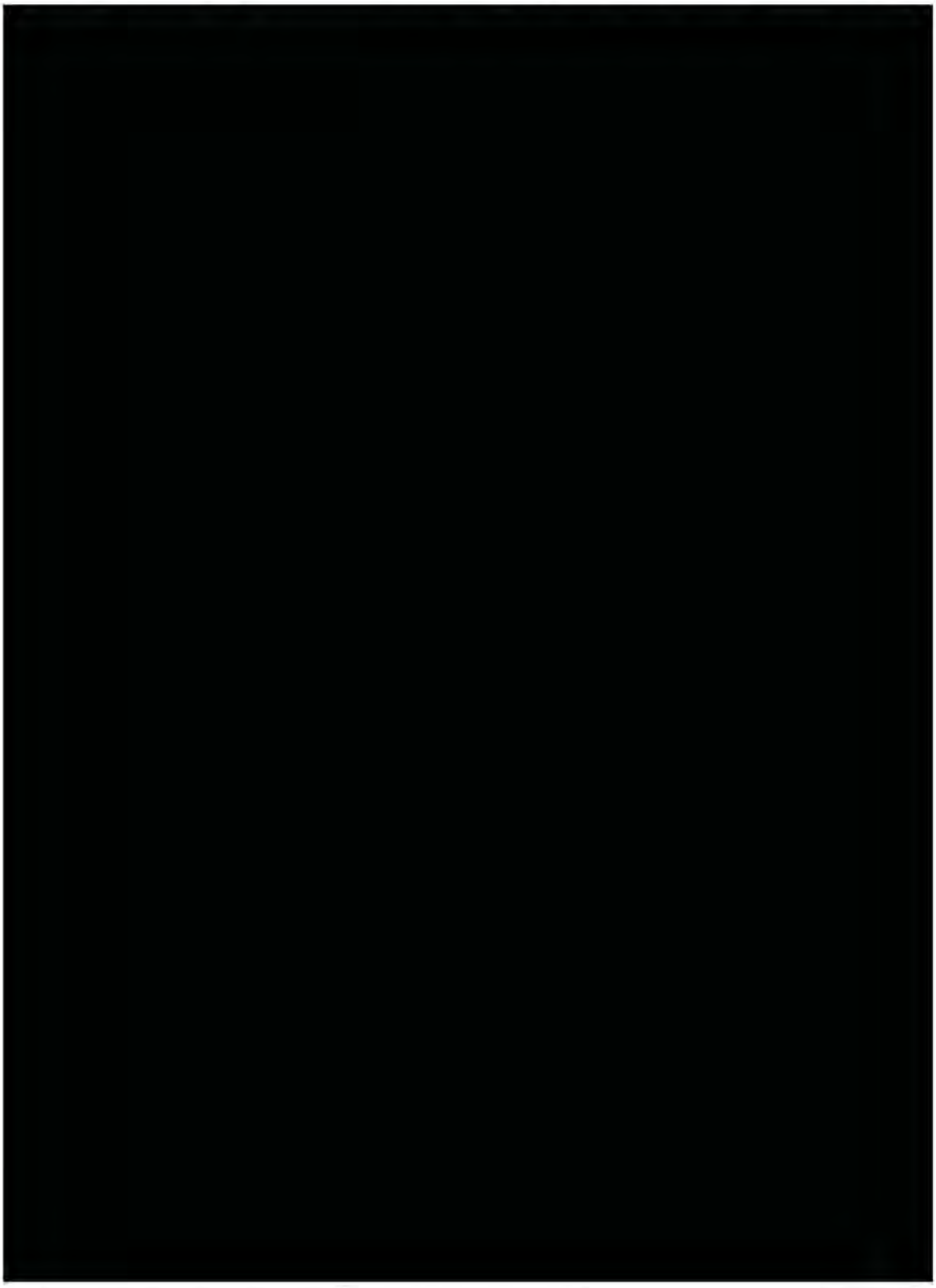

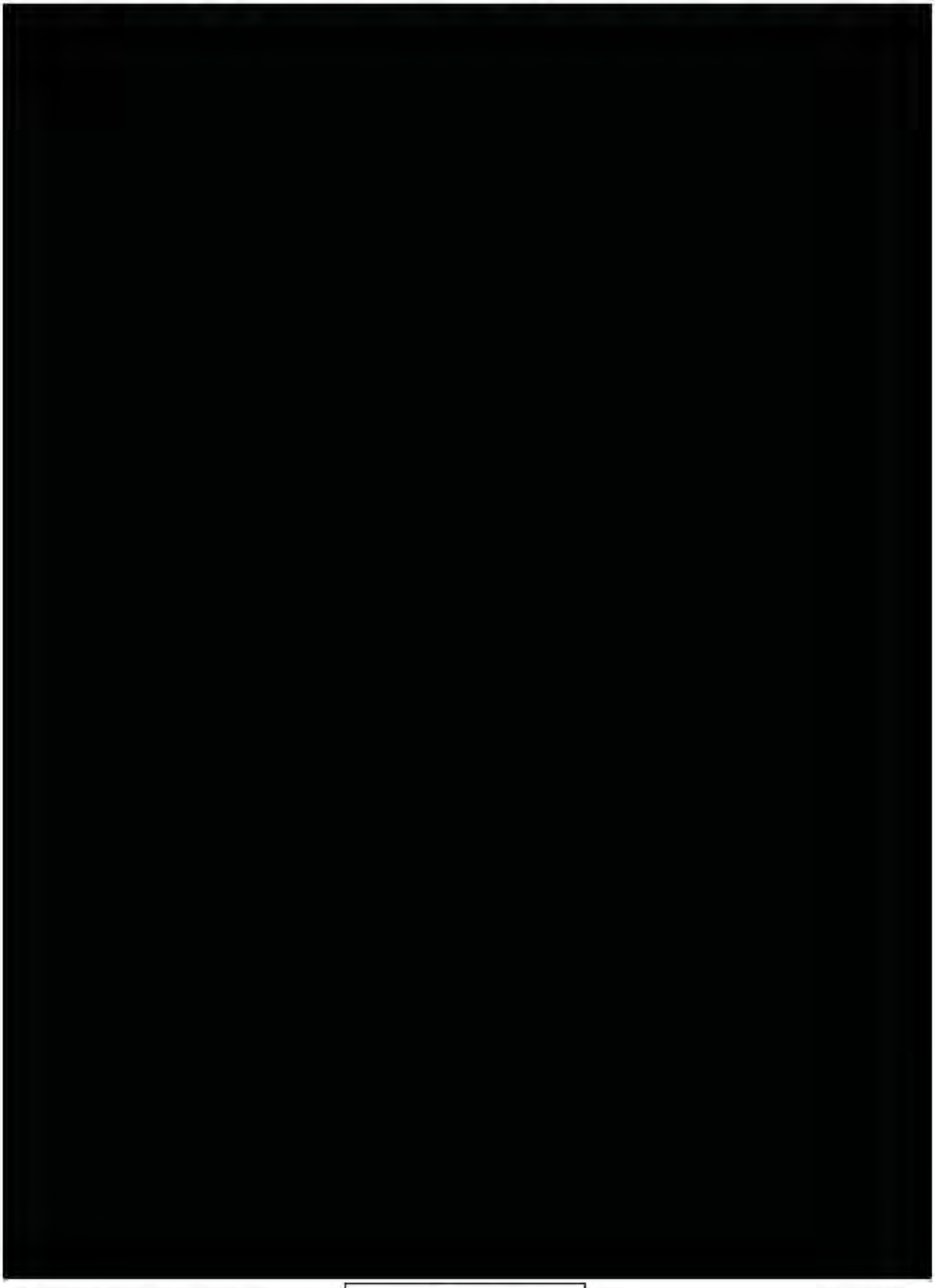

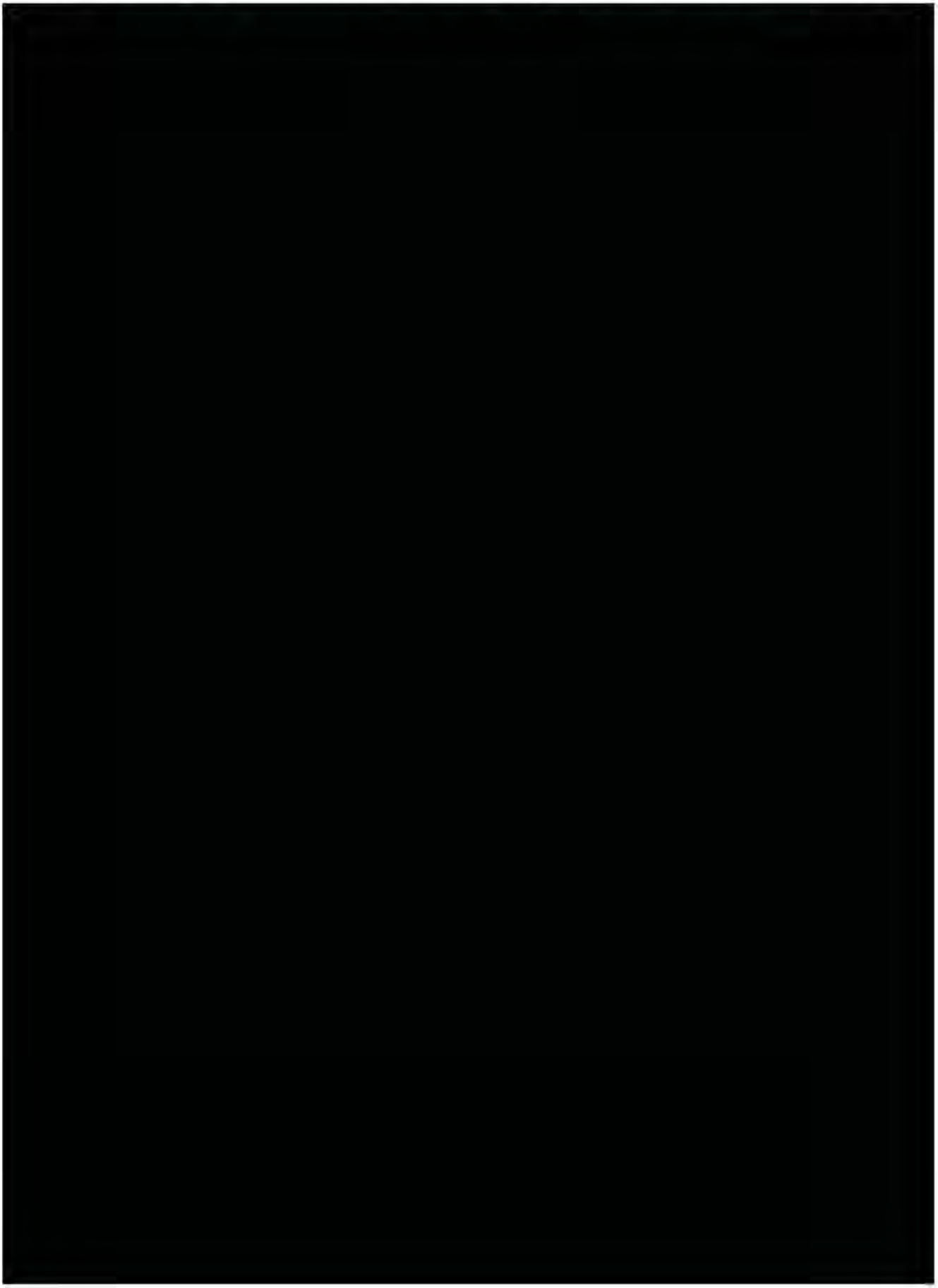

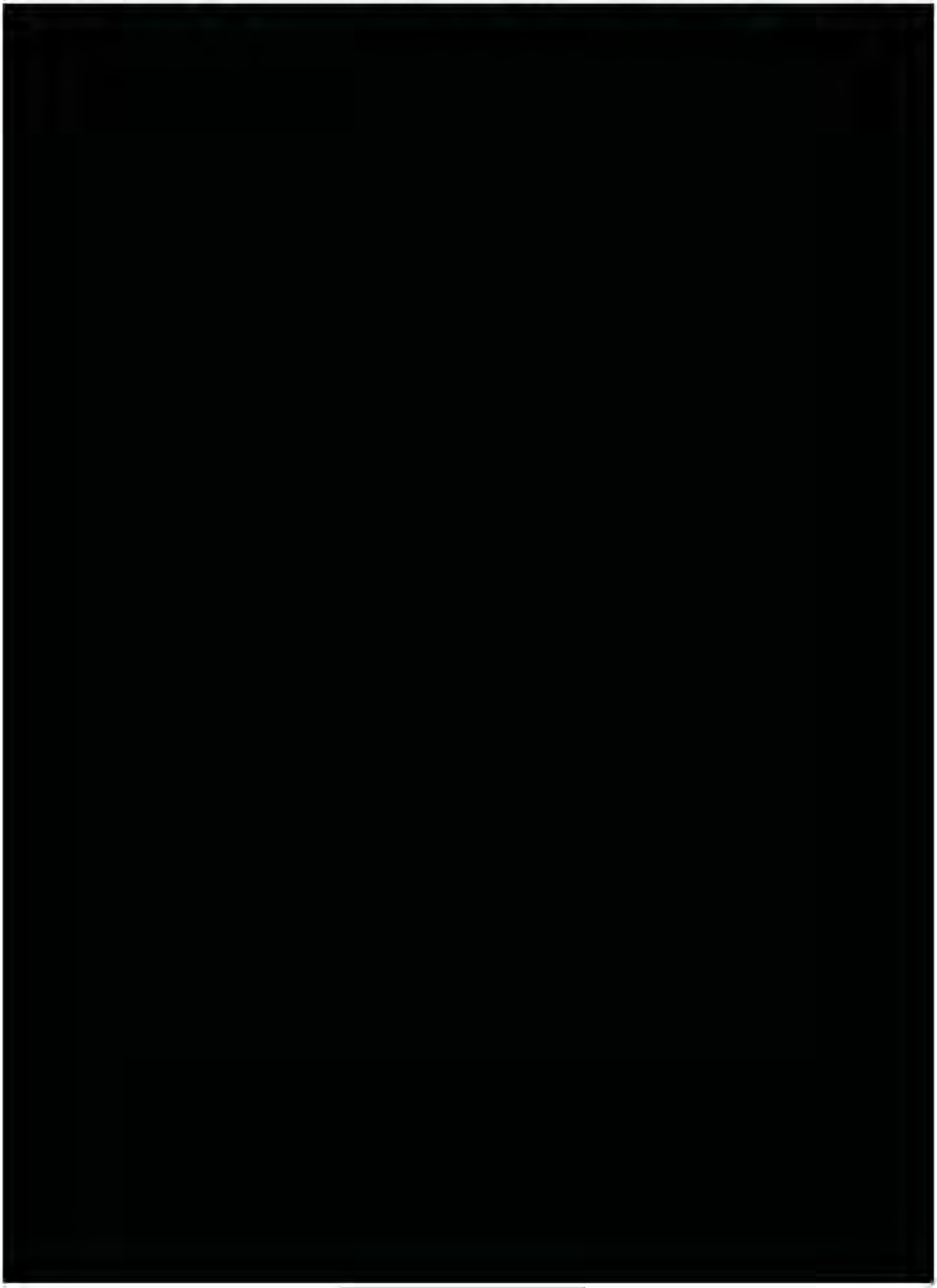

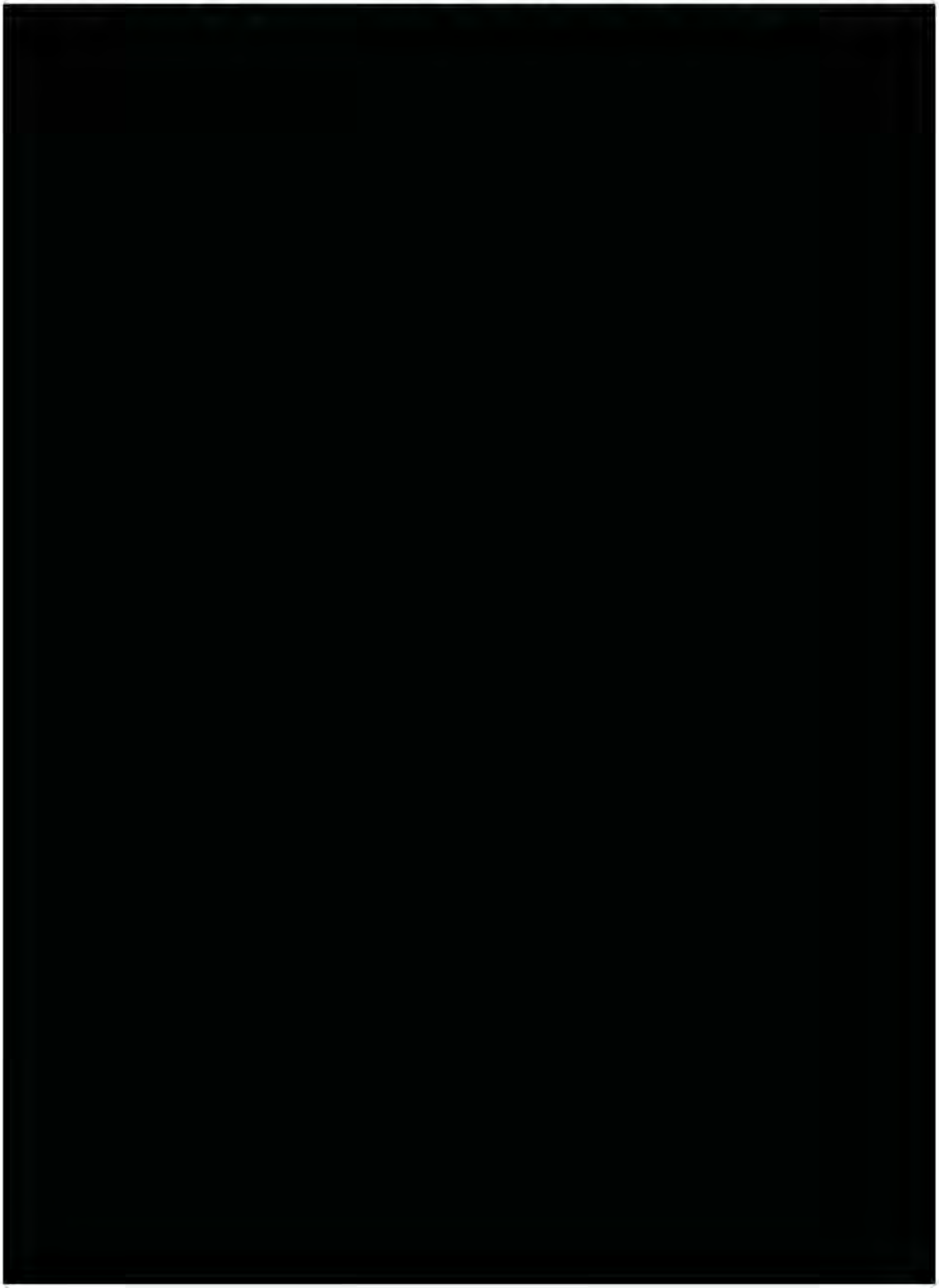

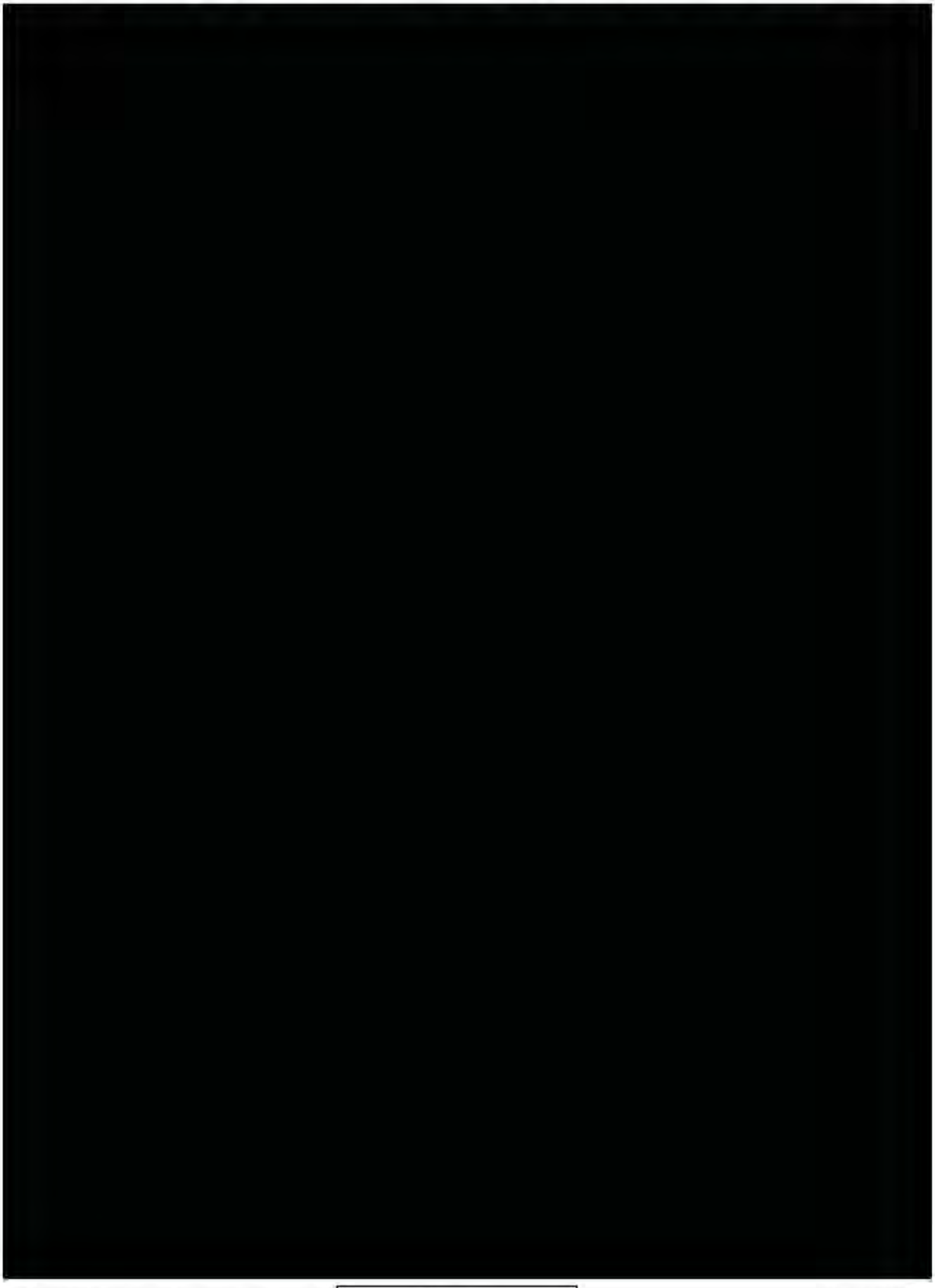

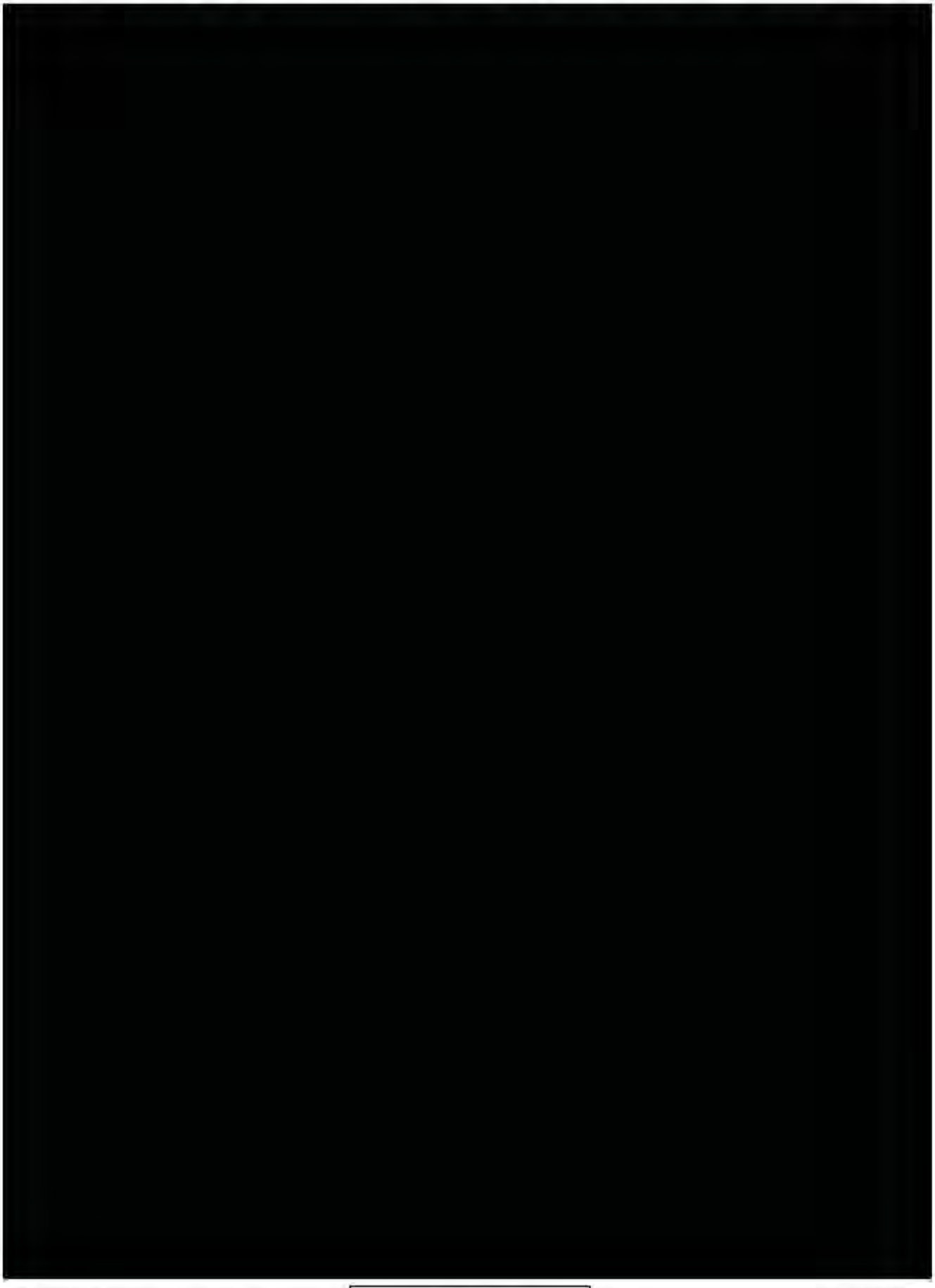

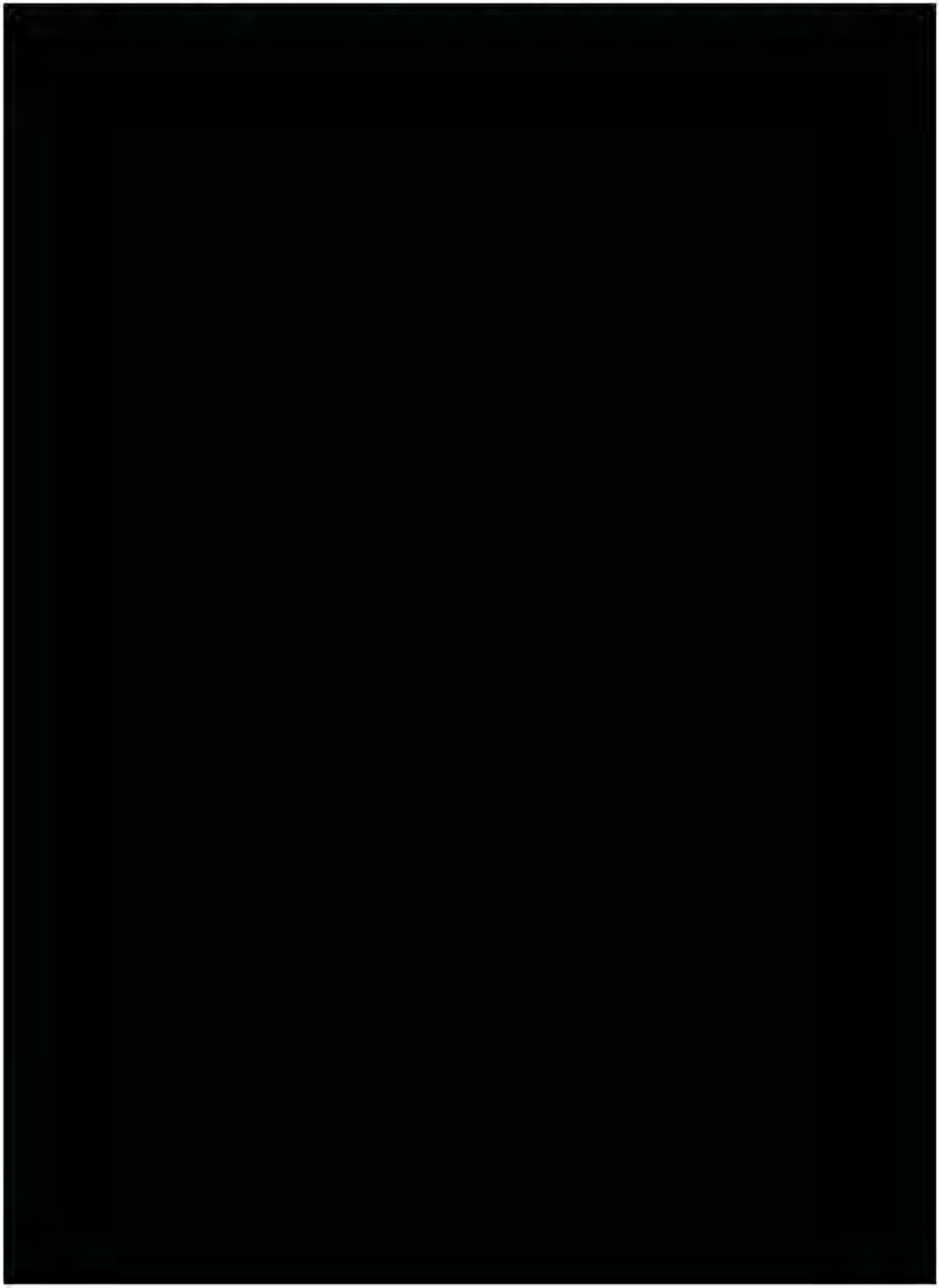

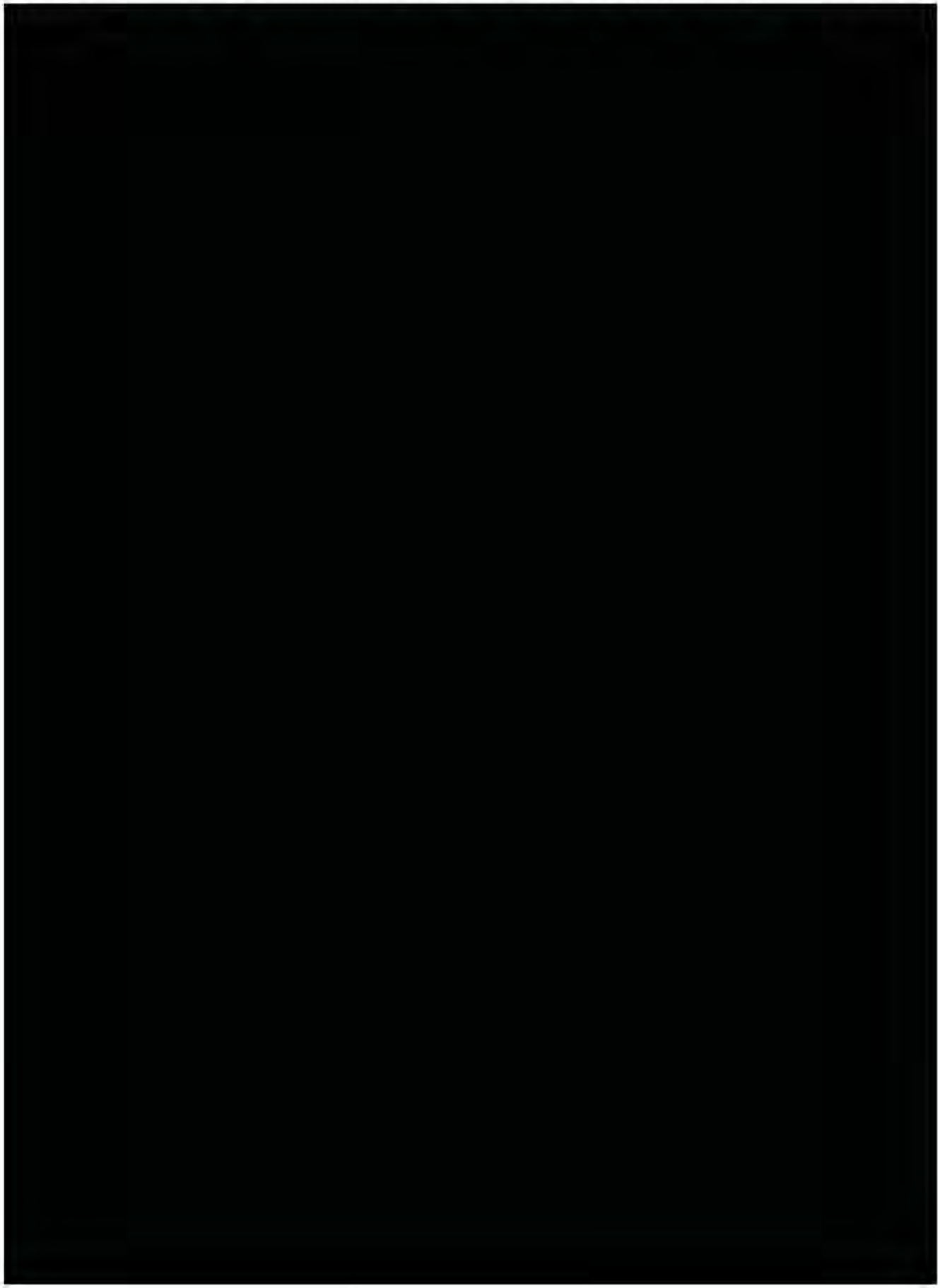

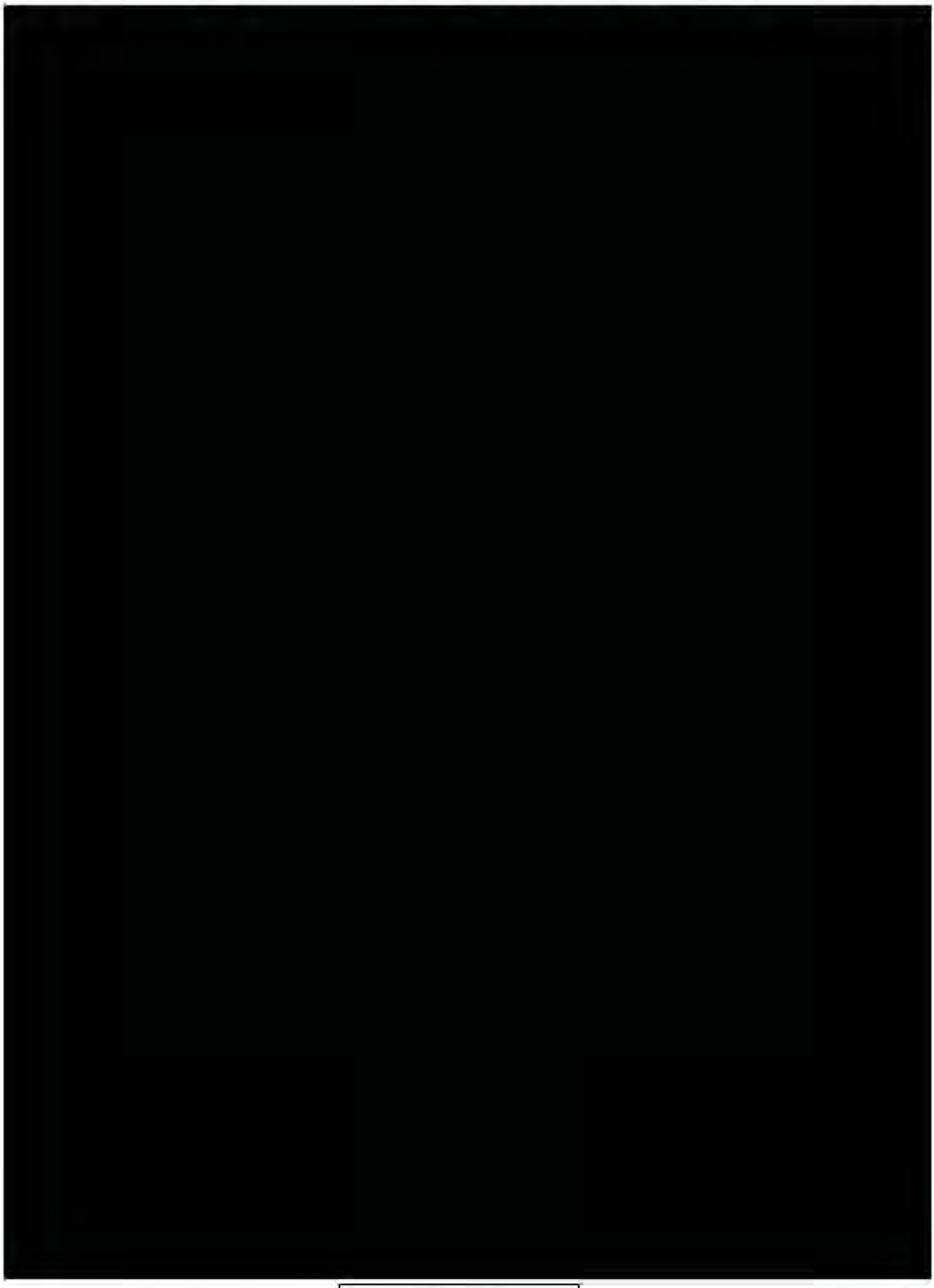

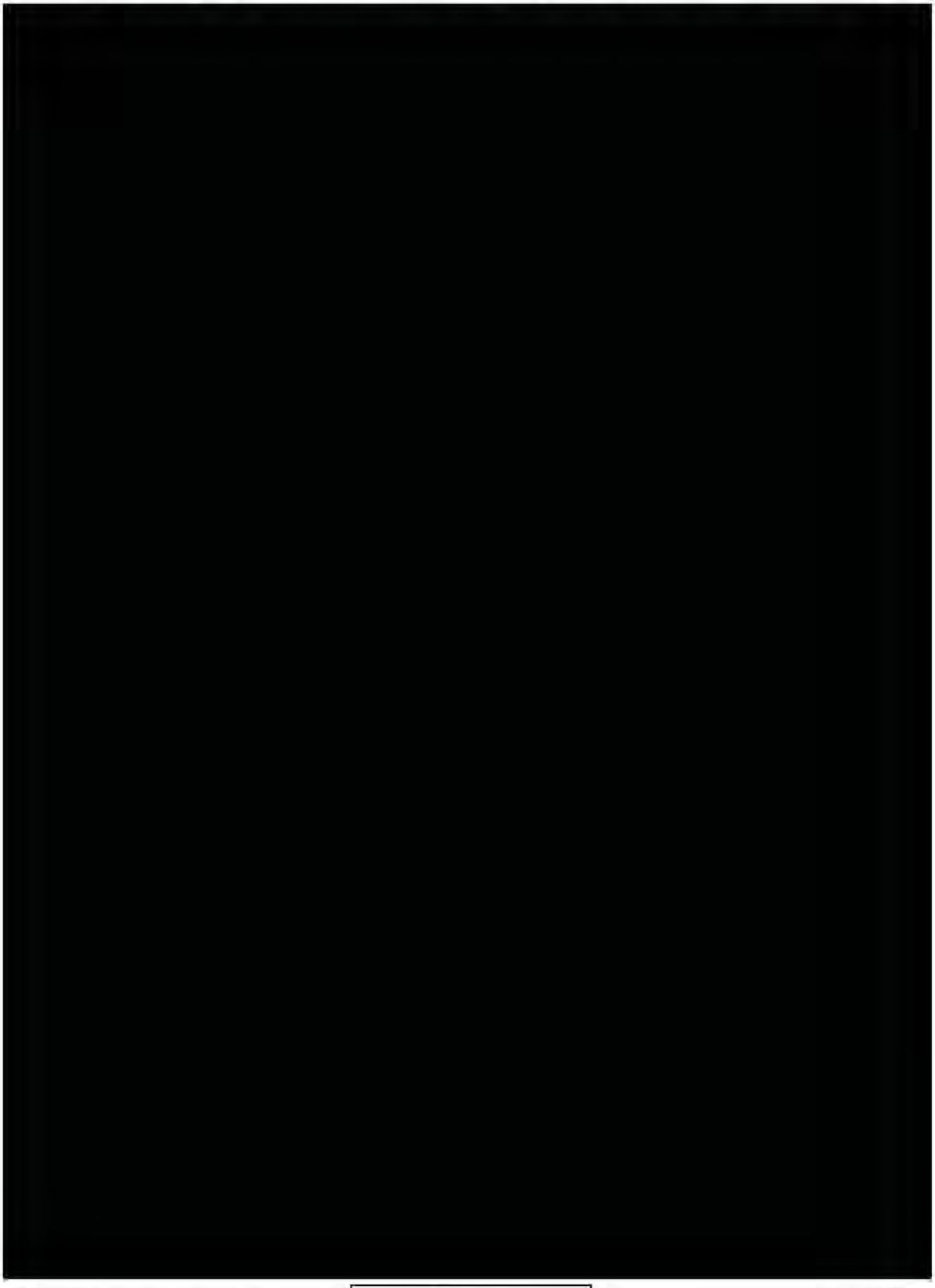

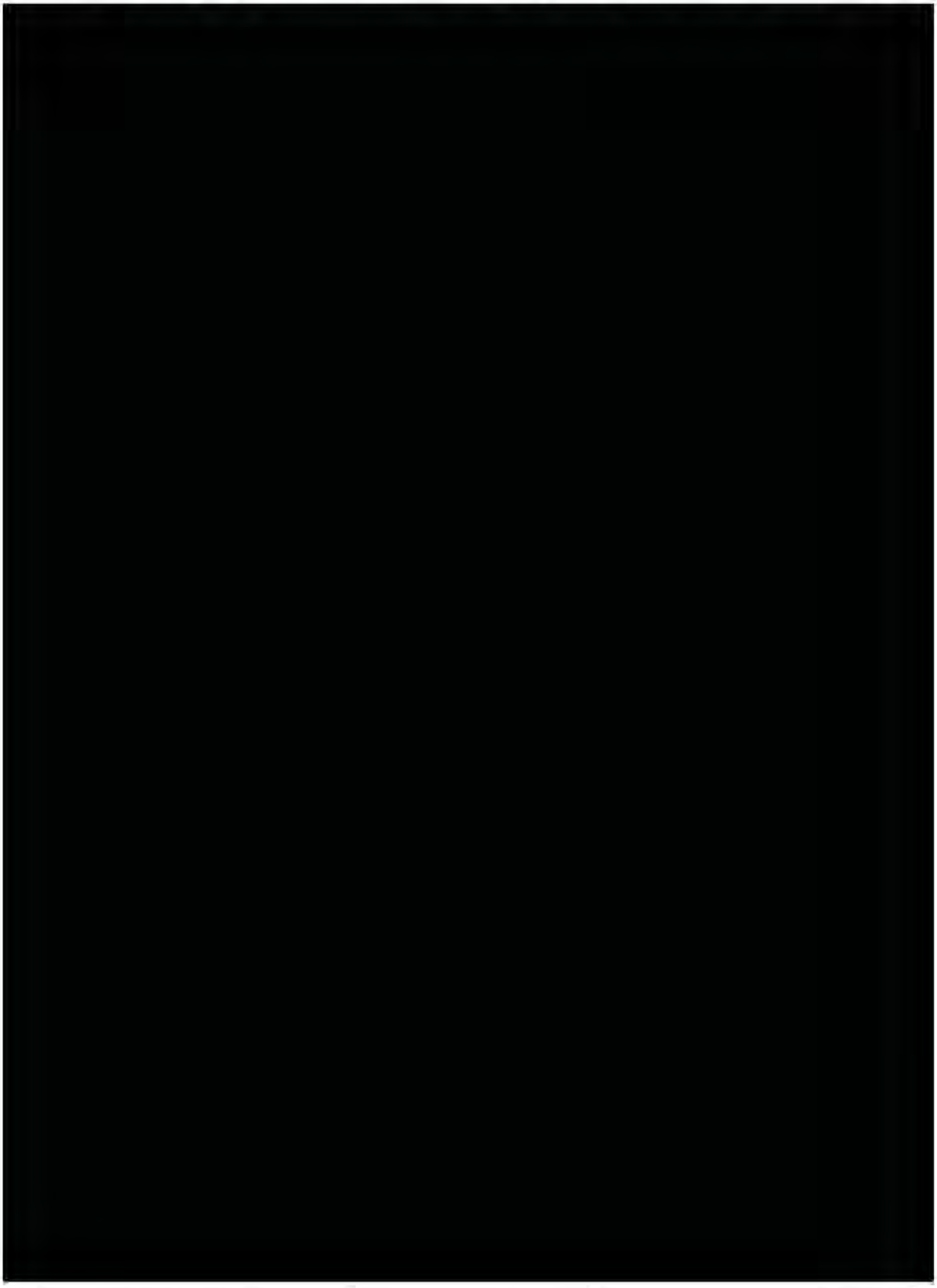

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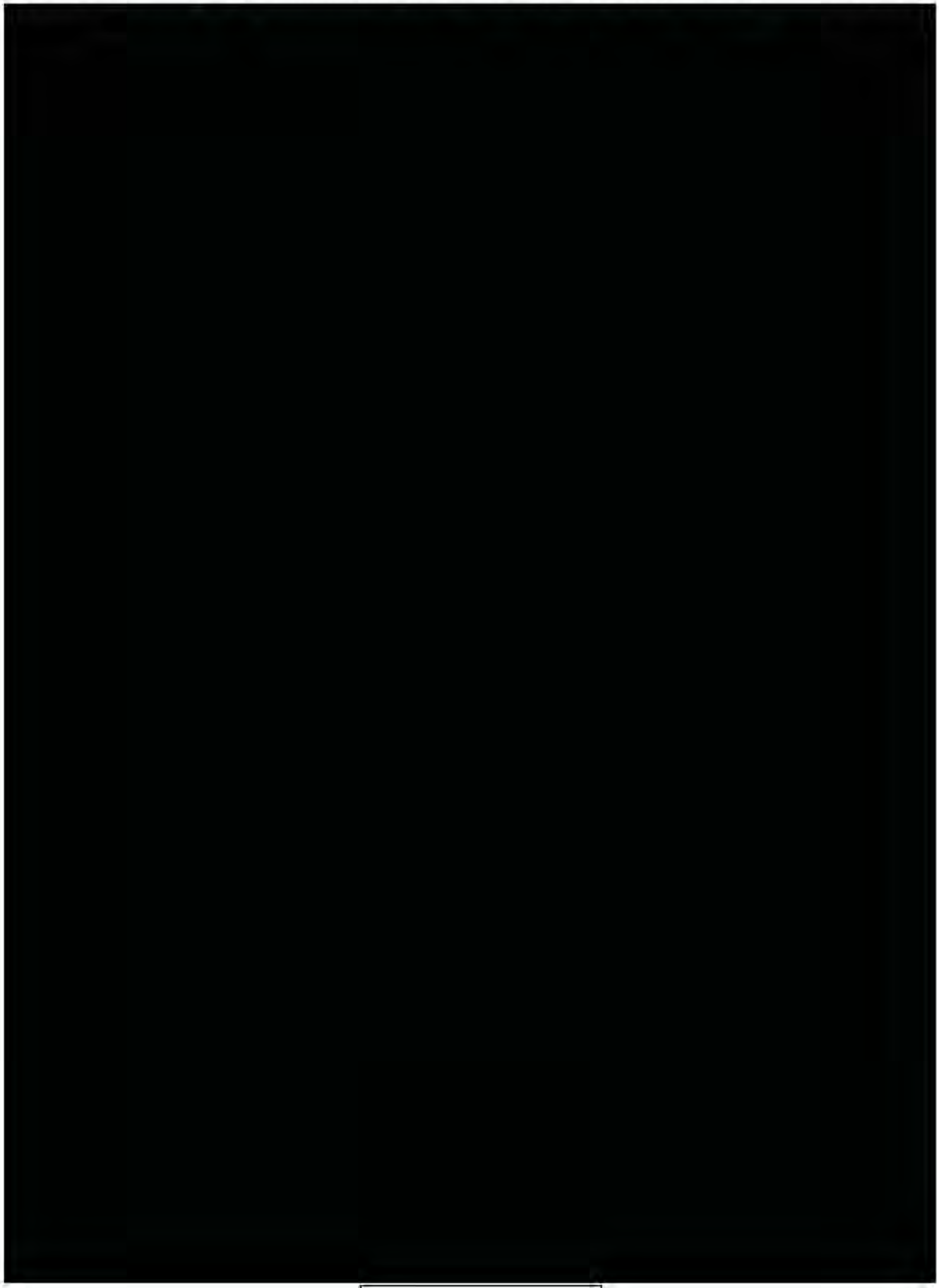

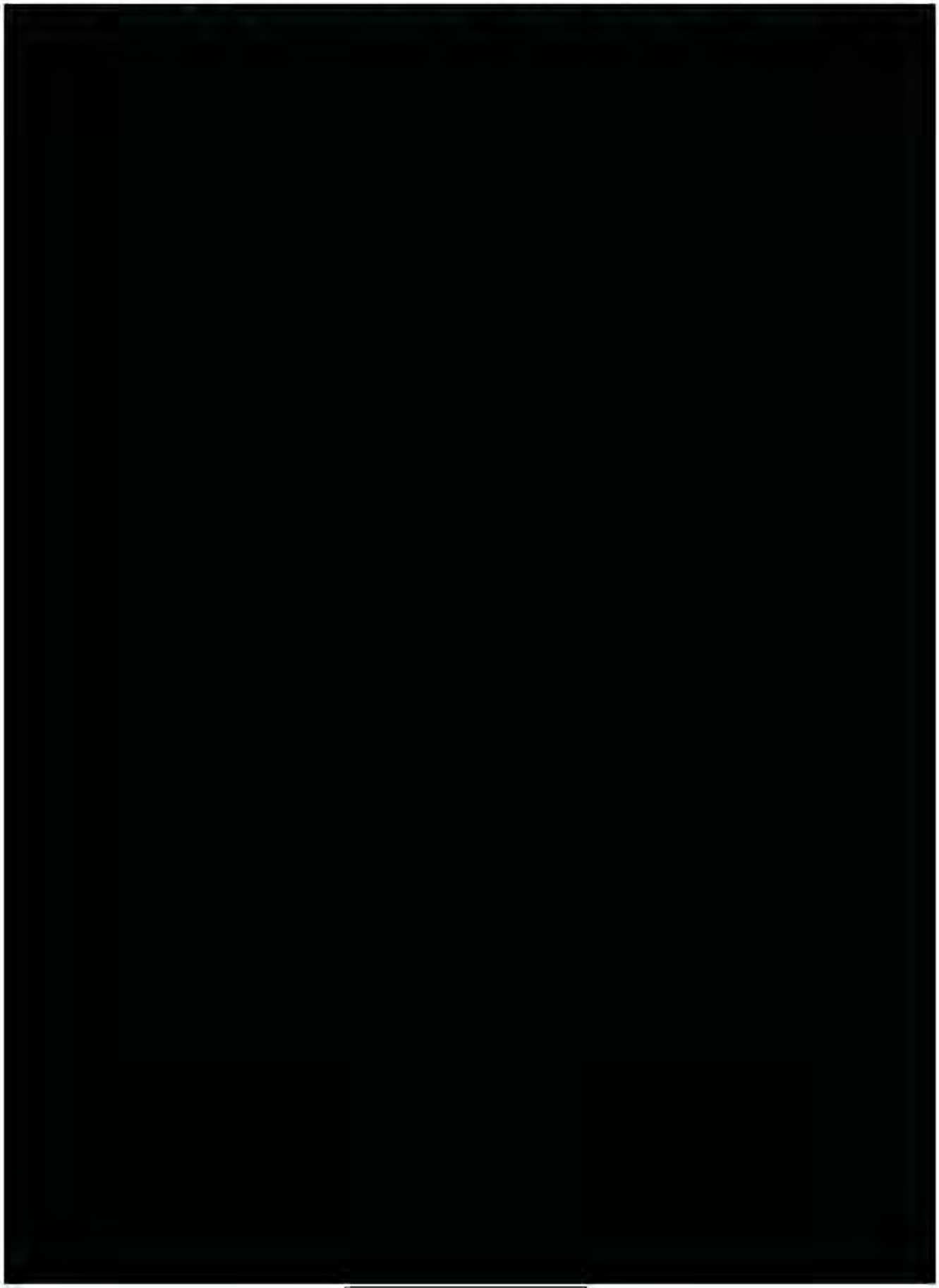

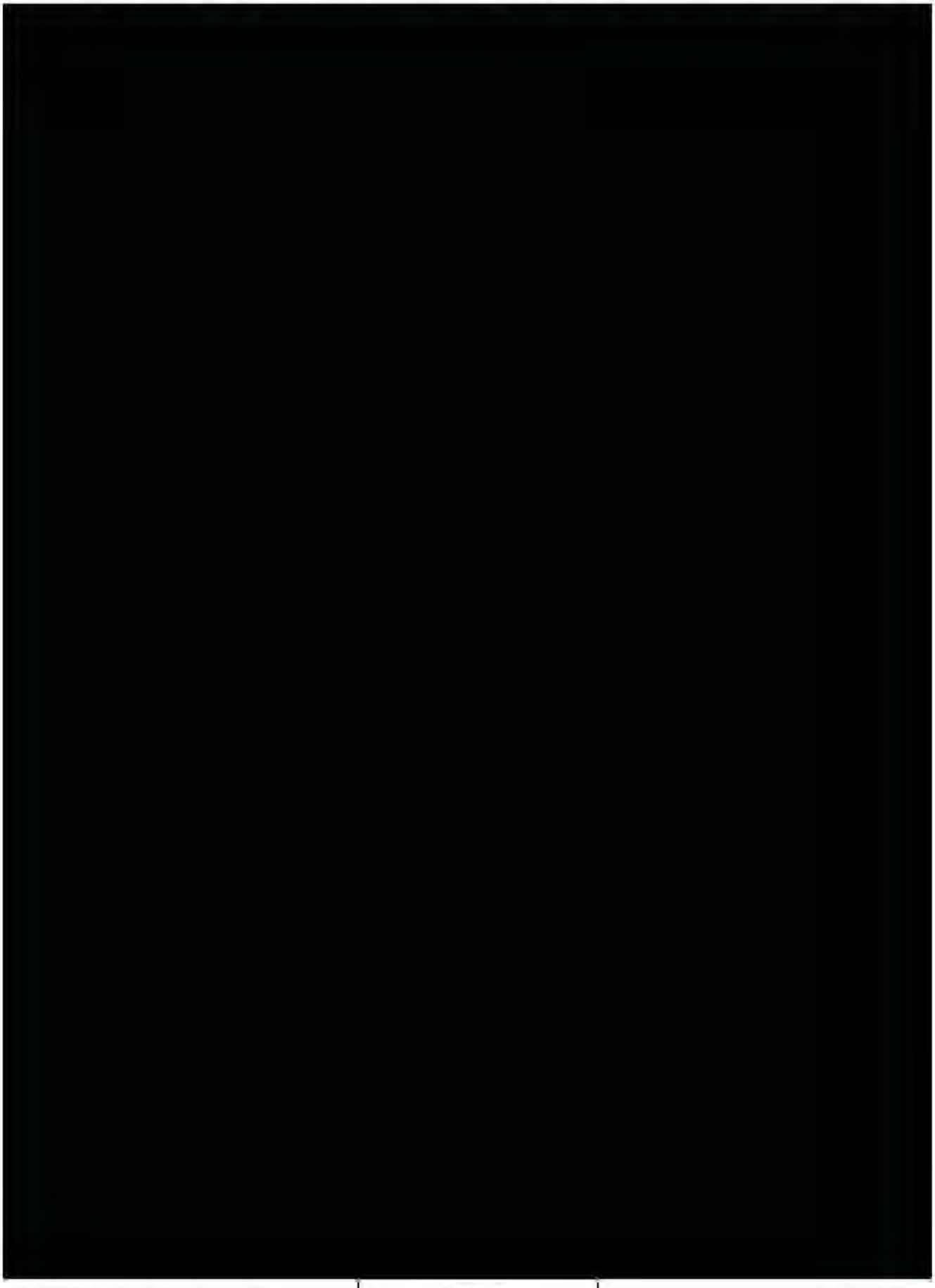

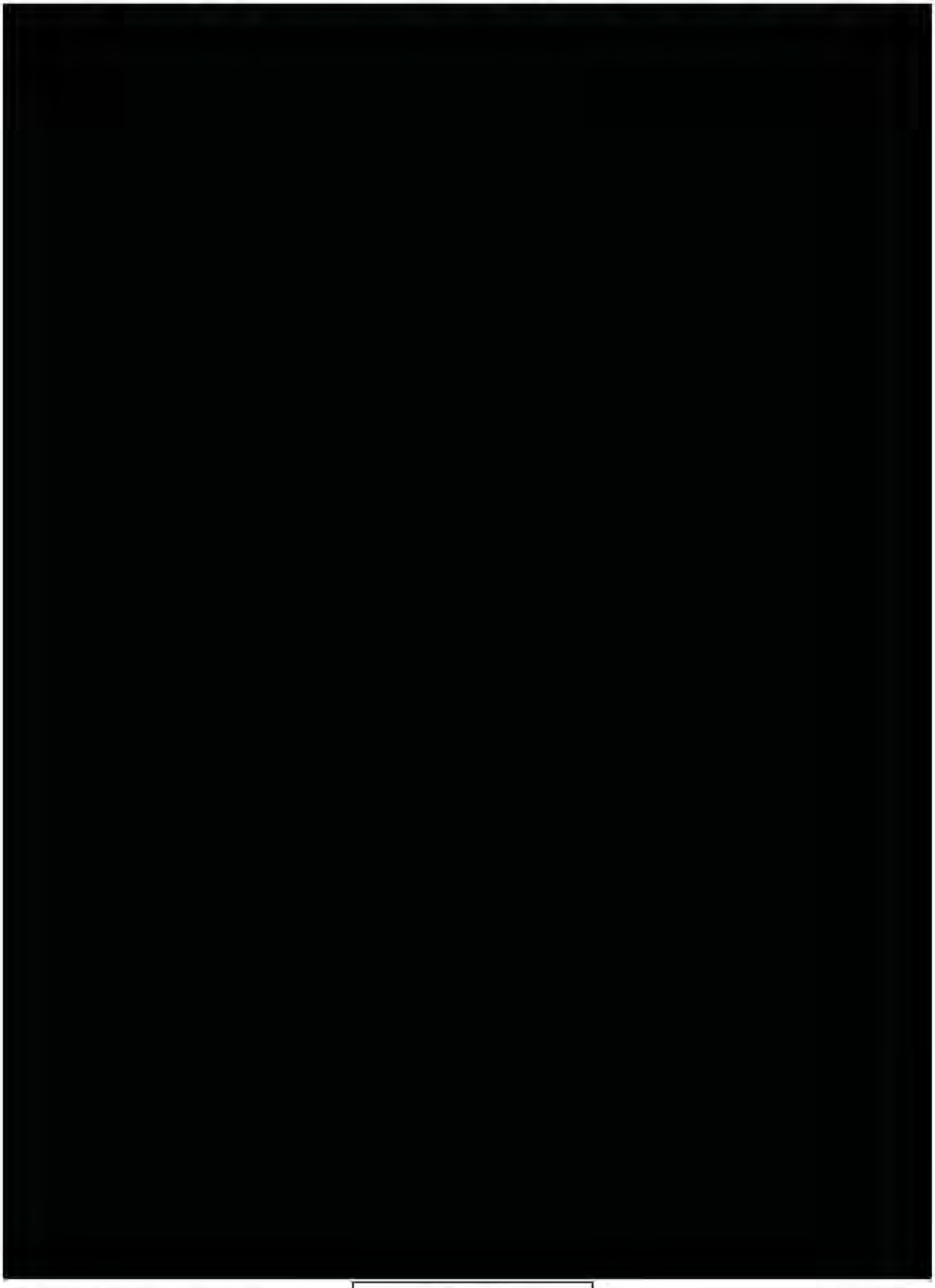

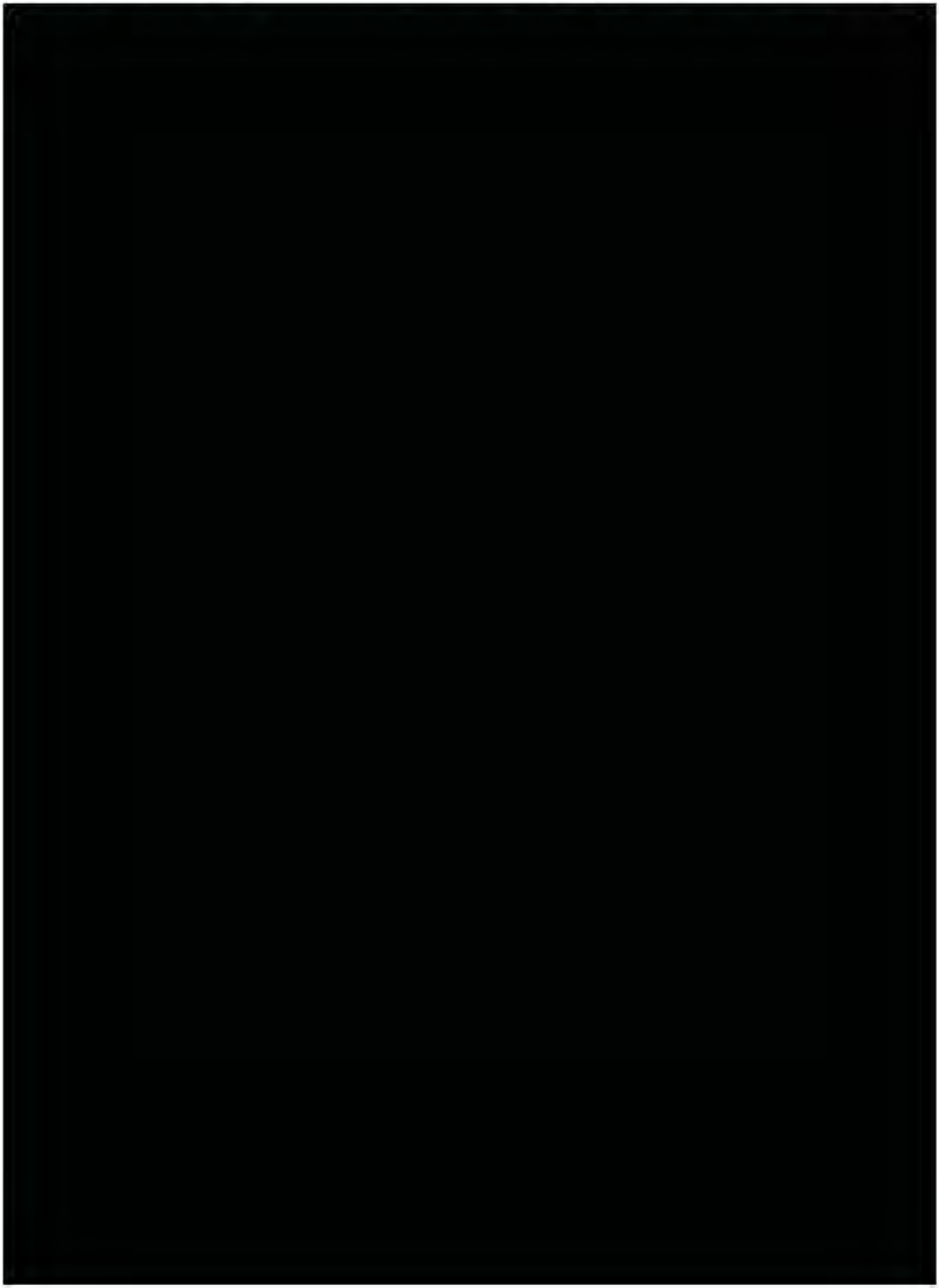

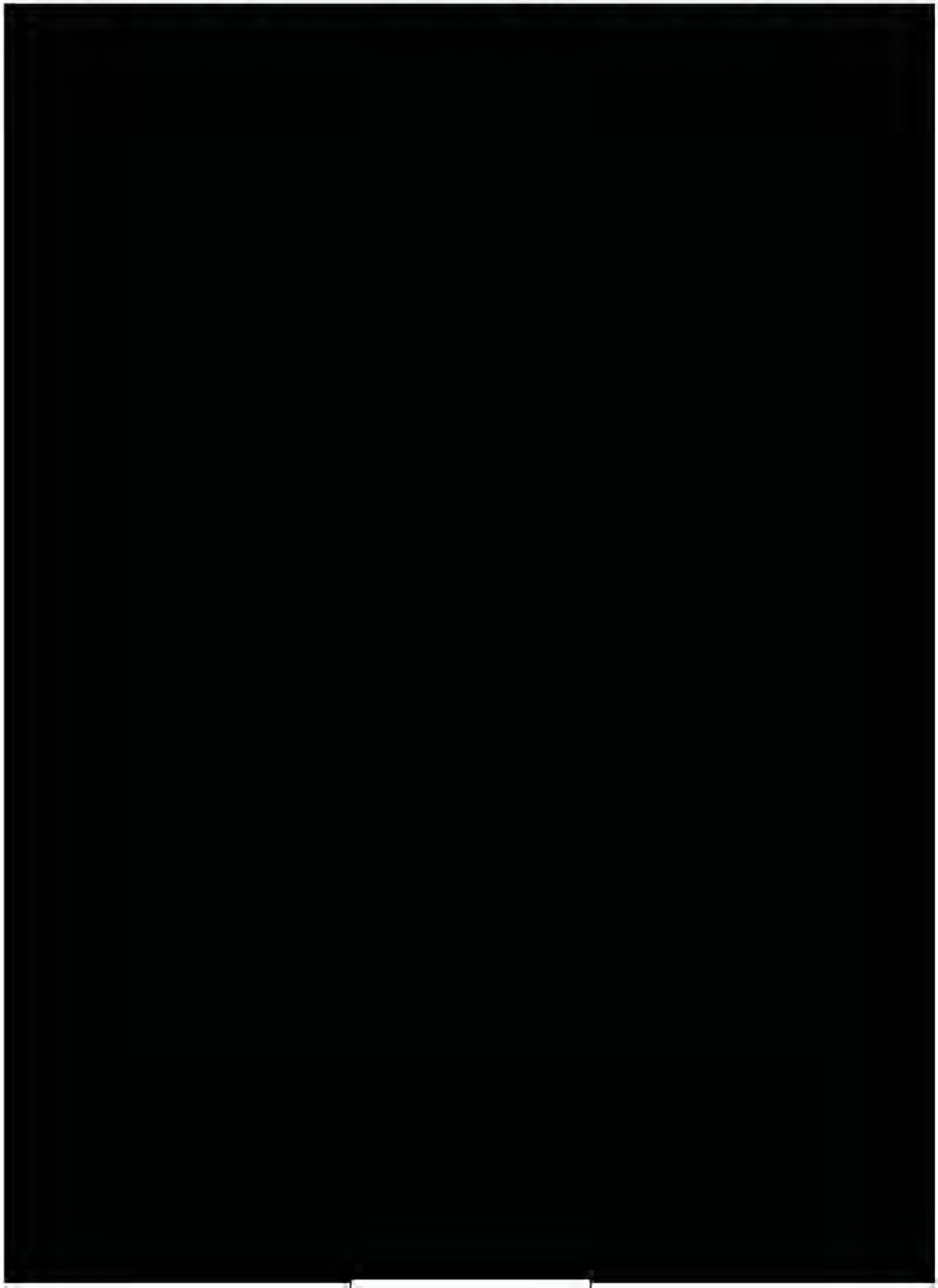

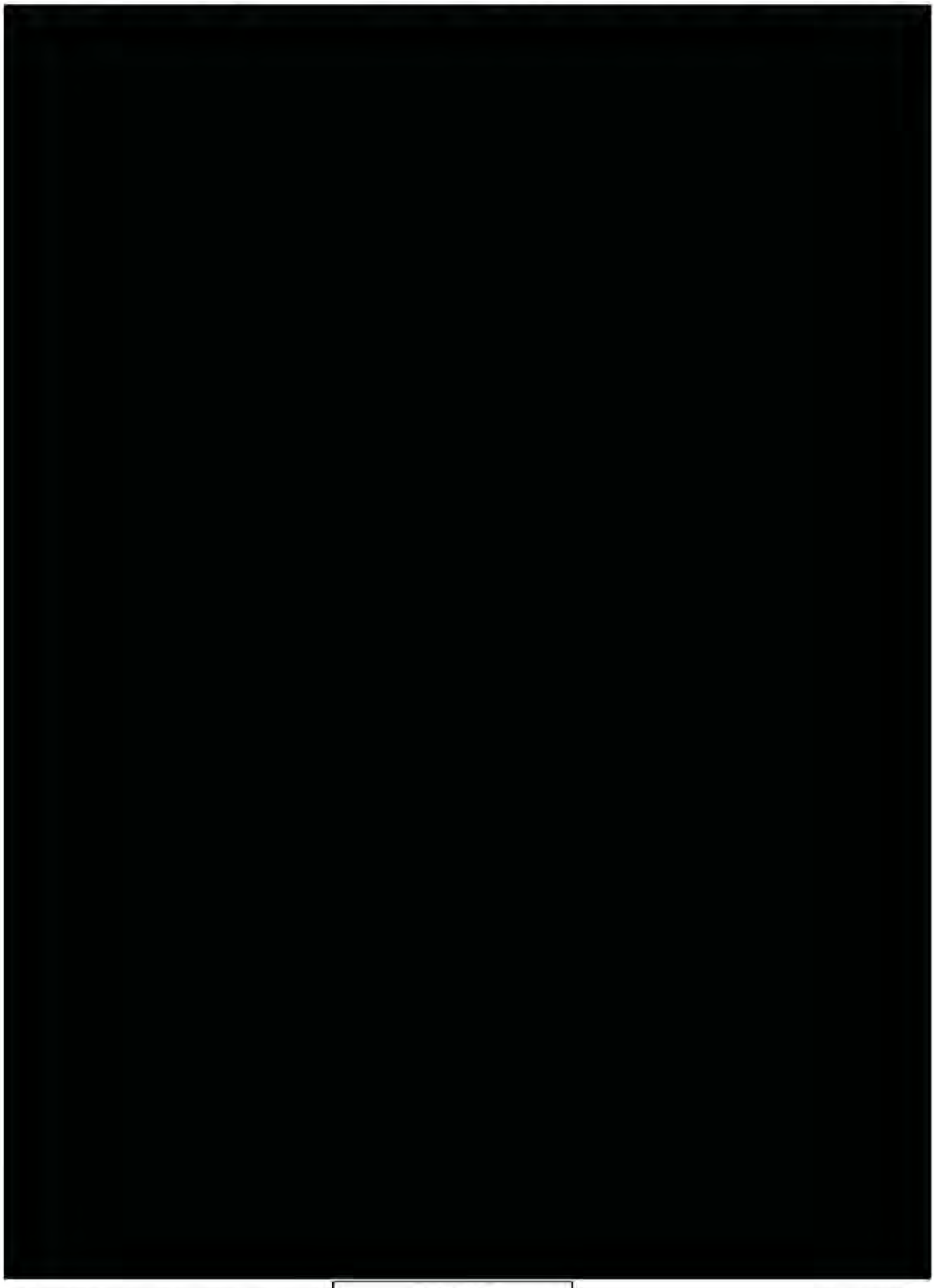

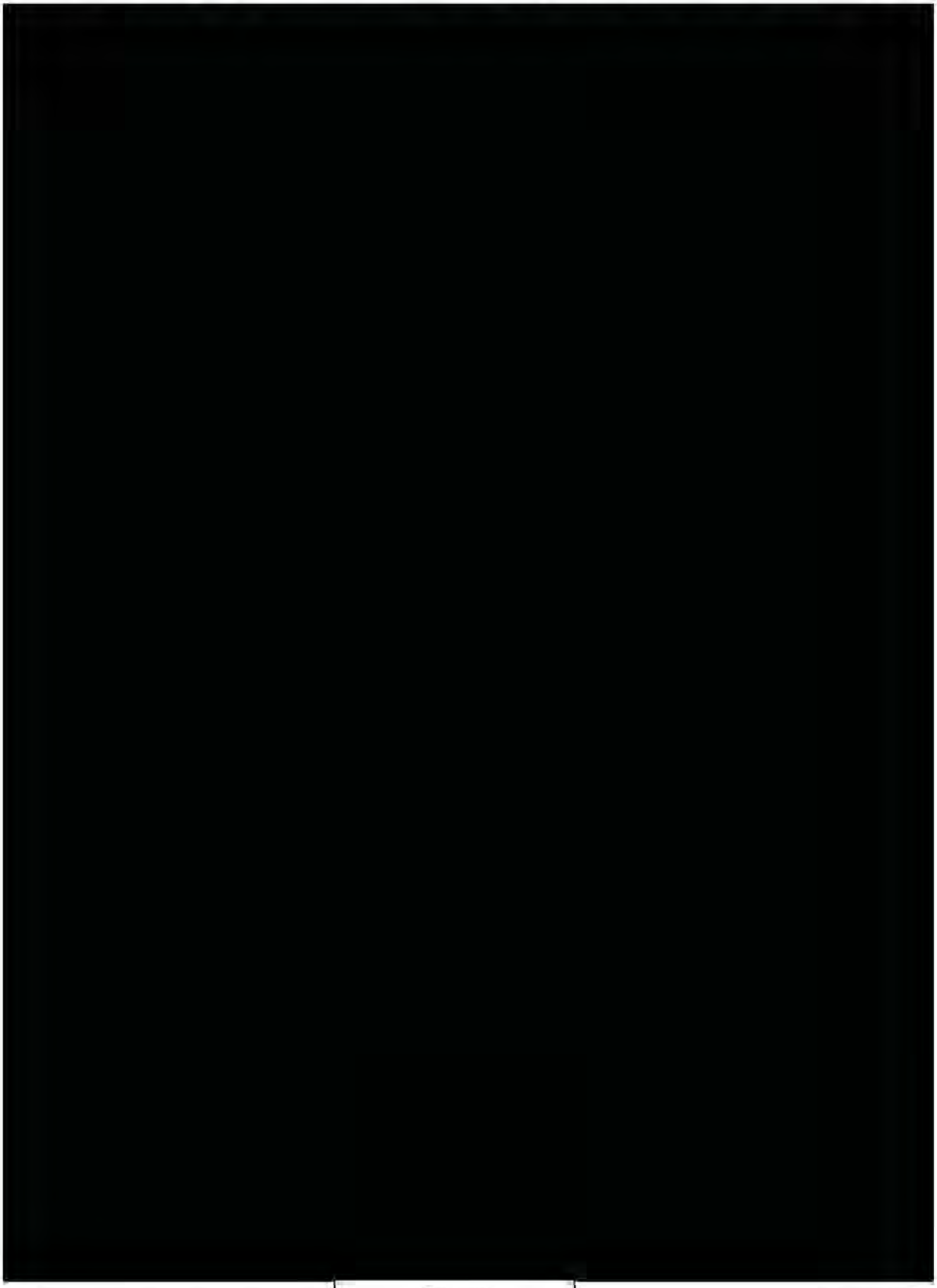

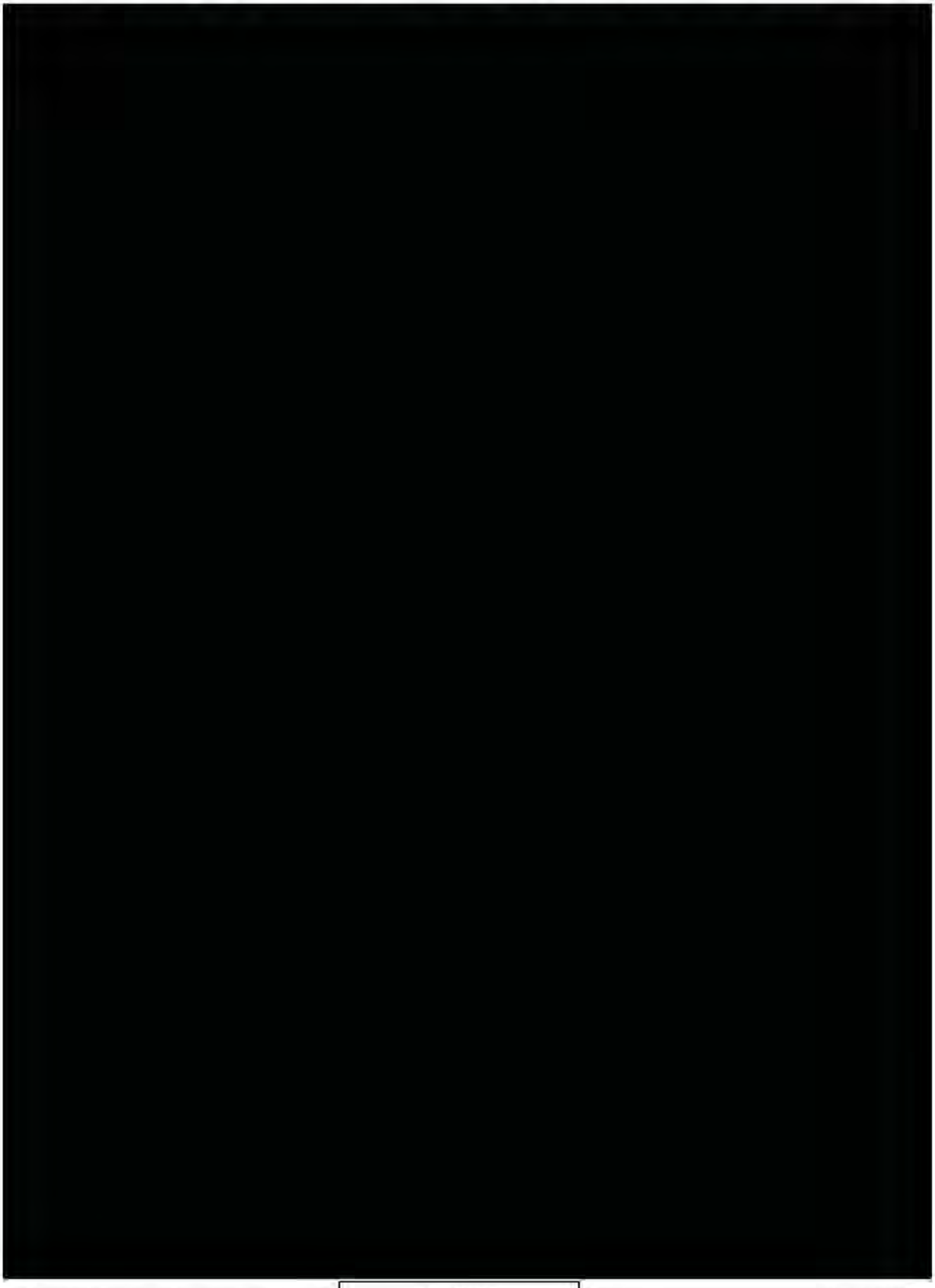

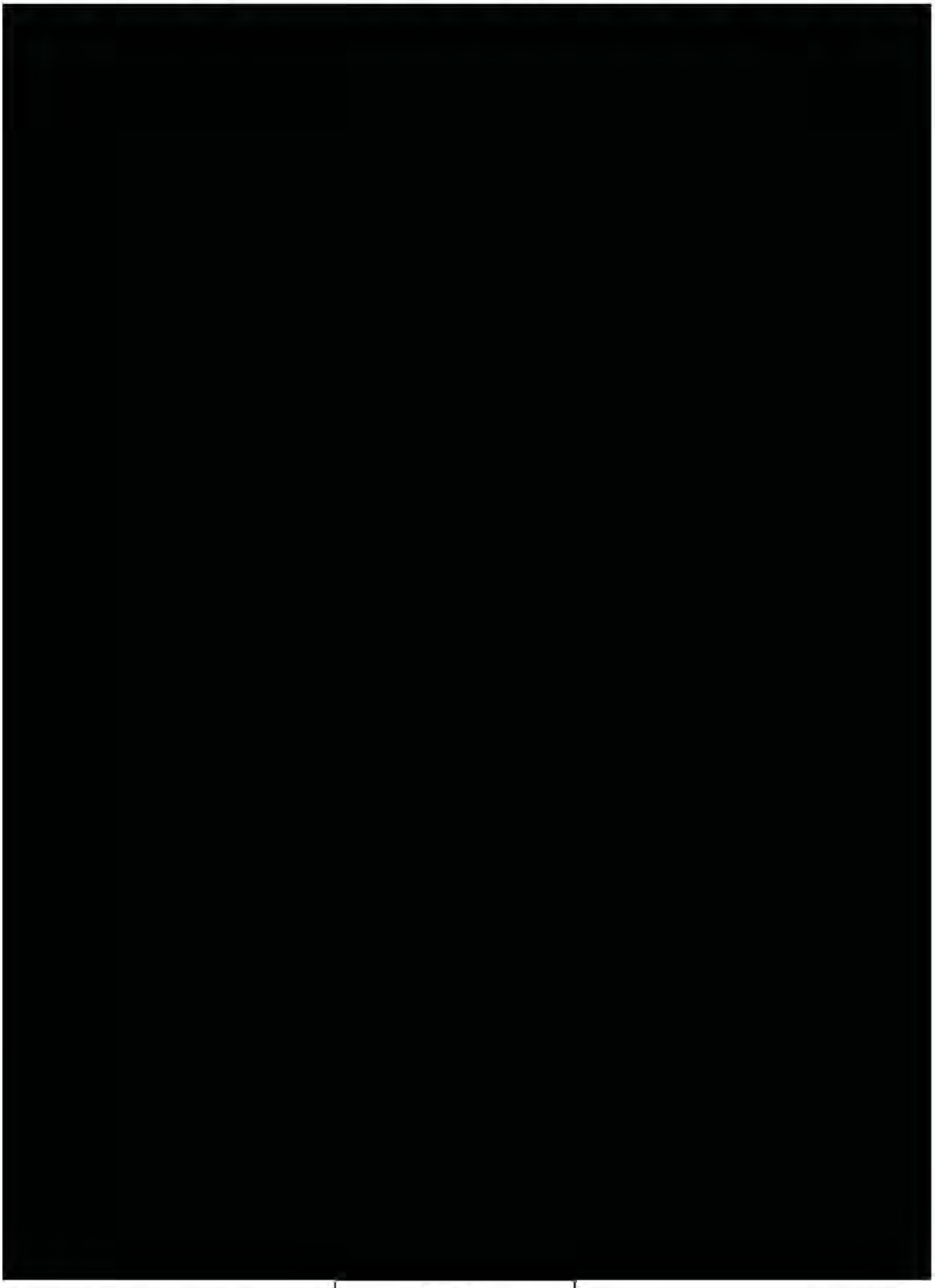

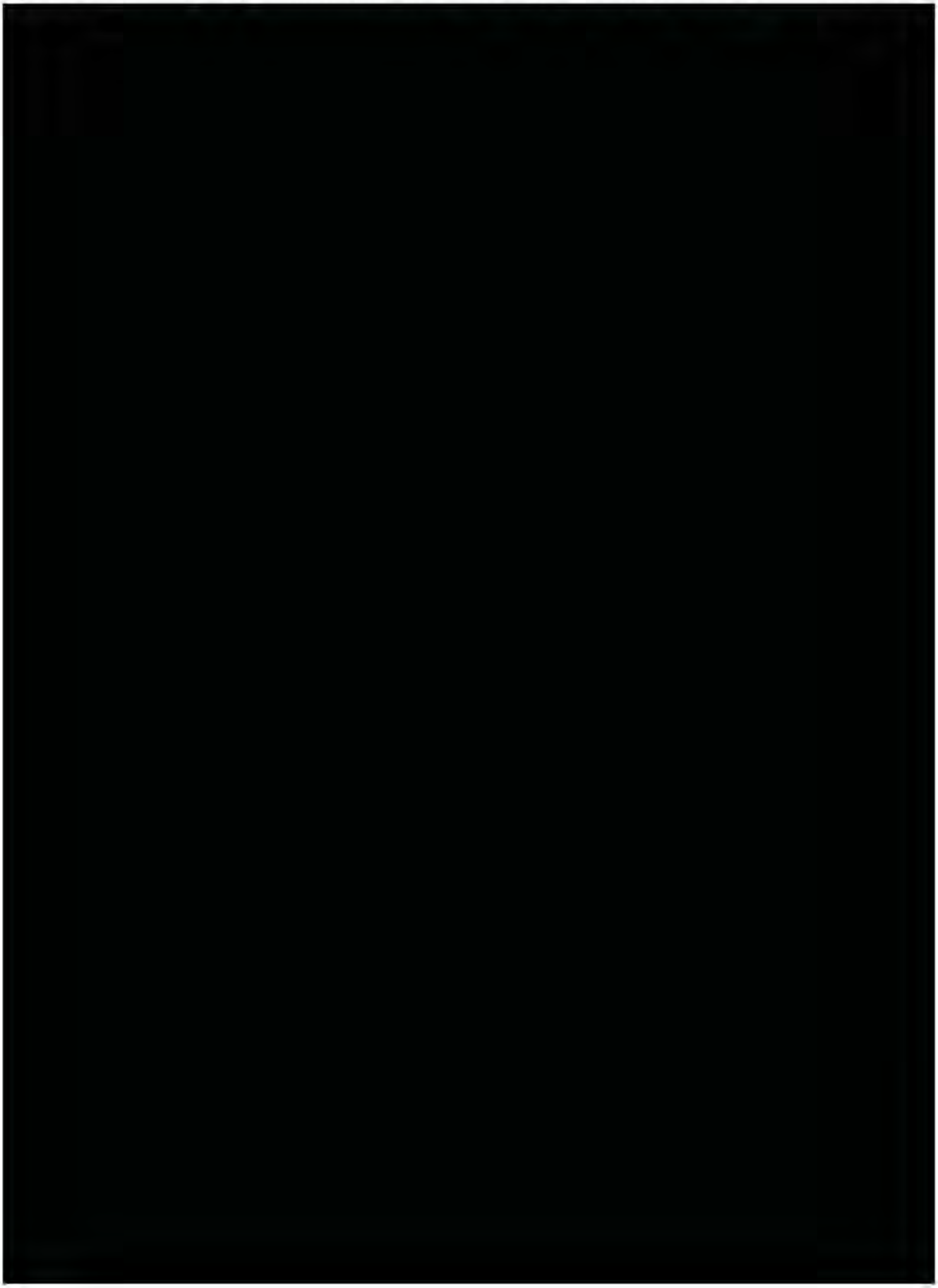

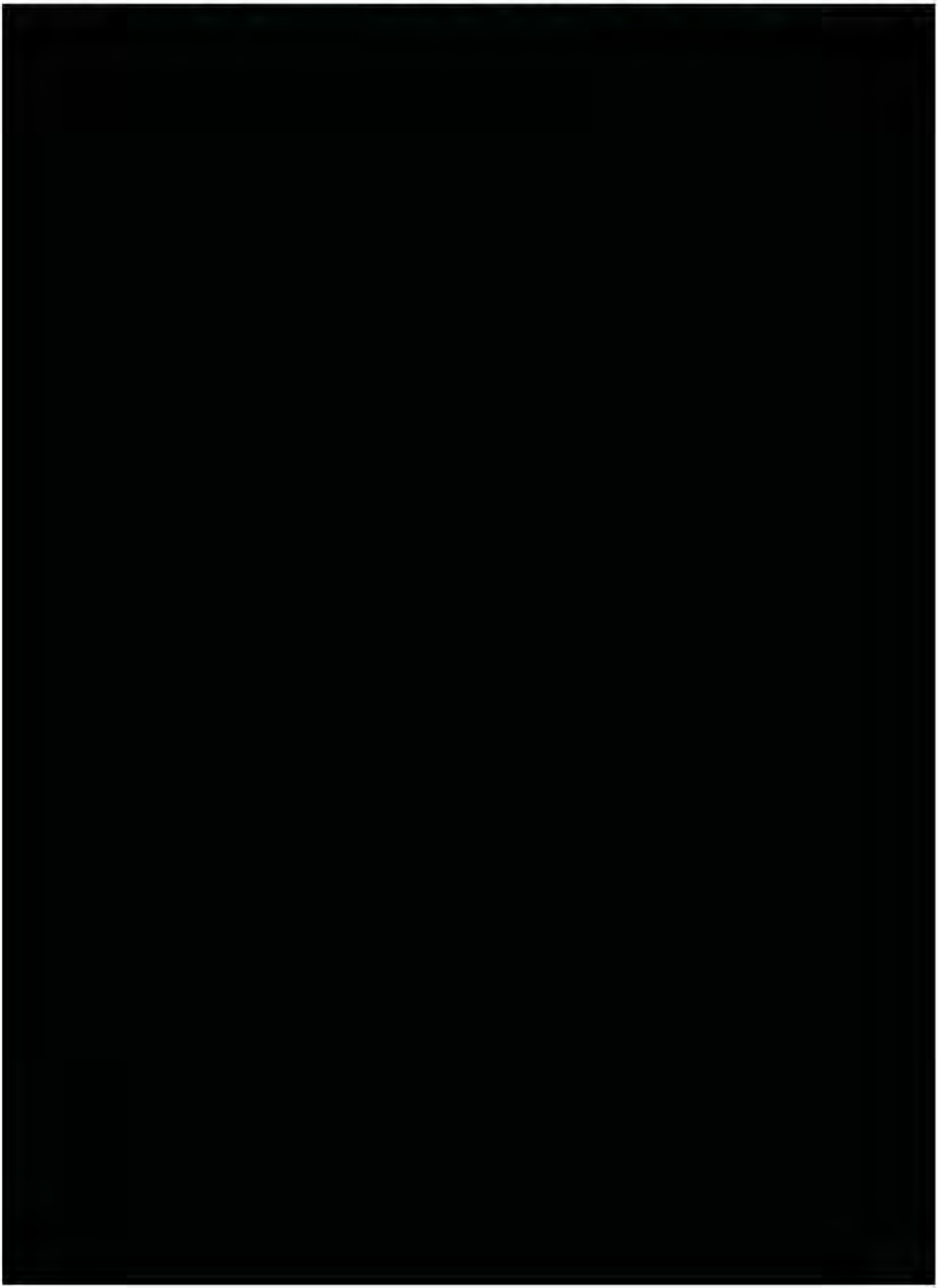

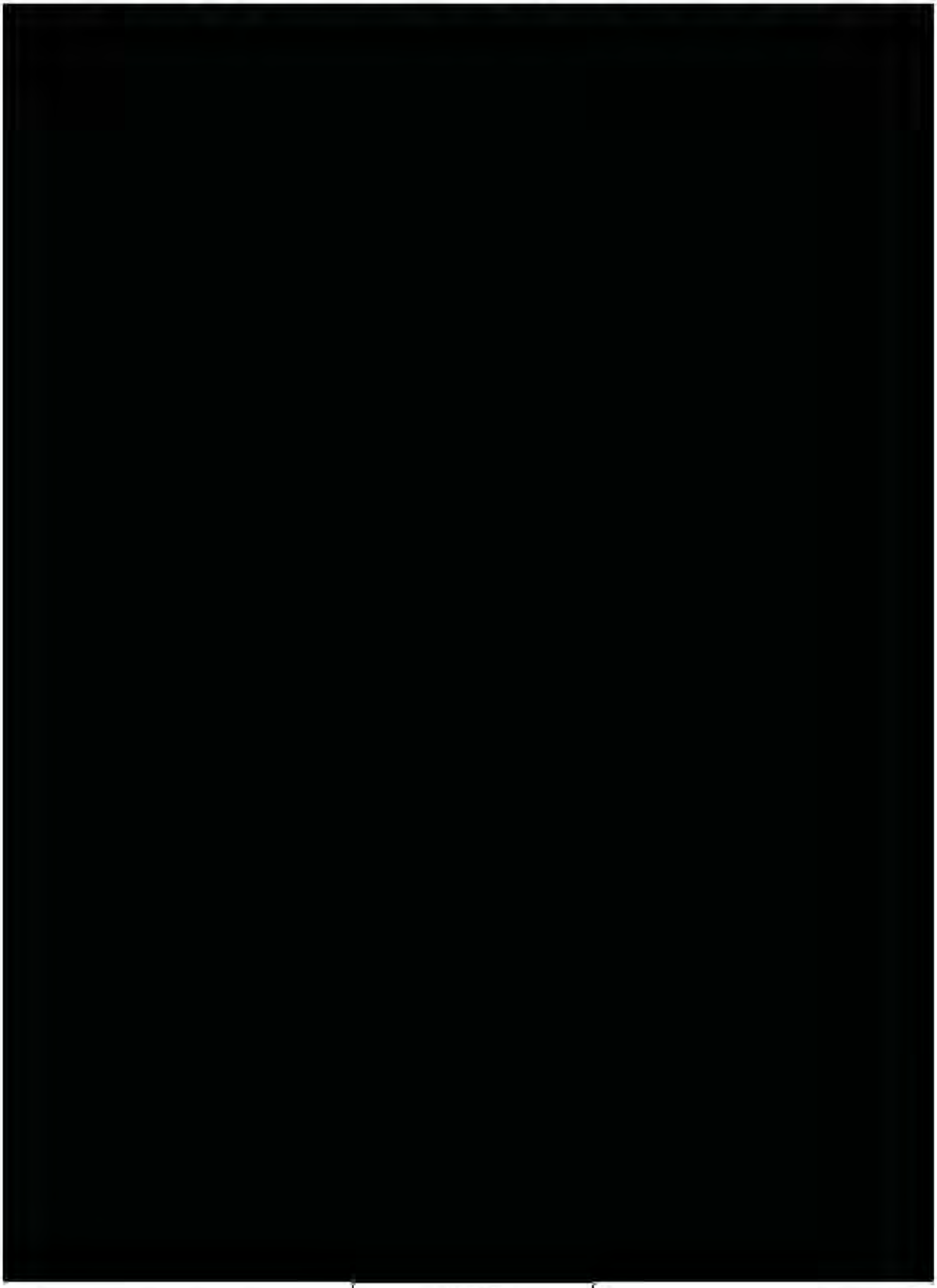

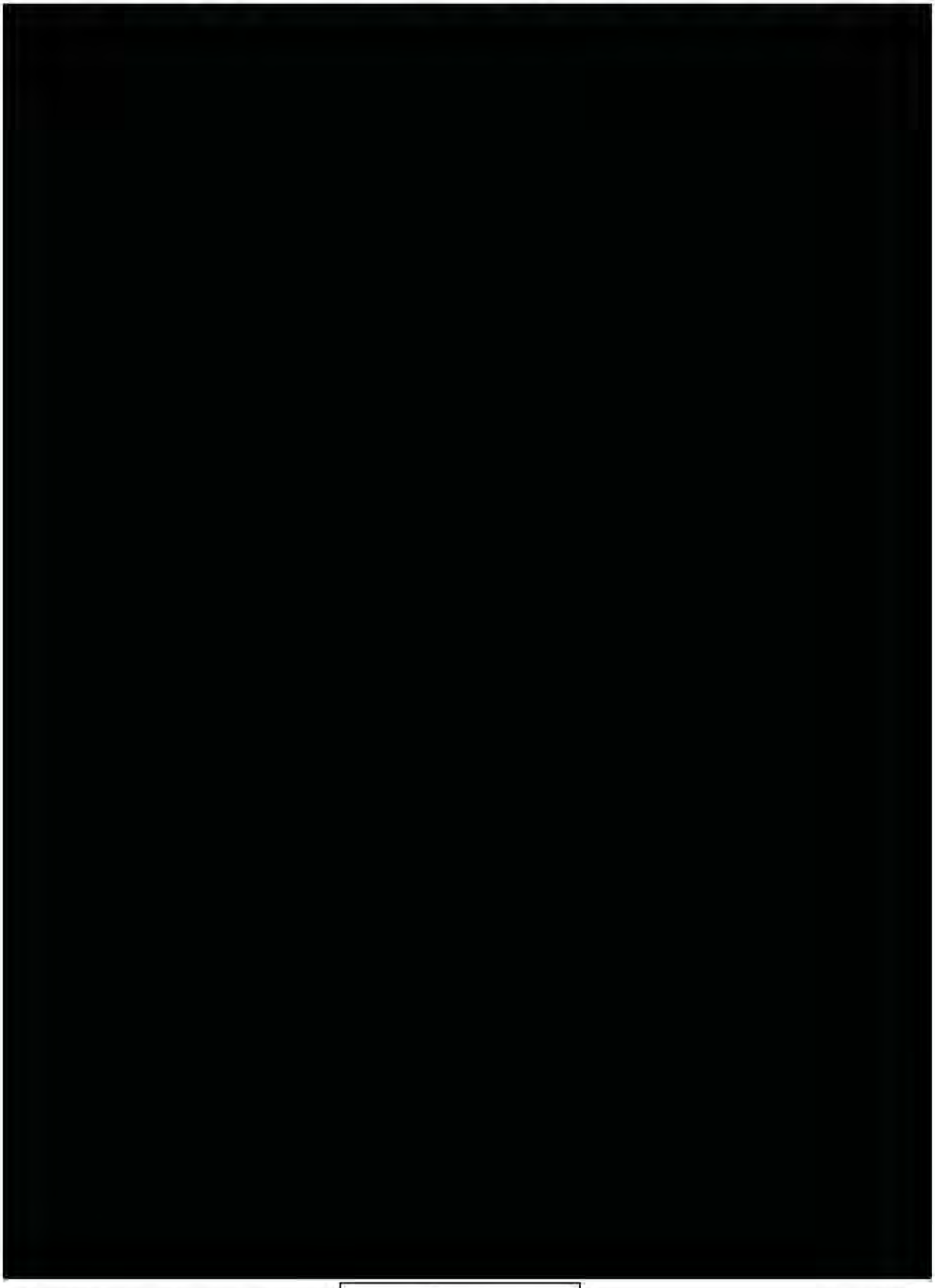

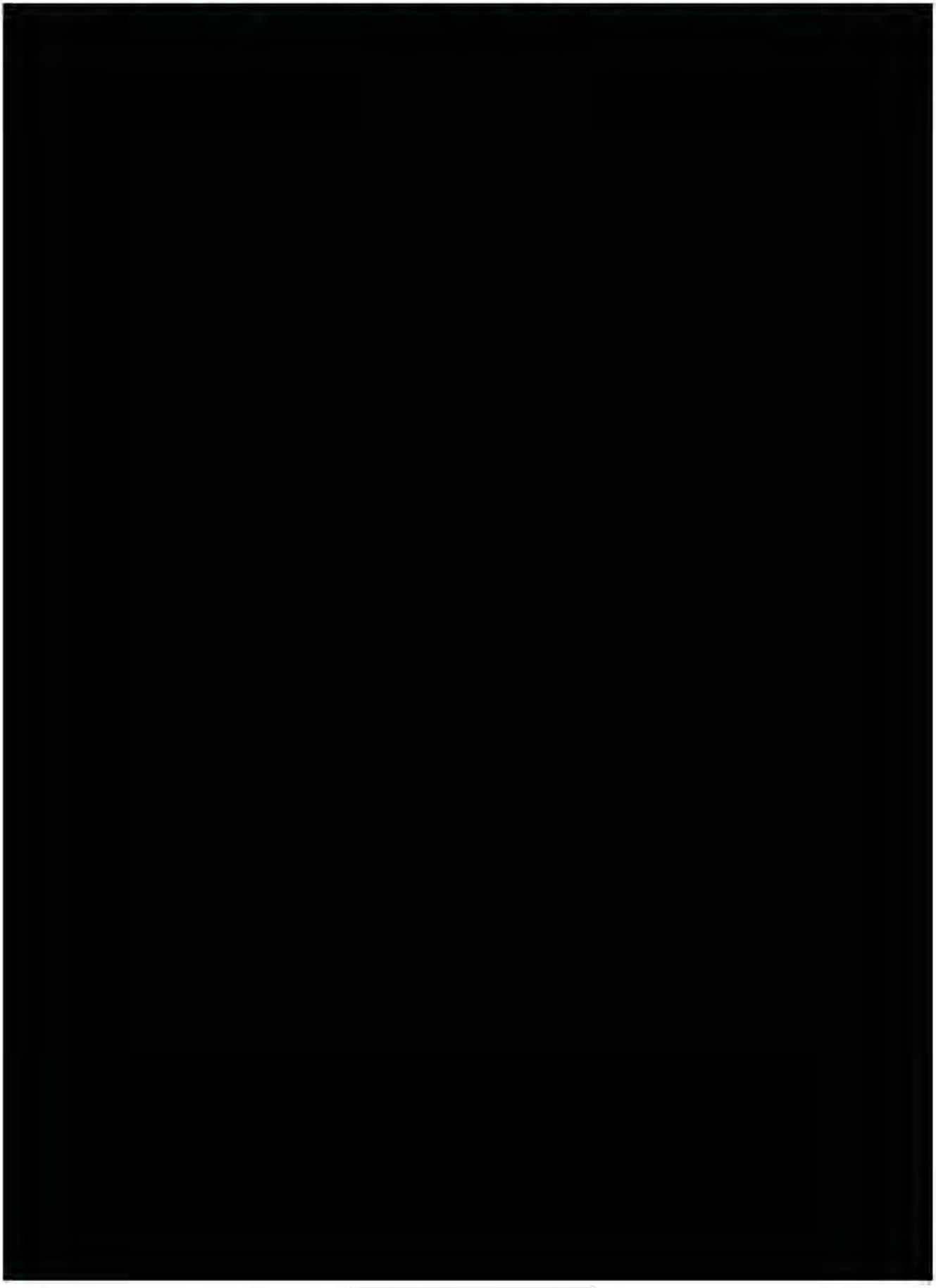

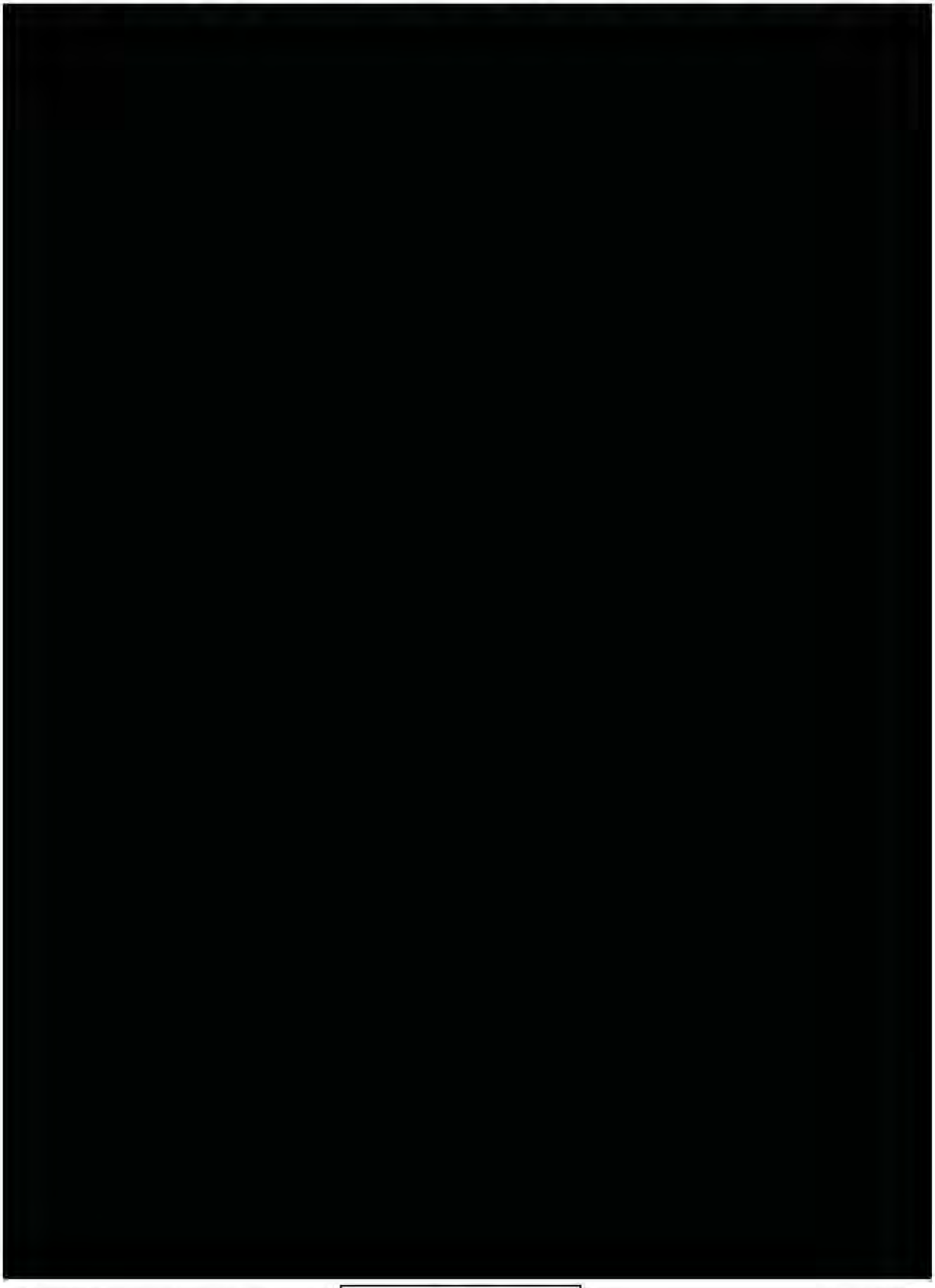

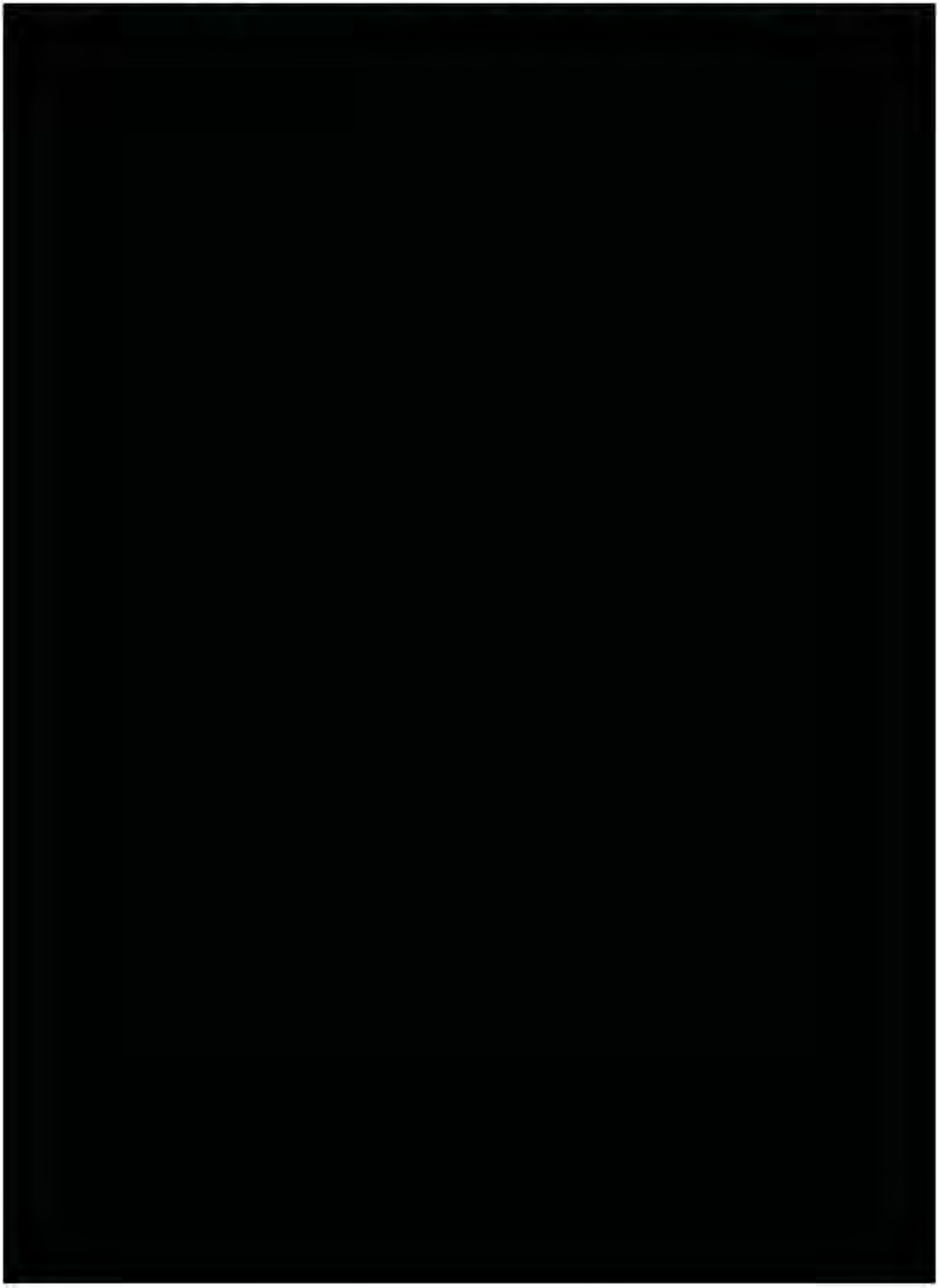

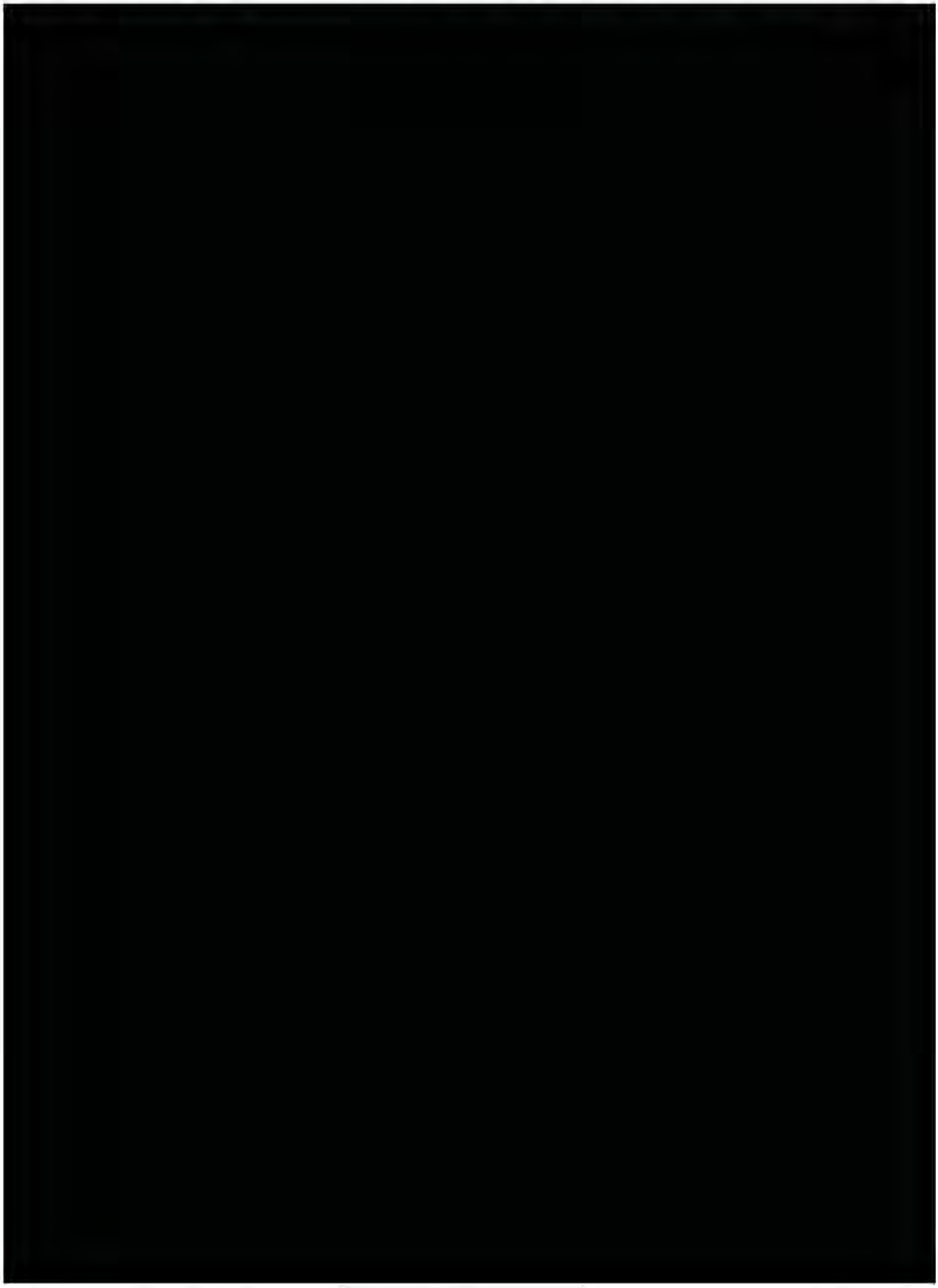

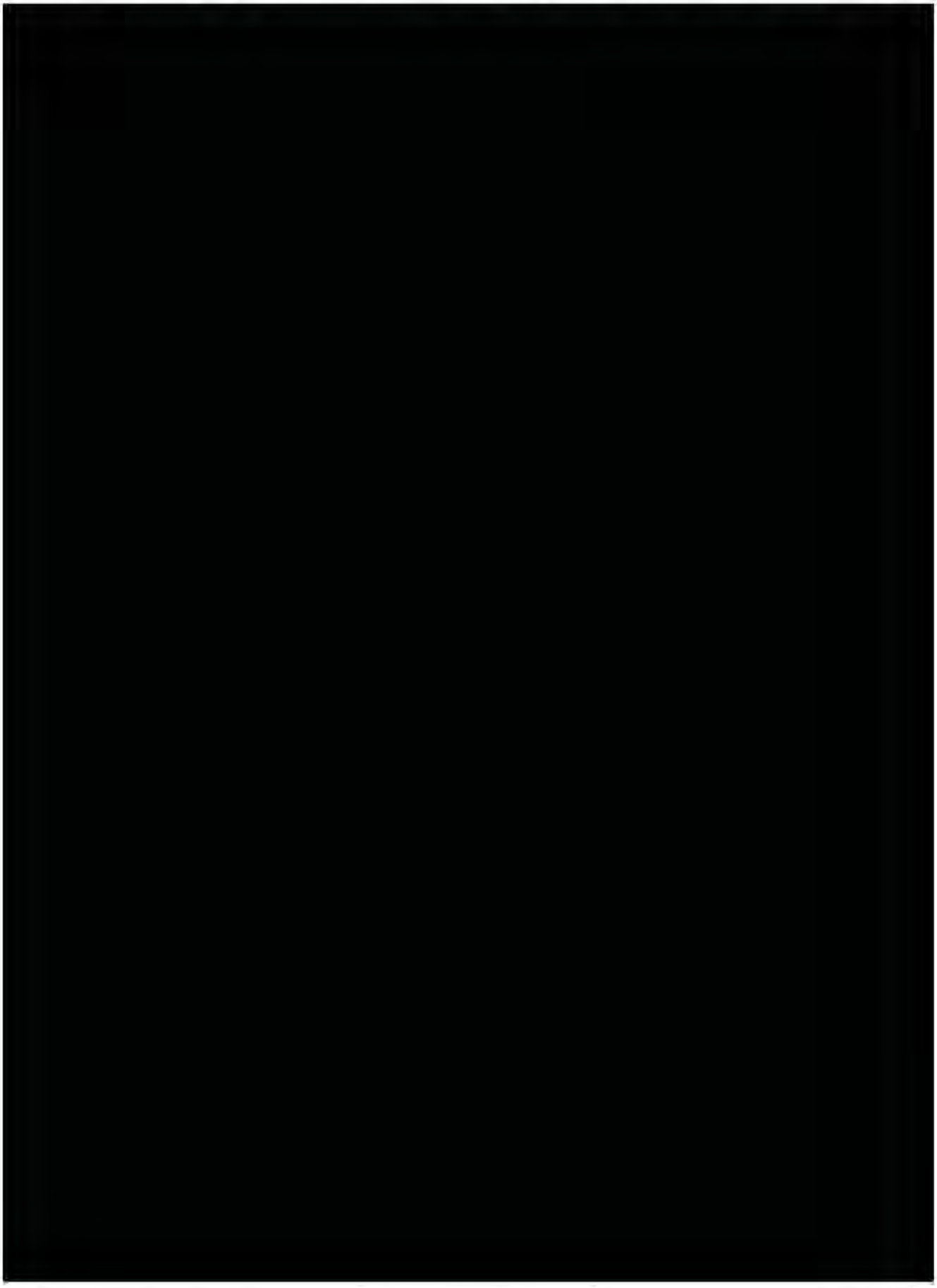

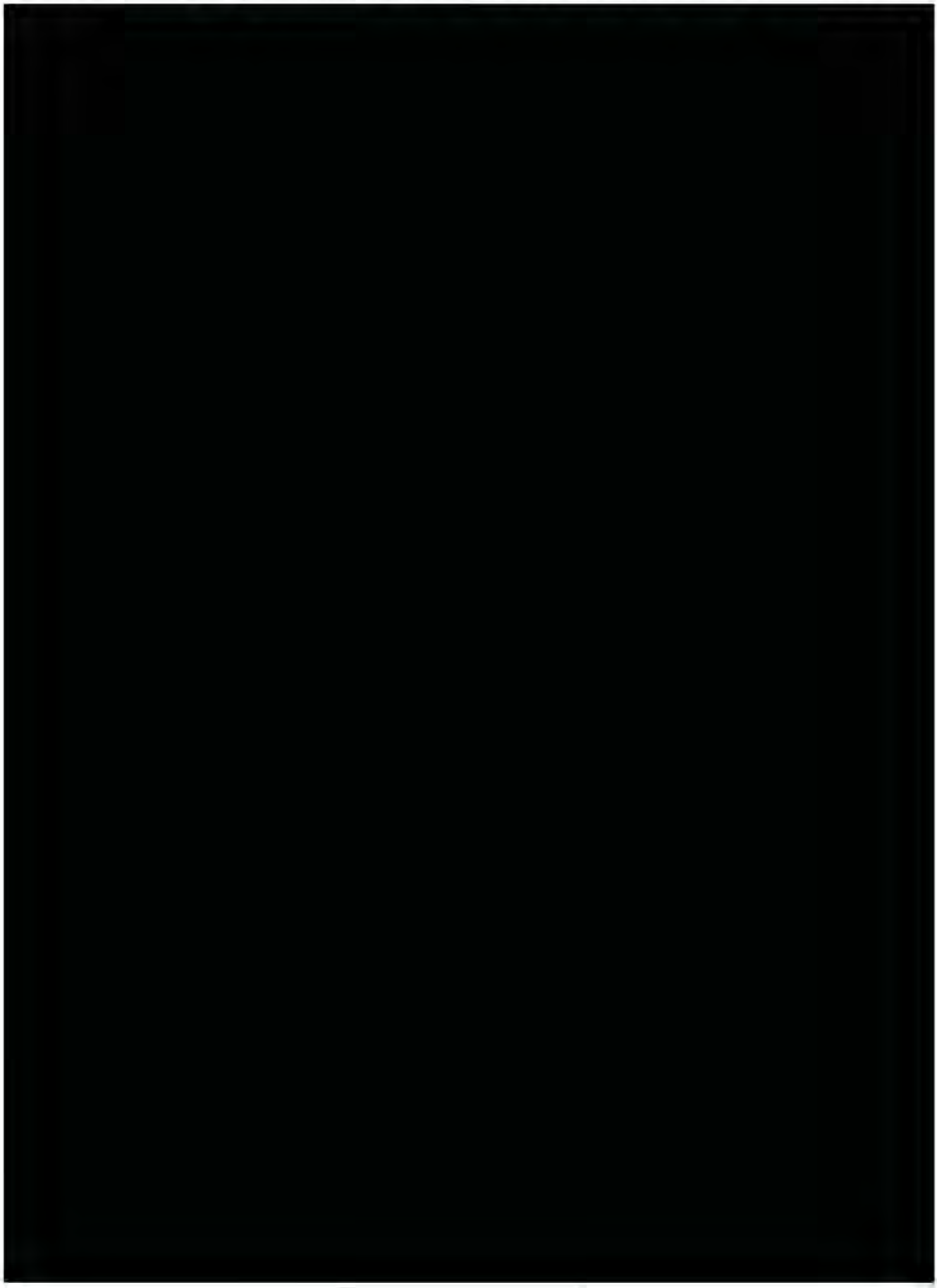

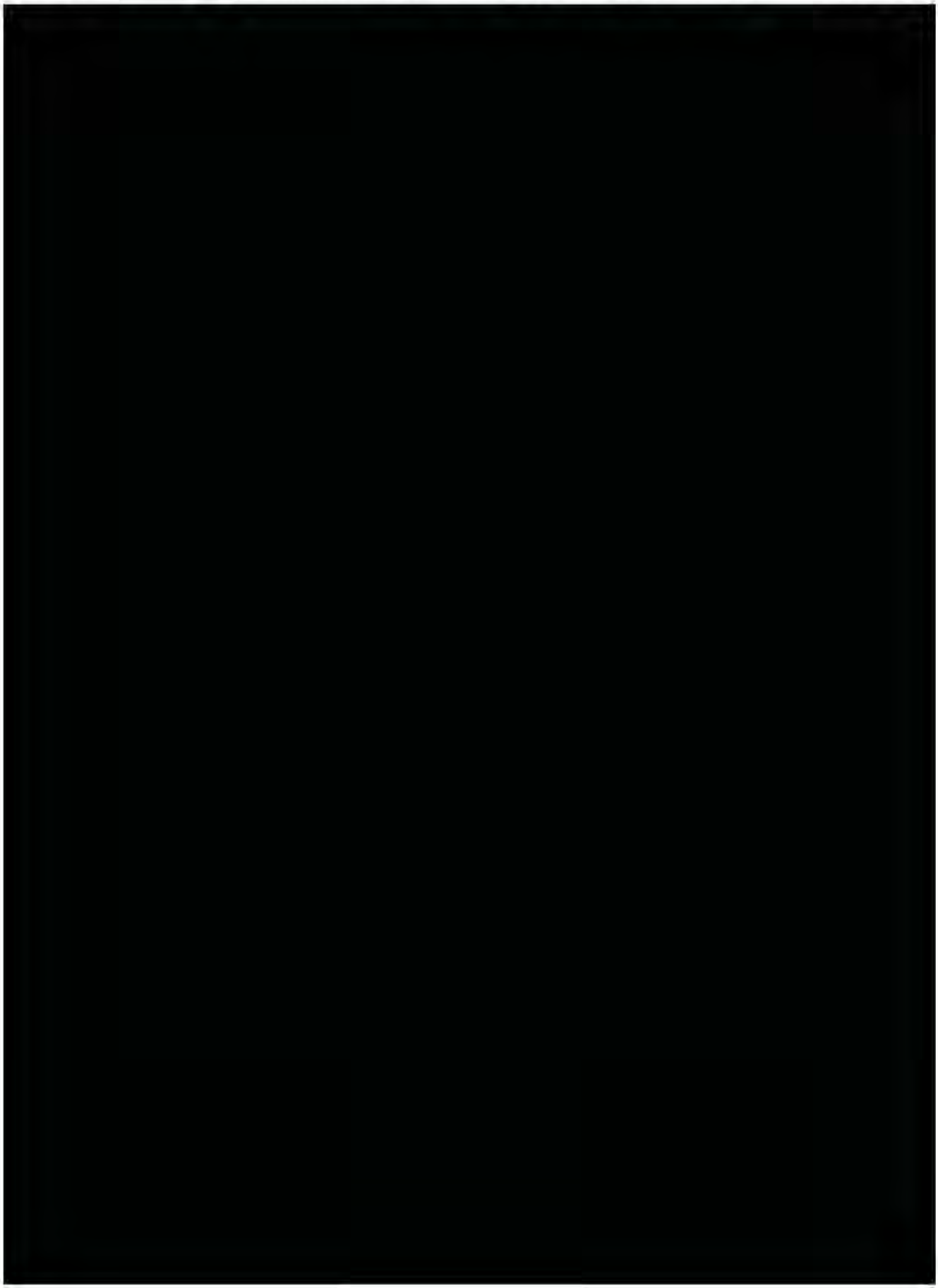

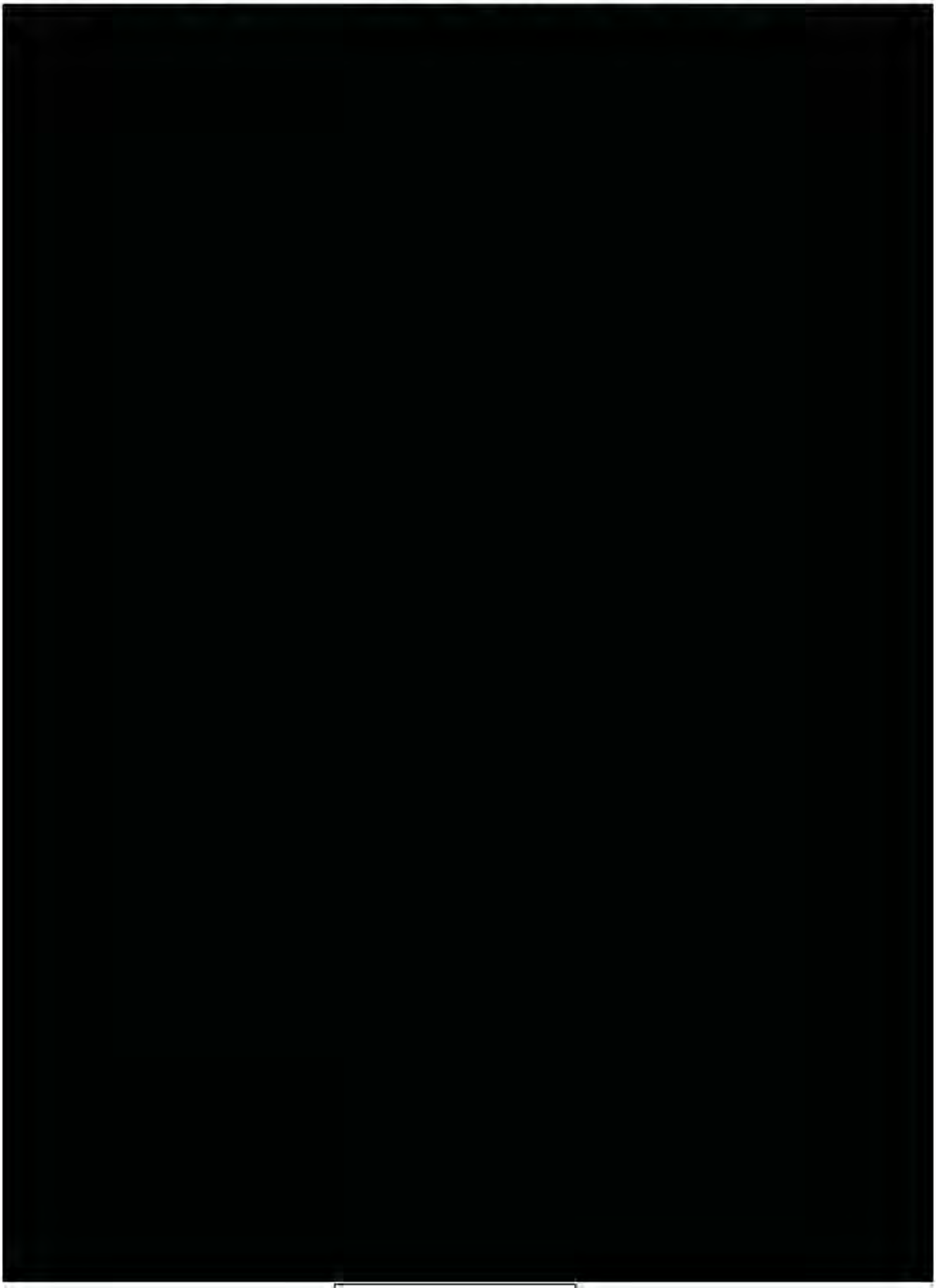

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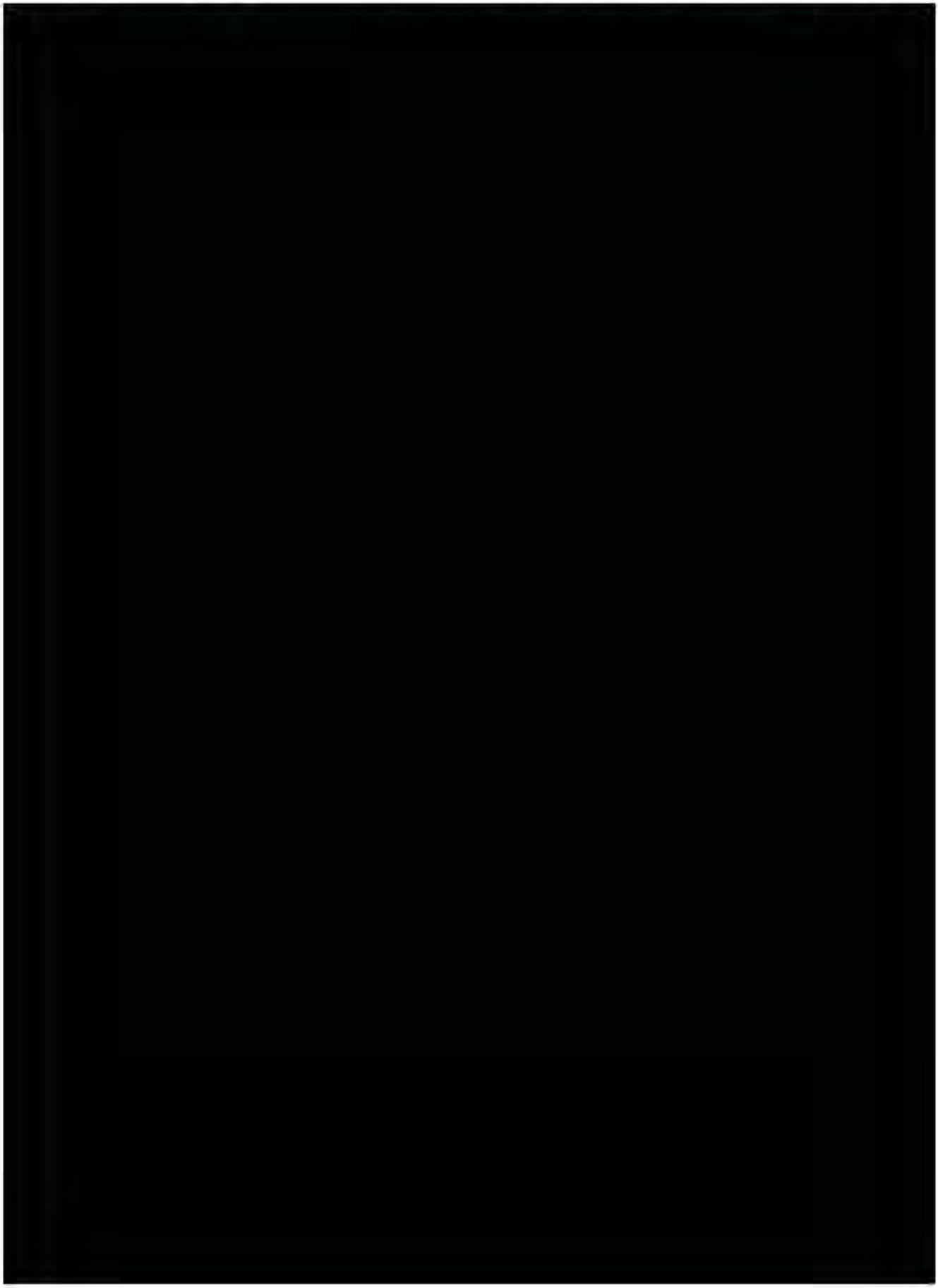

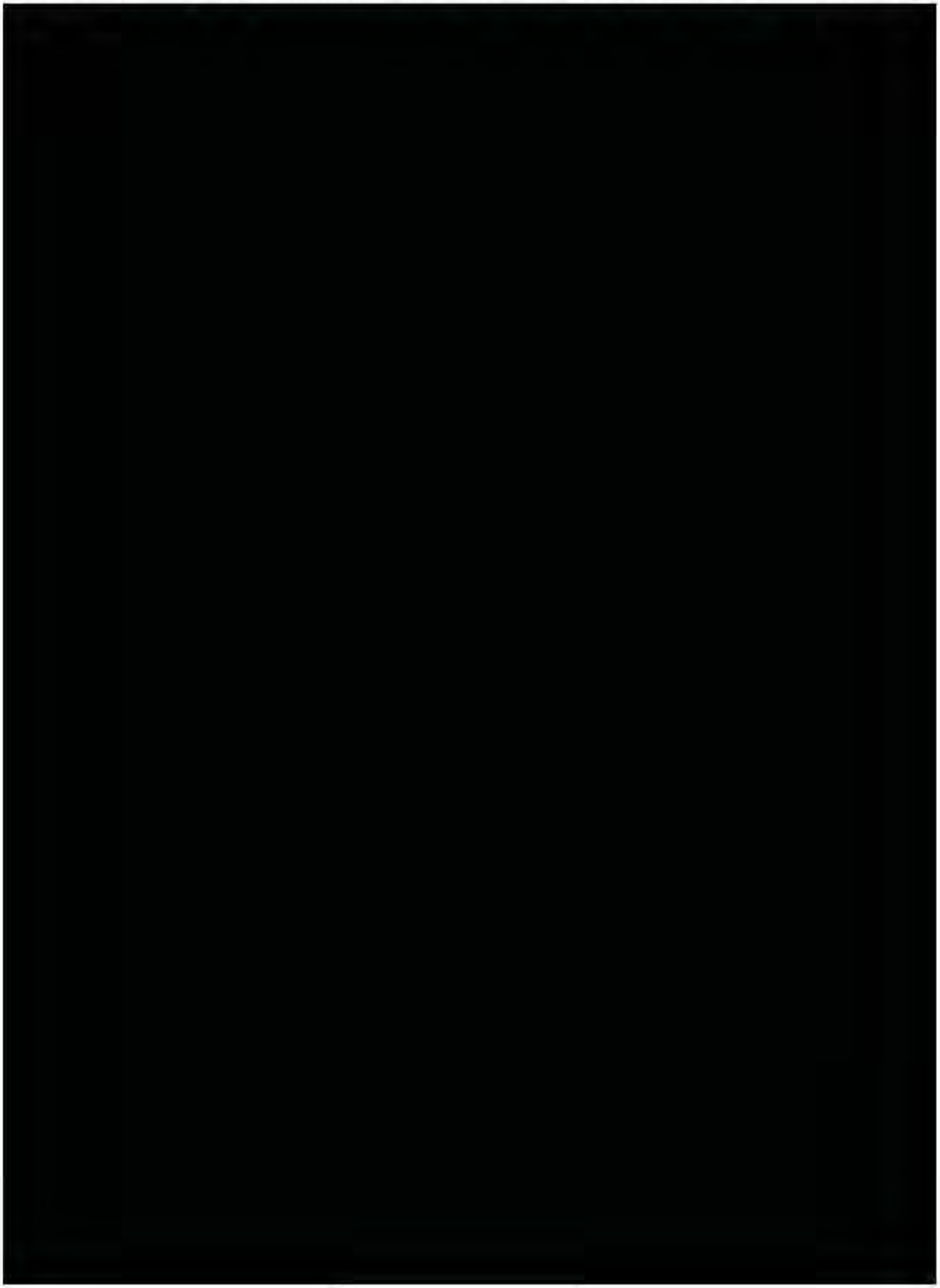

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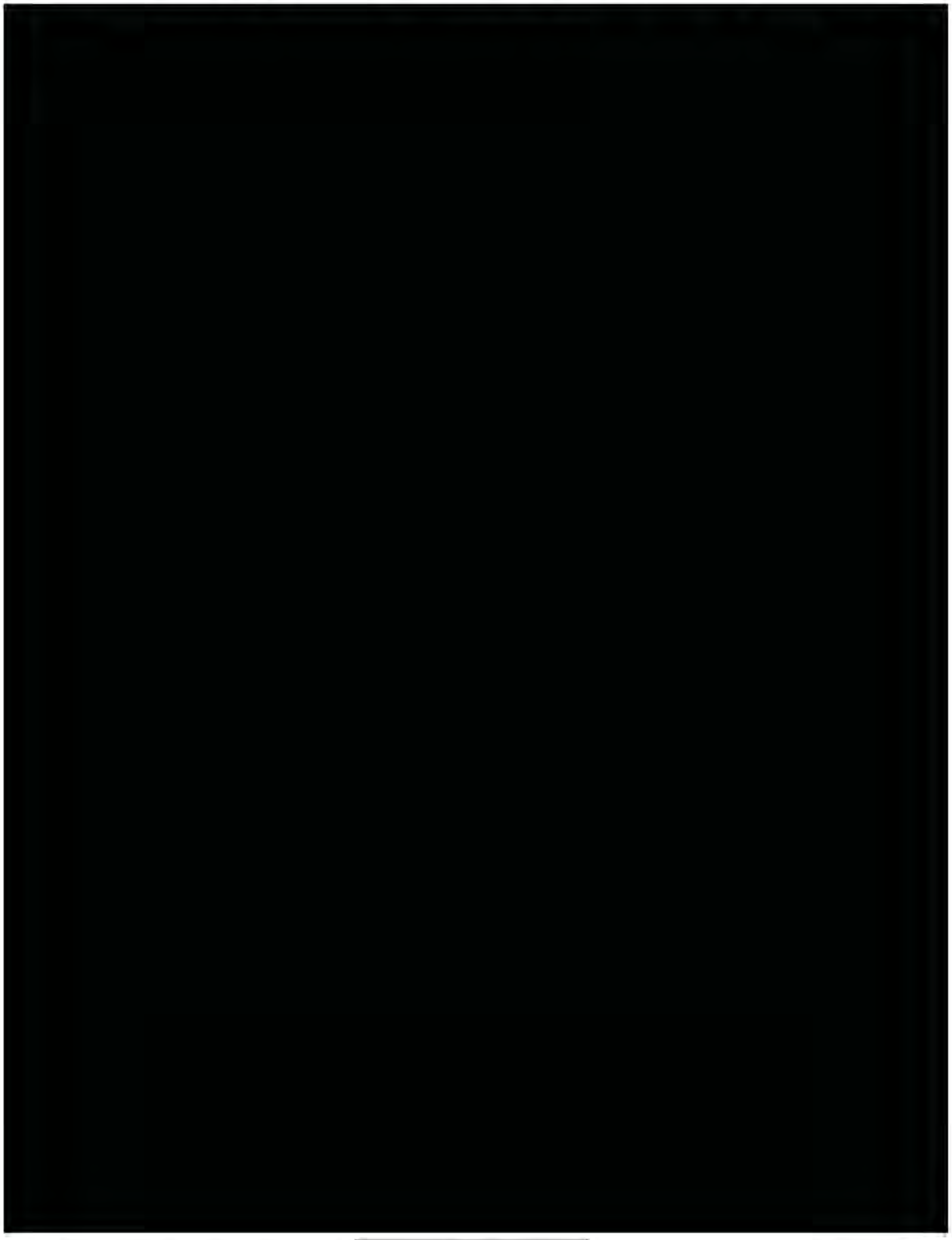

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Exhibit 5
Risk Analysis

The proposed transaction related to the Lower Snake River Wind Project is subject to certain risks that, generally speaking, vary in nature and or extent based on the phase of the Project. The Project phases are Development, Construction, and Operation. PSE has identified these risks and developed plans to eliminate or mitigate them to the maximum extent that is commercially reasonable and practicable. This exhibit describes these identified risks and their proposed mitigation.

Development Phase

At the time of this writing, the key definitive agreements have been substantially agreed to, but not executed. The Development Phase covers the period between now and the start of construction. The following describes the risk during the development period and the risks associated with a delay in development schedule.

Risk	Possible Cause	Mitigation
Real Estate	Expiration of lease option periods prior to construction of later phases	Leverage positive local relationships to negotiate extensions of leases as required for later phases.
Permitting	Opponents appeal CUP on procedural issues	PSE has supported and funded Garfield County's retention of outside counsel (Jay Derr) to review, develop, and implement a robust permitting process. As recommended by PSE's permitting counsel, County permitting staff has established a local Hearings Examiner and well-defined SEPA implementation procedures.
Community Acceptance	Community acceptance limits Project capacity	• PSE is an established member of community with positive local relationships • Develop and execute an effective Community Relations plan to inform and engage the community relative to the Project benefits.
Wind Resource Assessment	RES Wind Resource Assessments over estimate Project output	GEC-DNV provides independent assessment of data to confirm wind resource assessments
WTG Technology	Changes in WTG standards and performance	Acquire WTGs in phased procurements so that improvemetns in technology are acquired as they become commercially available
Interconnection	Delays in BPA Construction of Central Ferry substation	• BPA environmental review keyed to Project SEPA products • Advance funding of Central Ferry to support on-time schedule
Transmission	Delays in transmission improvements curtail Project output	BPA is highly incented to deliver projects that will bring more renewable power to customers and has Stimulus Bill funding.
Project Economics	Stranded cost due to changes in development plan	PSE would seek recovery of stranded costs if and when they occur via accounting petitions or rate filings.

Risk	Possible Cause	Mitigation
Financing	Uncertainty around implementation of Stimulus Bill provisions limit financing options	• Five-year plan economics assume normalization of grant with 10-year amortization. • PSE is working with Treasury on clarification of grant rules related to start of construction and definition of qualified property • PSE is working with Congress on legislative fix for normalization • PSE would expect to utilize tax equity "flip" partnership if normalization is not fixed
Change in Law • Repeal RPS • Tax law changes	Federal legislation repeals State RPS or Stimulus Bill provisions	• Active lobbying efforts at state and federal level • Likelihood of future green house gas ("GHG") legislation and federal RPS should increase value of renewables in portfolio

Construction Phase

This phase commences when a Notice to Proceed ("NTP") is issued to WTG supplier under the Turbine Supply Agreement ("TSA") and to the Balance of Plant ("BOP") contractor (RES Construction). This milestone marks the beginning of the Construction Phase of the Project.

Individual wind turbines will be commissioned, generally in groups, or strings, based on the collection system feeder arrangement. Energizing a feeder requires that the interconnection with BPA be made. Further, the site substation and step-up transformer work needs to be completed in a timely fashion.

The principal risks during the construction period are discussed in the following table.

Risk	Possible Cause	Mitigation
Construction Schedule	Turbine supplier fails to deliver in a timely fashion	[redacted]
Construction Schedule	Transportation accidents	
Construction Schedule	BOP contractor fails to complete construction	
Construction Schedule	Construction accidents	
Construction Schedule	Erection delay	
Capital Budget	Cost overruns exceeds budget estimate	

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Operating Phase

Wind turbines are commissioned in groups according to the strings associated with collection system feeders. As each wind turbine is placed into service, the wind turbine substantial completion milestone is met. When all turbines have been commissioned, the Project will have met the Project substantial completion milestone. PSE anticipates negotiating a turbine service and maintenance contract with the turbine supplier and warranty provisions on the turbines. Certain risks exist during this operating phase and these risks are discussed in the following table.

Risk	Possible Cause	Mitigation
Rate Recovery	Failure to obtain favorable rate treatment from WUTC of PSE's investment in the Project.	As part of a recommendation to the Board of Directors to proceed with a particular phase of the Project, rigorous financial analysis documentation will be included which will demonstrate that phase is a least cost resource.
Project Under-Performance	Poor initial long-term wind projection	Independent energy estimate by an industry expert DNV-GEC. Note: In the event of wind resource projection error, it could take several years to identify such error based on inter-annual wind variability.
Project Under-Performance	Upwind conditions change	There is no likely development of wind turbines upwind of any significant portion of the project.
Resource Change	Site wind resource change; climate change	Unable to mitigate. However, it is possible climate change could have the effect of making all wind resources more valuable than presently envisioned.
Turbine Availability	Low availability from any cause	PSE intends to negotiate an availability guarantee of 97% for five years of the Service Agreement. The turbine supplier will pay liquidated damages due to availability below 97%.

Exhibit 6
Lower Snake River Project Phase I
Stand-Alone Preliminary Indicative Financial Pro Forma

Facility Description

The Lower Snake River - Phase 1 Project ("LSR P1 Project"), to be described further herein, consists of the permits, real estate rights, interconnection agreements, and other necessary rights and agreements to develop, construct, own and operate the approximately 250 MW wind generating facility in unincorporated Garfield County, WA, and near PSE's Hopkins Ridge Wind Project located in unincorporated Columbia County, WA. The all-in cost to develop and construct LSR P1 is approximately $715 million.

Description of Plant:

Facility:	The approximately 250 MW LSR P1 Project is located in unincorporated Garfield County, Washington.
Owner:	PSE
Timing and Nature of Acquisition and Construction:	PSE anticipates executing the Turbine Supply Agreement contract with a suitable vendor in a timeframe that allows for on-site construction to commence in early 2011. PSE negotiated a form BOP EPC agreement with RES Construction. A Notice To Proceed will be issued once all non-appealable permits are acquired. Construction is expected to last approximately eight months.
Full Notice to Proceed:	March 1, 2011 (estimate)
COD:	December 2011 (estimate)
25-year Levelized Cost:	$[redacted]/MWh, in 2011 dollars, based on preliminary estimates with major components subject to change.
Net Capacity Factor:	The approximately 250 MW LSR P1 Project is estimated to have a roughly[redacted] net capacity factor, depending on turbine vendor and type selected for the project, as determined by DNV Global Energy Concepts ("DNV-GEC").
Technology:	Under consideration.
Transmission:	Transmission from the Facility to PSE's service territory flows across the BPA transmission system.
Real Estate:	The LSR P1 Project will reside on approximately 20,000 acres of land leased from multiple parties.

The Projection

This document and its exhibits (the "Projection") illustrate the projection of the incremental financial results to PSE from its investment in the LSR P1 Project. Included in the Projection are pro forma financial statements illustrating operation of the Facility through the year 2036 and a description of the data and assumptions used to derive them.

Capital Assumptions

LSR P1 Project Cost Assumptions	[redacted]
Development Rights	
Development Costs	
Transmission Costs	
Interconnection Costs	
Wind Turbine Generators	
Balance Of Plant	
Construction Mananement	
Other Costs	
Contingency	
AFUDC	
Total	

Development Rights: Included in the development rights were land lease agreements, wind data, transmission studies and site surveys completed before the date of closing.

Development Costs: The development budget is a compilation of the costs necessary to negotiate the development rights and purchase agreements (such as the Turbines Supply Agreement with a suitable vendor), study the LSR P1 Project wind resource, provide general project management services, and obtain a permit for the project. All costs incurred in the development phase will be capitalized.

Transmission Costs: Transmission Costs includes PSE's portion of the estimated expenditures associated with the studies and service requests, as well as infrastructure upgrades, of BPA to ensure the Company can interconnect and transmit additional generation across the existing transmission system. Costs are based on BPA estimates as of June 2009.

Interconnection Costs: Interconnection Costs includes estimated expenditures associated with the studies and service requests of BPA to ensure the Company can interconnect and transmit additional generation across the existing transmission system. Costs are based on BPA estimates as of June 2009.

Wind Turbine Generators: PSE continues to evaluate quotes from several capable turbine manufacturers. Pricing is from quotes collected in June, 2009 and is subject to change until a Turbine Supply Agreement is finalized.

Balance Of Plant:	RES Construction will assist with completion of the engineering of the site layout and then construct the necessary infrastructure to erect and connect the wind turbines to the substation.
Construction Management:	Construction Management costs are associated with PSE's managerial oversight of the construction phase. Included in this category are costs to acquire an Owner's Engineer to sign-off on contractual commitments in the Turbine Service Agreement, internal PSE management costs, environmental reviews, corporate communication activities during the construction phase and project overhead.
Other Costs:	Other Costs is an estimate for the start-up energy generated at the LSR P1 Project. Start-up energy is the revenues received for power generated during the commissioning phase. As turbines are commissioned, they will operate as wind is available, subject to any operating constraints, until Project Substantial Completion is achieved.
Contingency:	Contingency is added to the project budget to account for cost risk as certain expenditures remain unknown. Some of the large risks include the expenditures related to WTGs, the BOP EPC contract, BPA payments, and other items.
AFUDC:	Allowance for Funds Used During Construction is calculated using the allowed rate of return of 8.25% for book purposes. For tax basis, the company capitalizes the actual construction period interest.

PSE Board of Directors

Exhibit 6

Facility Stand-Alone Preliminary Financial Pro Forma

Income Statement	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Regulated Revenue										
Annual Capacity Factor										
Annual Net Energy (GWh)										
Total Operating Expenses										
EBITDA										
Gross Margin										
Depreciation & Amortization										
EBIT										
Operating Margin										
Net Interest Expense										
Interest Expense										
Net Interest Expense										
Pre-Tax Income										
Profit Margin										
Taxable Income										
Pre-tax Income										
Plus Depr. & Amort.										
Less Tax Depreciation										
Net Taxable Income										
Less: Capital Transaction gain/(loss)										
Taxable Income										
Current Income Tax										
Deferred Income Tax										
ITC										
Net Income										

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PSE Board of Directors

Exhibit 6

Facility Stand-Alone Preliminary Financial Pro Forma

Income Statement	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Regulated Revenue										
Annual Capacity Factor										
Annual Net Energy (GWh)										
Total Operating Expenses										
EBITDA										
Gross Margin										
Depreciation & Amortization										
EBIT										
Operating Margin										
Net Interest Expense										
Interest Expense										
Net Interest Expense										
Pre-Tax Income										
Profit Margin										
Taxable Income										
Pre-tax Income										
Plus Depr. & Amort.										
Less Tax Depreciation										
Net Taxable Income										
Less: Capital Transaction gain/(loss)										
Taxable Income										
Current Income Tax										
Deferred Income Tax										
ITC										
Net Income										

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Revenues:

Regulated Revenue: The Projection calculates revenues required to recover LSR P1 Project costs, including return on assets included in the rate base, as well as fixed and variable operating expenses.

The revenue requirement calculation assumes complete cost recovery and no regulatory lag.

Annual Capacity Factor: The Projection uses DNV-GEC monthly capacity factor estimates based on currently available data as of June, 2009. Overall, the LSR P1 Project is expected to have a roughly [redacted] net capacity factor, depending on the turbine model selected for the Project.

Annual Energy: Annual Energy is equal to the Net Capacity Factor multiplied by the Capacity multiplied by 8760 (365 x 24) hours. Generation will yield about [redacted] MWh annually.

Expenses:

Expenses represent all fixed and variable costs associated with operating the LSR P1 Project subsequent to Commercial Operation. These costs include, but are not limited to:

Fixed Transmission:	Transmission from the LSR P1 Project to PSE's service territory flows across the BPA transmission systems. A wheeling charge, including charges for ancillary services, is included for this service.
Operations Expense:	PSE operating expenses include but are not limited to turbine supplier O&M contracts, staffing, vehicle charges, supplies, and forecasting services.
Royalty Payments:	Landowners are entitled to production royalties. Said royalties are the product of energy yield and the inflation adjusted royalty rate.
Maintenance Expense:	PSE performs incremental maintenance to that provided by the turbine manufacturer.
Transmission & Substation Expenses:	This cost category captures expenditures to maintain the substation and distribution lines on project lands.
Environmental Expenses:	PSE anticipates certain permit obligations that require the Company to conduct ongoing environmental monitoring and studies, similar to those requirements at other Company-owned facilities.
Property Tax:	PSE is centrally assessed for property taxes and pays a combination of State and County taxes. Taxes are based on current capital and tax rate projections for real and personal property.
Insurance:	PSE anticipates adding the Facility to its permanent property insurance program at the project value less AFUDC and construction-period insurance cost.
Variable Transmission:	Variable transmission costs are comprised of the following components: 1. Day Ahead Operating Costs: PSE cost to integrate wind on a day-ahead basis. 2. Hour Ahead Operation Costs: PSE cost to integrate wind on an hour-ahead basis. 3. Losses: The cost of the power lost due to resistance in transmission lines. Losses are purchased from BPA to replace 2% of total generation.

Renewable Energy Credits:	PSE may opt to sell the renewable energy credits ("RECs") generated from the LSR P1 Project until the Company needs RECs to be compliant with RCW 80.80, the law that established the renewable portfolio standard in Washington, or with the Company's internal goal of having 10% renewable energy by 2013, whichever comes first.
EBITDA:	Earnings before interest, taxes, depreciation and amortization ("EBITDA") are calculated as revenues less all expenses.
Depreciation and Amortization:	All assets except land are depreciated using the straight line method for book depreciation. For tax purposes, all assets except land and AFUDC receive a 5 year Modified Accelerated Cost Recovery System ("MACRS") treatment.
EBIT:	Earnings before interest and taxes are equal to EBITDA less Depreciation and Amortization.
Interest Expense:	Interest Expense is calculated based on PSE's mid-year pro forma rate base multiplied by the assumed debt percentage in the capital structure. This method is consistent with conventions used by regulated utilities.
Pretax Income:	Pretax income is equal to EBIT less Interest Expense.
Net Taxable Income:	Net Taxable Income is equal to Pretax Income plus book depreciation and amortization, less Tax Depreciation.
Income Taxes Paid:	Income Taxes paid are calculated as Net Taxable Income multiplied by the Federal corporate income tax rate of 35%.
Deferred Income Taxes:	Deferred Income Taxes are calculated as the difference between book and tax depreciation expenses multiplied by the Federal corporate income tax rate of 35%.
Investment Tax Credit:	The American Recovery and Reinvestment Act of 2009 included a provision allowing wind generating projects to qualify for the Federal Investment Tax Credit ("ITC") in lieu of the Federal Production Tax Credit ("PTC") for projects entering construction in 2010 and achieving commercial operation before 2013. The ITC allows for a 30% tax credit, with a cash option, of eligible project property.

Exhibit 7
Questions and Answers

Questions and Answers: Purchase of Remaining 50% undivided interest in the Lower Snake River Wind Project

July 17, 2009

Privileged and Confidential Attorney – Client Communication

To: PSE Board of Directors

cc: Dewey & LeBoeuf LLP

From: Kimberly Harris

Subject: Question and Answers regarding proposed purchase of remaining 50% undivided interest in the Lower Snake River Wind Project (the "RES LSR Interest")

We appreciate the questions raised during our telephonic discussion of the proposed acquisition of the RES LSR Interest. In order to efficiently respond to the questions that have been posed, we have compiled the questions from Board members as well as questions posed by various members of the Energy Management Committee and the Asset Management Committee into a single list so that the entire Board will have full access to all of the questions raised and the answers furnished by the Company.

We have categorized the questions and answers under the five general topic headings set forth below:

I. The proposed transaction and the issues pertaining to PSE's existing and future relationship with RES;

II. The alternatives to the acquisition of the RES LSR Interest;

III. The technical aspects of the Project;

IV. Completion and operating risks affecting the Project; and

V. The financial analyses of the Project and implications for PSE's 5-Year Capital Budget.

Questions and responses for each of these five areas are discussed below.

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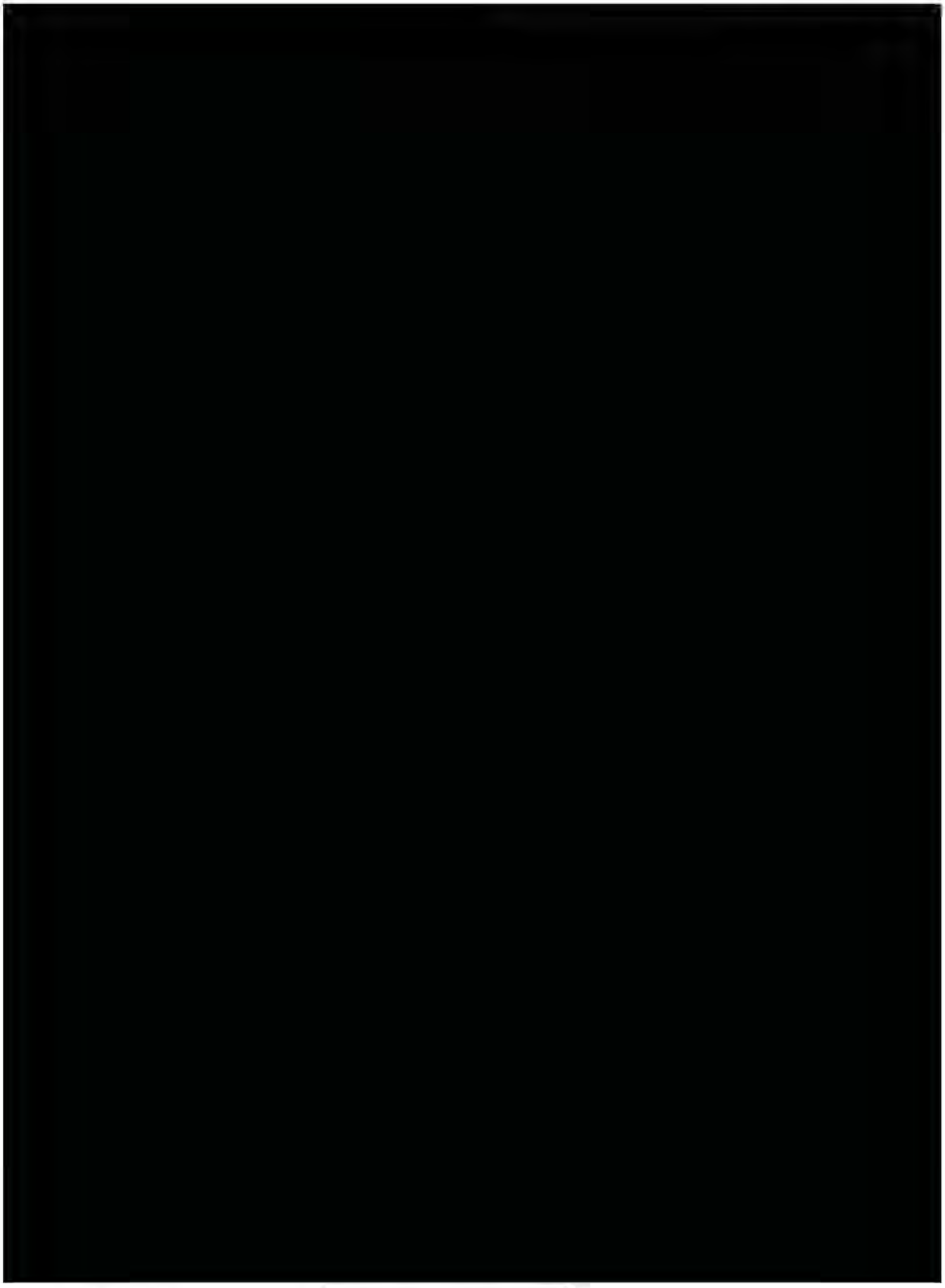

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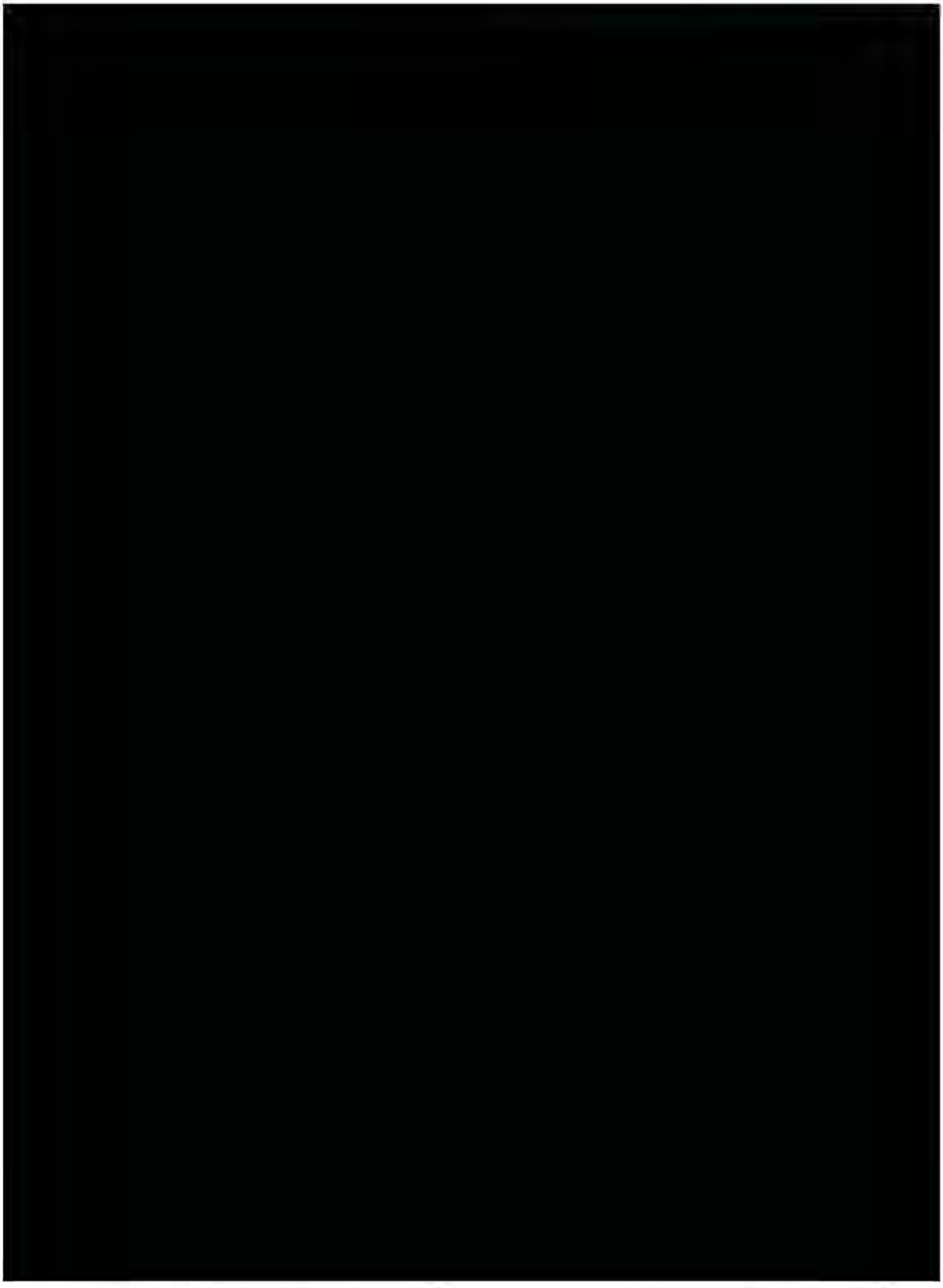

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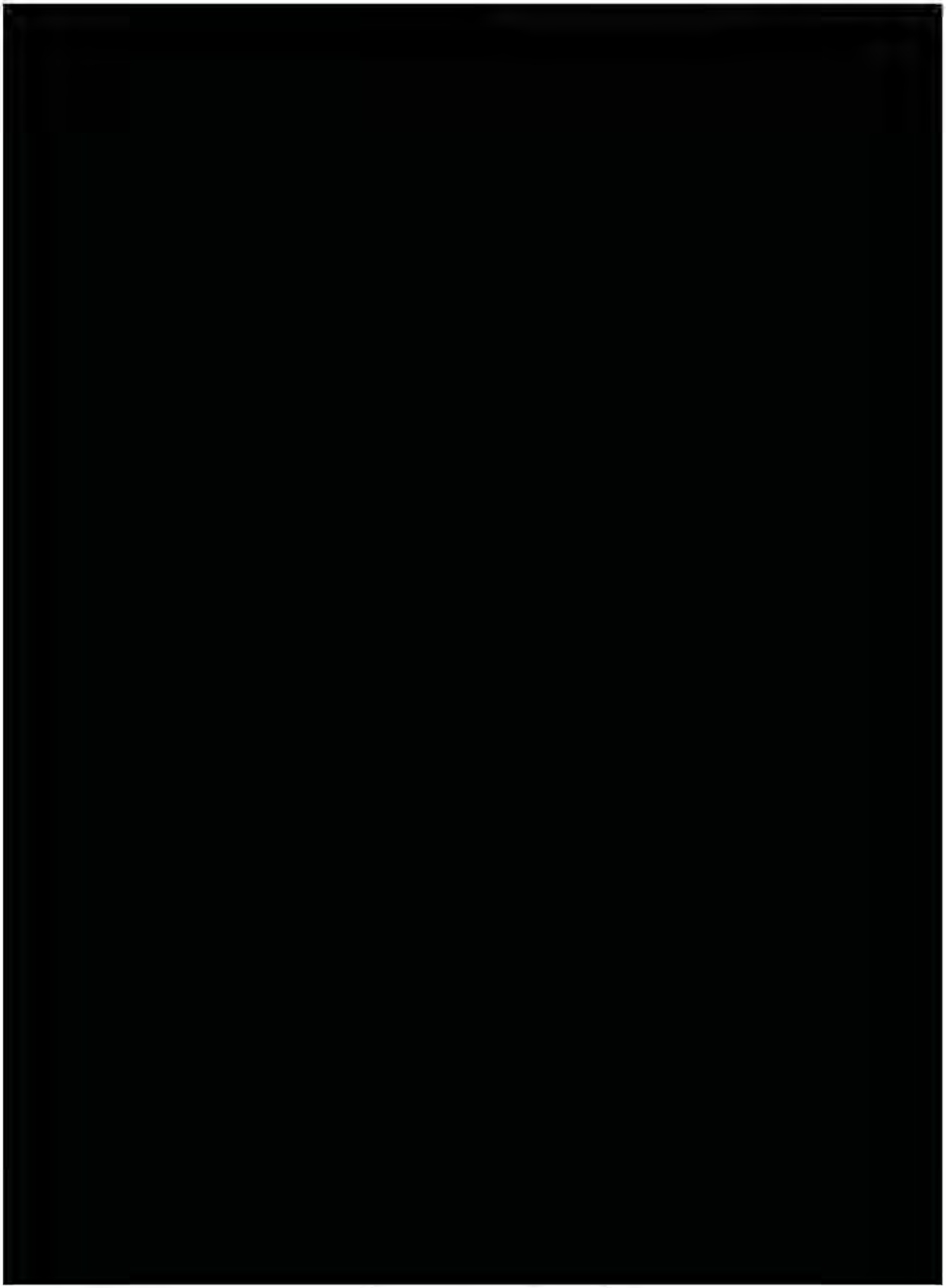

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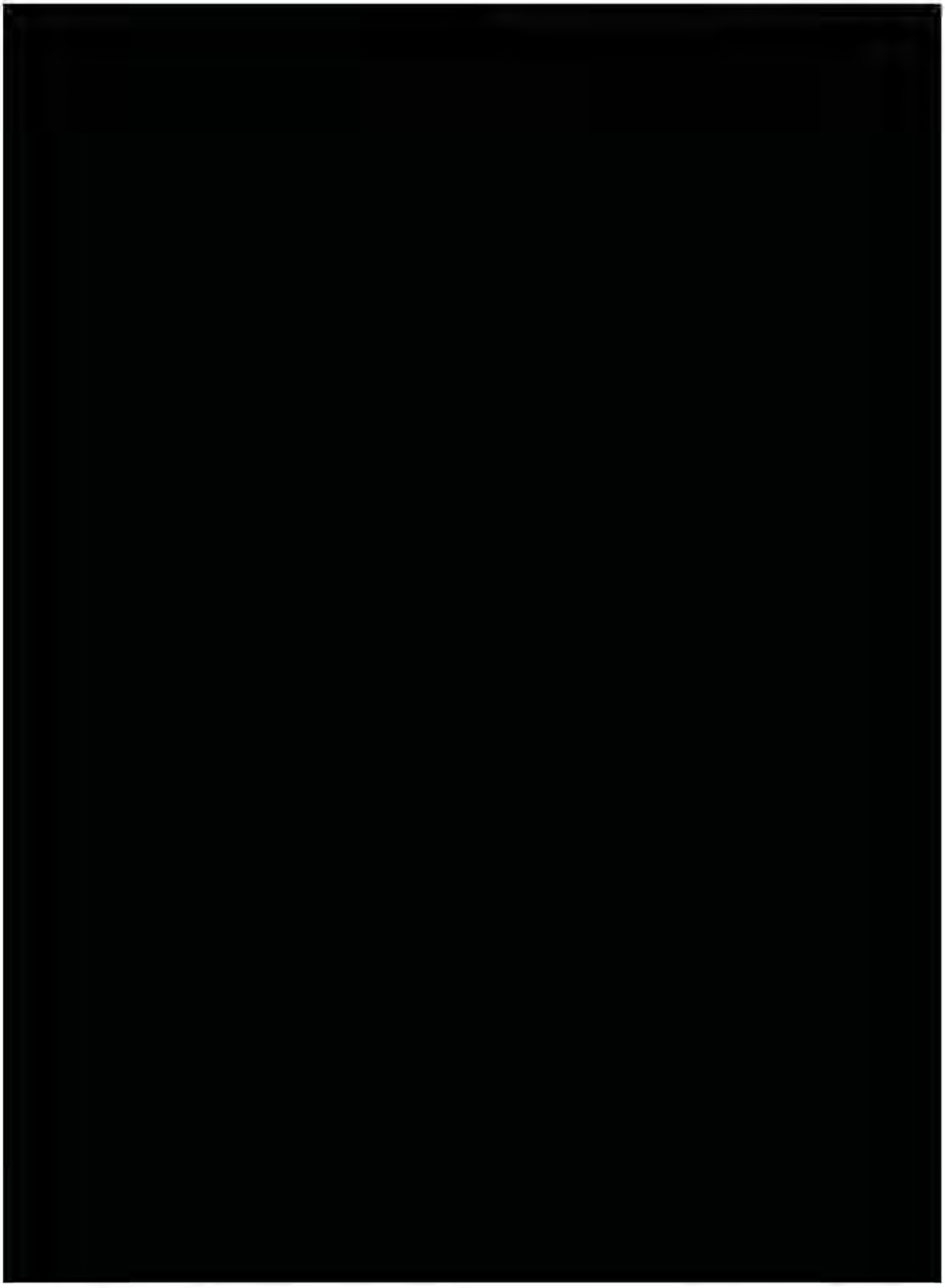

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Exhibit 8
Glossary of Abbreviations

Abbreviation	Definition
BOP	Balance of Plant
BPA	Bonneville Power Association
CFED	Citizens For Economic Diversity
COD	commercial operation date
Company, the	Puget Sound Energy
CUP	Conditional Use Permit
DEIS	Draft Environmental Impact Statement
DNV-GEC	DNV Global Energy Concepts, consulting engineering firm
E&P	Engineering and Procurement Agreement
EIS	Environmental Impact Statement
EPC Agreement	Engineering, Procurement and Construction Agreement
Horizon	Horizon Renewable Energy
ITC	investment tax credit
JDA	Joint Development Agreement
LGIA	Large Generator Interconnection Agreement
MW	megawatt
MWh	megawatt hour
NEPA	National Environmental Policy Act
O&M Agreement	Operations and Maintenance Agreement
PPA	Power Purchase Agreement
Project, The	Lower Snake River Wind Project
PTC	production tax credit
PTP	point-to-point (transmission)
REC	renewable energy credit
RES Development	RES America Developments, Inc.
RES Limited	Renewable Energy Systems Limited
RFP	Request for Proposals
RFQ	Request for qualifications
SEPA	Washington state Environmental Policy Act
SEWEDA	Southeast Washington Economic Development Association
Treasury	U.S. Department of the Treasury
WTG	wind turbine generator