

EXHIBIT NO. ___(CJL-6)
DOCKET NO. UE-07___/UG-07___
2007 MERGER PROCEEDING
WITNESS: CHRISTOPHER J. LESLIE

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Joint Application of

PUGET HOLDINGS LLC

and

PUGET SOUND ENERGY, INC.

For an Order Authorizing Proposed Transaction

Docket No. UE-07___
Docket No. UG-07___

**FIFTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
CHRISTOPHER J. LESLIE
ON BEHALF OF PUGET HOLDINGS LLC**

DECEMBER 17, 2007

**Puget Holdings LLC
Puget Intermediate Holdings Inc.
Puget Energy, Inc.
Puget Sound Energy, Inc.**

Memorandum Describing Anticipated Corporate Governance

This memorandum describes the corporate governance structure of Puget Holdings LLC (“Puget Holdings”), Puget Intermediate Holdings Inc. (“Puget Intermediate”), Puget Energy, Inc. (“Puget Energy”), and Puget Sound Energy, Inc. (“PSE”) anticipated to be effective upon the closing of the acquisition of Puget Energy and its subsidiaries by Puget Holdings.

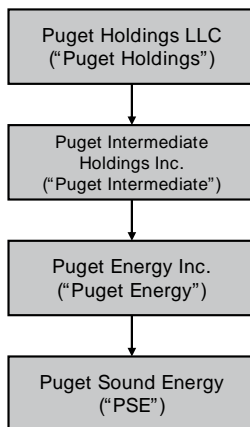
Principles

The principles underpinning the governance structure set forth in this memorandum are as follows:

- The governance structure used by Puget Energy and PSE will be continued under the new ownership because that structure is effective, is accepted by Puget Energy’s and PSE’s external constituencies, and meets applicable state and federal regulatory requirements. The most significant change to the current structure is that Puget Holdings will replace Puget Energy as the ultimate parent company in the PSE ownership structure.
- The proposed structure will also reflect the commercial agreements negotiated by the members of Puget Holdings (Members). Such agreements address decision-making by the Members and by the boards of the various entities in the ownership structure, and related matters such as board membership, voting rights etc.
- The business of PSE will be managed by its board, subject to the authorities delegated to that board by Puget Holdings, so that (i) PSE will continue to function as a corporation separate and apart from the other entities in the group and (ii) the conditions underpinning the non-consolidation opinion in connection with PSE (which is necessary to comply with the ring-fencing rules of the WUTC) will be sustained.
- The Business Plan of PSE will be the core document governing the operations of the regulated public utility. That plan will be developed by PSE and approved by Puget Holdings. Upon approval of the Business Plan, PSE will have wide latitude to implement such plan.

Entities

The following diagram shows the relationships among the entities in the structure:



The following table describes each of the entities:

Name	Puget Holdings	Puget Intermediate	Puget Energy	PSE
Nature of Entity and Legal Authority	Delaware Limited Liability Company	Washington Corporation	Washington Corporation	Washington Corporation; regulated public utility
Purpose	Ultimate parent company in the PSE ownership structure	Provides structural flexibility for future corporate transactions	Survivor of merger with Puget Merger Sub Inc. Issuer of 3 rd party acquisition debt	Primary operating entity.
SEC Registrant	No	No	No	Yes
Governing Board⁽¹⁾	Board of Managers of Puget Holdings	Board of Directors of Puget Intermediate	Board of Directors of Puget Energy	Board of Directors of PSE
Board Committees	Audit, Leadership Development & Compensation, Asset Management, Business Plan and Budget Review	None	None	Audit, Leadership Development and Compensation Securities Pricing Governance and Public Affairs
Officers	To be appointed	To be appointed	To be appointed	Existing

⁽¹⁾ It is anticipated that members of the Puget Holdings Board of Managers will also serve on the Boards of Directors of Puget Intermediate, Puget Energy and PSE. The composition of the Puget Holdings Board of Managers is discussed under “Puget Holdings” below.

Puget Holdings

Puget Holdings shall replace Puget Energy as the ultimate parent company in the PSE ownership structure and, accordingly, will perform similar functions as performed by Puget Energy prior to the transaction. Puget Holdings shall be governed by a Board of Managers, as follows:

- The Board will have up to 12 Managers.
- Each member of Puget Holdings shall be entitled to appoint one Manager to the Puget Holdings Board for each 10% of the Shares of Puget Holdings it owns.
- The Board shall also include the CEO of PSE and may include one independent director.

It is expected that Puget Holdings board will meet quarterly. The Board will adopt the existing Corporate Governance Guidelines of Puget Energy and PSE (see attached), revised only to reflect structural or compliance changes resulting from the merger.¹ The functions of the Puget Holdings Board with respect to Puget Holdings and its subsidiaries are summarized below:

¹ For example, following the merger, the common stock of Puget Energy will no longer be publicly listed on the New York Stock Exchange (“NYSE”), so those provisions of the current Corporate Governance Guidelines relating to NYSE compliance will no longer be needed.

- To review, approve and/or amend the PSE Business Plan developed by PSE management and recommended by the PSE Board and the Business Plan and Budget Review Committee.
- To establish the policies, procedures, guidelines and delegations for the implementation of the PSE Business Plan by PSE and its management.
- To review and approve certain material transactions (for example acquisitions, divestitures, transfer of assets, winding up of businesses, financings, granting of security, or the issuance of guarantees) except, in certain circumstances, as contemplated in a previously approved Business Plan.
- To recruit, evaluate the performance of, and compensate, and enter into contracts with, the CEO and CFO of PSE and to review and approve the CEO's recommendations with regard to the compensation of his/her direct reports.
- To acquire, issue, and dispose of securities or form or terminate any joint ventures or similar arrangements except, in certain circumstances, as contemplated in a previously approved Business Plan.
- To establish the accounting policies, derivative programs, and tax strategies.
- To declare dividend distributions.
- To initiate or settle material litigation.
- To execute the authorities delegated to it by the Consortium Members

Puget Intermediate

Puget Intermediate shall be an intermediate entity that will provide structural flexibility for future corporate transactions. It shall have no separate operations, employees or third party financing. Its only subsidiary shall be Puget Energy.

Puget Energy

Puget Energy shall be the surviving entity of the merger of Puget Merger Sub Inc. and the current Puget Energy, Inc. It shall have no separate operations or employees. Given that it will be the borrower under bank financing incurred in connection with the transaction, it shall issue financial statements, obtain an independent audit, and take other actions required by its bank financing.

PSE

PSE shall be the primary operating entity in the group. The Board of PSE shall be the primary decision-making entity with respect to the strategies, plans, policies, and procedures of PSE. It is expected that the members of the PSE board shall be largely the same individuals as the members of the Puget Holdings Board. The PSE Board is expected to meet quarterly and will continue the pre-acquisition corporate governance of PSE. The PSE Board shall have broad authority to develop and implement, through the management of PSE, the PSE Business Plan approved by it and by the Puget Holdings Board. Such implementation authority shall include the following with respect to PSE's Business Plan:

- Take all actions necessary for PSE to fulfill its statutory and regulatory responsibilities as a public utility and to provide safe, adequate and proper service within its franchise area.
- Secure capital facilities and resources, through construction, acquisition, lease or contract, necessary to meet anticipated customer demands.
- Carry out the Board's due diligence responsibilities with regard to energy resource acquisition for PSE including review of the economics, risks, and feasibility of various

- energy supply alternatives, execution of contracts with regard to such acquisitions, and monitoring of contract performance.
- Obtain operational resources (staff, goods, services) necessary to provide utility service in a manner which meets or exceeds regulatory requirements.
 - Initiate and conclude regulatory filings.
 - Obtain financing.
 - Have the sole ability, and only with the Board's unanimous consent, to voluntarily initiate or enter into any bankruptcy proceedings.

PSE's management will have broad authority to execute the approved Business Plans of PSE. Implementation authority of the approved Business Plan includes the ability, amongst other things, to execute contracts, secure financing and purchase and divest assets that are included in the Business Plan. The Puget Holdings and PSE boards will adopt delegated authorities which address actions outside the scope of the approved business plans and to address amendments to business plans.

Committees of the Puget Holdings and PSE Boards

The Boards of Puget Holdings and PSE shall maintain the following standing committees:

- Audit Committee
- Compensation and Leadership Development Committee
- Governance and Public Affairs Committee
- Securities Pricing Committee (PSE only) (aka Executive Committee for mortgage bond issuance)
- Asset Management Committee (Puget Holdings only)
- Business Plan and Budget Review Committee (Puget Holdings only)

The Audit Committee, Compensation and Leadership Development, Governance and Public Affairs and Securities Pricing Committees are standing committees of PSE which predate the merger and, accordingly, the charter, purpose, and procedures of each committee shall remain unchanged going forward, except as to matters (such as NYSE-compliance provisions) no longer required after the merger. (See attached Charters for standing committees of PSE listed above.)

The Asset Management Committee (a joint committee of Puget Holdings and PSE) shall consist of the CEO of PSE and one representative appointed by each of the two largest Members of the Consortium by equity contribution. The Asset Management Committee will meet monthly. The purpose of the Asset Management Committee shall generally be to review the financial performance of Puget Holdings and its subsidiaries, to make recommendations to the Boards of PSE and Puget Holdings with regard to such performance and to otherwise monitor the operations of the businesses between board meetings.

The Business Plan and Budget Review Committee shall consist of the members of the Asset Management Committee plus a representative of British Columbia Investment Management Corporation. The Committee shall review and recommend to the Board of Puget Holdings the annual Business Plan and budget.

Attachments

- A. Corporate Governance Guidelines of Puget Energy and PSE
- B. Committee Charters of following committees of PSE and Puget Energy:
 - i) Audit Committee
 - ii) Compensation and Leadership Development Committee
 - iii) Governance and Public Affairs Committee
 - iv) Securities Pricing Committee

Attachment A

**PUGET ENERGY, INC.
PUGET SOUND ENERGY, INC.**

Corporate Governance Guidelines

1. General Role of the Board of Directors

The primary role of the Board is to oversee the business affairs and management of the Company, including appointing and overseeing senior management, for the benefit of its shareholders and other constituencies. The Company's management is responsible for conducting the day-to-day operations of the Company pursuant to appropriate delegation of authority and oversight by the Board. The Board recognizes that being a good corporate citizen, taking a broad view of the interests of the region, and maintaining positive relationships with the various stakeholders in the communities in which we serve will ultimately contribute to the success of the business.

The Board is committed to fulfilling its fiduciary duties applying the highest standards of integrity and ethical conduct. Under the Washington Business Corporation Act, directors are required to discharge their duties according to the following basic standards: (i) in good faith; (ii) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and (iii) in a manner the director reasonably believes to be in the best interests of the corporation. Traditionally, these duties have been described as the duty of loyalty and the duty of care:

(a) The *duty of loyalty* requires that directors act in good faith and in what they believe to be in the best interests of the corporation. Specifically, directors must refrain from self-dealing, that is making a decision that benefits them at the expense of the corporation; and

(b) The *duty of care* requires directors to be well informed, act appropriately and exercise a standard of care equal to that of an ordinary prudent person under similar circumstances.

Specific Board responsibilities include:

- Approving a corporate mission statement;
- Selecting, evaluating, compensating, and—if necessary—replacing the CEO, other senior executives, and directors;
- Ensuring management succession;
- Reviewing and approving management's strategic and business plans, and monitoring performance against the plans;
- Reviewing and approving material transactions not in the ordinary course of business;

- Exercising reasonable oversight of the Company's activities to ensure they are conducted in accordance with legal and ethical requirements, such as the Sarbanes-Oxley Act of 2002 and the Federal Sentencing Guidelines, and further ensuring that the Company's Corporate Ethics and Compliance Program, which was designed to detect and deter criminal conduct, is being appropriately implemented; and
- Ensuring its own effectiveness.

2. Board Membership

(a) Size. In accordance with the Restated Articles of Incorporation and the Bylaws of Puget Energy, Inc., the number of directors of Puget Energy shall be not less than nine (9) or more than fifteen (15). The Governance and Public Affairs Committee will annually consider size of the Board when it considers candidates and nominees for the Board.

(b) Chair of the Board; Lead Independent Director. The Board does not have a policy as to whether the Chair of the Board should be a non-management director or a member of management. Instead, the Board chooses its Chair in the manner that is in the best interests of the Company in light of the applicable circumstances. In the event a member of the Company's management joins the Board, such director generally would not be eligible to become Chair until the full Board has had the opportunity to observe such director's participation in and respect for the Board's corporate governance process for a period of time to be determined by the Board. When the Chair is a member of the Company's management, the Board must choose a Lead Independent Director from among its non-management directors.

The role of the Chair of the Board is to coordinate the activities of the Board. The general responsibilities are set forth in the Company's Bylaws. The Chair shall be elected by the Board for a one-year term. The election will be held at the Board meeting closest in time to the annual shareholders' meeting. The Board shall evaluate rotation of the Board Chair at least once every five (5) years.

The Chair, or the Lead Director on those occasions when the Chair is a member of the Company's management, will be responsible for the specific duties set forth in these Corporate Governance Guidelines as well as those set forth in the Company's Bylaws, those required under law or those assigned from time to time by the Board.

The Chair and the Lead Director when the Chair is a member of the Company's management, in addition to any other obligations required by law, shall:

- (i) Stay regularly informed on the strategy of the Company and its evolution.
- (ii) Stay regularly informed about critical issues and performance of the Company.

- (iii) Work with the chair of the Governance and Public Affairs Committee on Board composition, structure, performance and any additional governance matters.
- (iv) Work with the chair of the Compensation and Leadership Development Committee on CEO performance reviews, compensation and succession planning.
- (v) Approve meeting schedules to assure that there is sufficient time for discussion of all agenda items.
- (vi) Work with directors to set the agenda for Board meetings.
- (vii) Know the senior leadership of the Company and be a point of contact for their concerns, where such concerns cannot be adequately expressed through the CEO.
- (viii) Be available to consult with the CEO about concerns of the Board of Directors.
- (ix) Serve as a point of contact for shareholder concerns.

In addition, on those occasions when the Chair is a member of the Company's management, the Lead Director shall also be required to preside at executive sessions of the Board or any meetings of the Board or shareholders where the Chair is not present.

(c) Number of Independent Directors. A substantial majority of the Board should be independent as determined under the New York Stock Exchange rules and regulations, with at least a majority of directors deemed independent at any given time. Generally, no more than two (2) employees of the Company should concurrently sit on the Board.

(d) Independence: Defining Independence for this Board. The independence standards listed below are based on current New York Stock Exchange corporate governance listing standards. The Board shall also apply any additional independence standards adopted by the NYSE or the SEC after these guidelines are adopted. For purposes of this section 2(d), references to "the Company" include any parent or subsidiary in a consolidated group with the Company.

An independent director is a director who has been affirmatively determined by the Board to have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company).

A director will automatically be disqualified from being deemed independent if in the last three years:

- The director was an employee, or has an immediate family member who was an executive officer, of the Company. Employment as an interim Chair or CEO or other executive officer will not automatically disqualify a director from being considered independent following that employment.
- The director received, or has an immediate family member who received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service). Compensation received by a director for former service as an interim Chair or CEO or other executive officer need not be considered in determining independence under this test.
- (A) The director is, or has an immediate family member who is, a current partner of a firm that is the Company's internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) the director was, or has an immediate family member who was, within the last three years (but is no longer) a partner or employee of such firm and personally worked on the Company's audit within that time.
- The director or an immediate family member of the director is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on the compensation committee (or the Board if no compensation committee) of that other company.
- The director is a current executive officer or employee, or has an immediate family member who is a current executive officer, of another company that made payments to or received payments from the Company in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues. Contributions to charitable organizations are not considered "payments" for purposes of this independence disqualifier; however, the Company will disclose in its annual proxy statement any contributions made by the Company to any charitable organization in which a director serves as an executive officer if, within the previous three years, contributions in any single fiscal year exceeded the greater of \$1 million or 2% of such charitable organization's consolidated gross revenues.

An "immediate family member" includes a director's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law, and anyone (other than domestic employees) who shares such director's home. When applying the three-year look-back referenced above, individuals who are no

longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated, need not be considered.

For purposes of determining director independence for audit committee purposes, the following additional requirements apply:

- A director cannot receive, directly or indirectly, any consulting or advisory fees or any other compensation other than director's fees from the Company or any of its subsidiaries; and
- A director cannot be an "affiliated person" of the Company or any of its subsidiaries (as such term is defined under applicable federal securities laws and regulations) except as specifically permitted under such laws and regulations or official interpretations thereof.

In addition, in making its independence determinations, the Board should consider any director affiliation, relationship or transaction brought to the attention of the Governance and Public Affairs Committee pursuant to section 2(e) of these Corporate Governance Guidelines.

In making independence determinations, the following relationship will not be considered to be a material relationship unless the described payments would automatically disqualify the director from being independent under NYSE's corporate governance standards: if a director or an immediate family member of a director, or a company for which a director or an immediate family member of a director, makes payments to Puget Sound Energy, Inc. for power or natural gas provided by Puget Sound Energy at rates fixed in conformity with law or governmental authority. In addition, the following relationships also are not material when making independence determinations: If a director is a director, employee or executive officer of another company that makes payments to or receives payments from Puget Energy, Puget Sound Energy, or any of their affiliates, for property or services in an amount which is less than the greater of \$1 million or one percent of such other company's consolidated gross revenues, determined for the most recent fiscal year. These categorical standards will not apply, however, to the extent that the Company would be required to disclose an arrangement as a related party transaction pursuant to Item 404 of Regulation S-K.

The Board will periodically review the independence of each of the Company's directors pursuant to the provisions of this section 2(d).

(e) Independence: Avoiding Conflicts. Each director should immediately advise the Chair of the Board and the Chair of the Governance and Public Affairs Committee of any proposed or current affiliation, relationship or transaction with any entity (including non-profits or governmental agencies) or individual that may create a potential conflict of interest or be inconsistent with Company policies or values. The Governance and Public Affairs Committee must determine if such affiliation is cause for

the Board to suggest that the director take appropriate action to avoid the conflict. Each director must be alert to his or her responsibilities to other organizations which could, if fulfilled, cause a director to no longer be considered independent.

If a director has a personal interest in any matter before the Board or a Committee, the director must disclose the interest to the full Board or Committee, as the case may be, and excuse himself or herself from participation in any discussion or action relating to the matter, as appropriate.

(f) Director Qualifications. Director nominees should generally possess, among other things, those qualifications set forth in the Governance and Public Affairs Committee Charter Exhibit A–Director Recruiting and Selection Criteria.

(g) Director Selection. The Governance and Public Affairs Committee is responsible for recommending to the Board director candidates for nomination and election. The Governance and Public Affairs Committee annually reviews with the Board the applicable skills and characteristics required of Board nominees in the context of current Board composition and Company circumstances. In making its recommendations to the Board, the Governance and Public Affairs Committee considers, among other things, the qualifications of individual director candidates in light of the above-mentioned factors. The Governance and Public Affairs Committee will consider potential director candidates recommended by shareholders or other individuals in the manner set forth in the Governance and Public Affairs Committee Charter Exhibit A–Director Recruiting and Selection Criteria.

The Board nominates director candidates to the shareholders for election and fills any Board vacancies that occur between shareholder elections pursuant to the Company's Bylaws. The invitation to be nominated or join the Board is made by the Chair of the Board and/or the Chair of the Governance and Public Affairs Committee as representative(s) of the Board.

(h) Election of Directors. In an uncontested election of directors (number of nominees is equal to number of open positions) any nominee who receives a greater number of votes "withheld" from or voted "against" his or her election than votes "for" his or her election, shall tender his or her resignation to the Board within five business days from the certification of the shareholder vote by the inspector of elections.

The Governance and Public Affairs Committee shall consider the resignation offer and recommend to the Board whether to accept it. In considering whether to accept or reject the tendered resignation, the Committee will consider all factors deemed relevant by the member of the Committee including, without limitation, the reasons by shareholders "withheld" votes for election from the director, the length of service and qualifications of the director whose resignation has been tendered and the director's contributions to the Company.

The independent members of the Board will take action on the Committee's recommendation with ninety (90) days following the submission of the director's resignation. In considering the Committee's recommendation, the Board will consider

the factors considered by the Committee and such additional information and factors the Board believes to be appropriate. The Company will disclose the Board's decision and provide a full explanation of its process and the factors it considered within four business days of its decision in a filing with the Securities and Exchange Commission. If the Board is unable to reach a decision on a timely basis, it will promptly disclose the reasons therefor. The Board may also elect to delay acceptance of a resignation for a specified period to provide it with an opportunity to address the underlying shareholder concerns, to recruit a new director, or for any other reason it believes appropriate.

To the extent that one or more directors' resignations are accepted by the Board, the Committee will recommend to the Board whether to fill such vacancy or vacancies or to reduce the size of the Board. If the Board does not accept one or more such resignations, it may elect to address the specific stated reasons why shareholders "withheld" votes for election from the directors at issue or take such other actions that the Board deems appropriate and in the best interests of the Company and its shareholders.

Any director who tenders his or her resignation as set forth above shall not participate in the Committee recommendation or Board action relating to the resignation. If a majority of Committee members tender their resignations, then the remaining independent directors will consider such resignations and recommend action to the disinterested members of the Board.

(i) Director Changing Employment Status. Directors are expected to tender their resignations if they experience a substantial change in principal employment responsibility that was not anticipated by the Committee at the time of the director's nomination or election to the Board. The Board does not believe that such a director must necessarily leave the Board. Upon receipt of a resignation offered under these circumstances, the Governance and Public Affairs Committee will review the director's change in employment responsibilities to evaluate whether the director's continued service is appropriate and will make a recommendation accordingly to the full Board. The Board will then make a determination whether to accept or decline the director's tendered resignation.

(j) Other Boards and Committees. Without specific approval from the Board, no director may serve on more than five (5) public company boards and no member of the Company's Audit Committee may serve on more than three (3) public company audit committees or their equivalents. Service on the boards of Puget Energy, Inc. and Puget Sound Energy, Inc. shall be deemed to count as service on one (1) board for purposes of calculating a director's total board service. In calculating service on a public company board or audit committee, service on a board or audit committee of a substantially owned subsidiary will not be counted in the calculation so long as the director also serves on the board or audit committee of the subsidiary's parent.

Directors must advise and consult with the Chair of the Governance and Public Affairs Committee and the Chair of the Board prior to accepting an invitation to serve on any public company boards that the director did not serve on prior to joining the Board

or standing for election to a public office that the director did not hold prior to joining the Board.

(k) Terms. The Board comprises three (3) classes of directors, with approximately one-third of the directors assigned to each class. The members of each class are elected for three (3) year terms. The Board does not believe in limiting the number of terms a director may serve. However, the Governance and Public Affairs Committee will review, taking tenure into account, each director prior to recommending a director for renomination.

(l) Retirement. Directors are expected to tender their resignation prior to the annual shareholders' meeting following their 72nd birthday, with such resignation effective upon the conclusion of the annual shareholders' meeting. Directors may stand for reelection even though the Company's retirement policy would prevent them from completing a full three (3) year term.

3. Board Meetings and Other Communications

(a) Frequency of Board Meetings. The Board generally has at least six (6) regularly scheduled meetings per year and holds several special meetings and retreats as necessary. In addition, each committee holds regularly scheduled meetings and special meetings as necessary. It is the responsibility of each director to attend both scheduled and special meetings, except if unusual circumstances make attendance impractical.

(b) Non-Management Executive Sessions. Non-management directors meet in executive session on a regular basis, generally at each scheduled Board meeting. The Chair of the Board, if a non-management director, presides over the executive sessions. However, if the Chair is an employee of the Company, then the Lead Independent Director will preside. If the group of non-management directors includes any non-independent directors, then the independent directors will meet in executive session at least once a year.

(c) Access to Management and Employees and Outside Advisors. For the purpose of obtaining information, directors have complete access to the management and employees of the Company. Any particular contact a director wishes to initiate with management or other employees will generally be arranged through the Chief Executive Officer, Corporate Secretary, General Counsel, Chair of the Board or Lead Independent Director, if appointed, or appropriate committee chair. Under unusual circumstances, management or employee contact may be made directly by the director. A director should ensure that any such contact is not unnecessarily disruptive to the affairs of the Company and should, unless inappropriate due to the particular circumstances, copy the Chair or the Chief Executive Officer on any written communications or brief the Chair or the Chief Executive Officer on any material oral communications the director has with a member of management or other employee.

Requests for corporate action, as opposed to information, should generally be made only to the Chief Executive Officer.

The Board has complete access to the assistance of outside advisors of its choosing, including counsel, with respect to any issues relating to Board functions. No approval is required from management for engagement of outside advisors, although management should be informed with respect to any such engagement, as appropriate.

(d) Meeting Agendas. The Chair of the Board (or, if appointed, the Lead Independent Director) in consultation with the Chief Executive Officer (and with appropriate input from the Chairs of the Audit, Compensation and Leadership Development and Governance and Public Affairs Committees) is responsible for establishing the agenda for each Board meeting. Directors are encouraged to suggest, as appropriate, the inclusion of additional items on the agendas. At any Board meeting, the directors may raise matters for discussion that are not on the meeting's formal agenda.

In addition, the Chair of the Board (or, if appointed, the Lead Independent Director) in consultation with the Chief Executive Officer (and with appropriate input from the Chairs of the Audit, Compensation and Leadership Development, and Governance and Public Affairs Committees) is responsible for preparing an annual agenda. This annual agenda should set forth a general agenda of items to be considered by the Board at each of its scheduled meetings for the forthcoming year. General items to be covered usually include:

- Chief Executive Officer and Board evaluations;
- Management succession planning;
- Review of long-term strategic and business plans, including budgetary assessments;
- Review of regulatory affairs and accounting, financial and legal compliance controls and processes; and
- Assessment and action on corporate governance matters, including annual director nominations and committee membership appointments.

Upon completion of a draft of the annual agenda, it should be provided to each of the directors for review. Directors should feel free to suggest inclusion of additional items on the annual agenda before it is finalized.

(e) Board Materials. Each director should receive materials important to understanding the agenda items, as well as the presentations, discussions and issues to be covered at each Board meeting in writing and sufficiently in advance of the meeting to permit appropriate review and preparation, unless distribution of such materials prior to the applicable meeting might compromise confidential information. The Chair of the Board in consultation with the Chief Executive Officer and other applicable senior management is responsible for providing such materials to each director. Directors are responsible for adequately reviewing these materials and otherwise preparing for each Committee meeting.

(f) Information Regarding Significant Subsidiaries. The Board should regularly receive reports regarding material developments affecting the Company's significant subsidiaries. The Chief Executive Officer, with the assistance of subsidiary management, is responsible for regularly reporting material information to the Board relating to these subsidiaries.

(g) Board Communications to Outside Parties. The Chief Executive Officer, as well as other applicable senior management, is responsible for speaking for the Company, including establishing effective communications with each of the Company's constituencies. The Chair of the Board (or, if appointed, the Lead Independent Director) is the spokesperson for the Board. On occasion, however, individual directors may meet or otherwise communicate with various constituencies regarding the Company after consultation with senior management or the Chair of the Board.

(h) Attendance at Annual Meeting. To facilitate and promote communication among directors and shareholders of the Company, directors are encouraged and normally expected to attend the Company's regularly scheduled annual meeting of shareholders.

4. Board Committees

(a) Number and Types of Committees. The Company must have at all times a standing audit committee, compensation committee, and nominating/governance committee. All members of these three (3) standing Committees must be independent. The responsibilities and duties of each of these Committees must be outlined in their respective Committee charters. The Board may form or disband other Committees as it deems necessary.

(b) Appointment of Committee Members. The Governance and Public Affairs Committee will annually recommend to the Board appointment of Board members to Committees after consulting with the Chair of the Board (or, if appointed, the Lead Independent Director). After reviewing the Governance and Public Affairs Committee's recommendations, the Board is responsible for the appointment of members to the Committees on an annual basis. In addition, the Board is responsible for either appointing Committee Chairs or leaving such appointments to the members of the respective Committees.

(c) Rotation of Committee Members. When the Governance and Public Affairs Committee annually reviews Committee appointments, it must consider whether the rotation of Committee Chairs and members is appropriate with a view towards balancing the benefits derived from the continuity of Committee membership with the benefits derived from bringing diversity of experience and viewpoints in the form of new member appointments to the Committees. The Governance and Public Affairs Committee shall evaluate rotation of each committee chair at least once every five (5) years.

(d) Frequency and Length of Committee Meetings. Each Committee meets as frequently and for such length of time as may be required to carry out its assigned

duties and responsibilities or as otherwise required by its charter. An annual schedule for regular meetings for each standing Committee is submitted and approved by the Board in advance. In addition, the Committee may hold special meetings, as appropriate. It is the responsibility of each Committee member to attend both scheduled and special Committee meetings, except if unusual circumstances make attendance impracticable.

(e) Committee Meeting Agendas. The Chair of each Committee, in consultation with the Chair of the Board (or, if appointed, the Lead Independent Director) and the Chief Executive Officer or other applicable senior management, is responsible for establishing the agenda for each Committee meeting. Committee members are encouraged to suggest, as appropriate, the inclusion of additional items on the agendas. Committee members may raise at any Committee meeting matters for discussion that are not on the meeting's formal agenda.

In addition, the Chair of each Committee, in consultation with the Chair of the Board (or, if appointed, the Lead Independent Director) and the Chief Executive Officer or other applicable senior management, is responsible for preparing an annual agenda. This annual agenda should set forth a general agenda of items to be considered by the Committee at each of its scheduled meetings for the forthcoming year. Upon completion of a draft of the annual agenda, it should be provided to each of the Committee members for review. Committee members should feel free to suggest inclusion of additional items on the annual agenda before it is finalized.

(f) Committee Materials. Each Committee member should receive materials important to understanding the agenda items, as well as the presentations, discussions and issues, to be covered at each Committee meeting, in writing and sufficiently in advance of the meeting to permit appropriate review and preparation, unless distribution of such materials prior to the applicable meeting might compromise confidential information. The Chair of each Committee, in consultation with the Chief Executive Officer and other applicable senior management, is responsible for providing such materials to each Committee member. Committee members are responsible for adequately reviewing these materials and otherwise preparing for each Committee meeting.

(g) Director Access to Committee Meetings. In order to promote transparency, all directors are provided notice of and the agendas to all committee meetings. Any director may attend any committee meeting, whether or not a member of that particular committee.

(h) Access to Outside Advisors. Each Committee has complete access to the assistance of outside advisors of its choosing, including counsel, with respect to any issues relating to Committee functions. No approval is required from the full Board or management for engagement of outside advisors, although the Board should be consulted and management should be informed with respect to any such engagement, as appropriate.

(i) Committee Reports. Each Committee Chair reports on the Committee meetings to the extent appropriate to the full Board. All directors are furnished copies of each Committee's minutes as and when appropriate.

5. Board Compensation

(a) Director Compensation. Generally, the Board believes that the level of director compensation should be based on time spent carrying out Board and Committee responsibilities and be competitive with comparable companies. In addition, the Board believes that a significant portion of director compensation should align director interests with the long-term interests of shareholders.

Directors are compensated (i) by quarterly retainer payments and (ii) for each Board or Committee meeting attended. In addition, the Chair of the Board and the Chair of each of the Audit, Compensation and Leadership Development, and Governance and Public Affairs Committees, as well as each member of the Audit Committee, are paid additional quarterly retainers. At least 50% of quarterly retainer payments are made in common stock of the Company, and directors may elect to receive a higher portion of their quarterly retainer payments in common stock. Receipt of shares may be deferred under the Company benefit plans.

Directors who also serve as employees of the Company do not receive compensation for their service on the Board or any Committees.

(b) Director Compensation Review Practices. The Governance and Public Affairs Committee is responsible for annually reviewing the Company's director compensation practices in relation to comparable companies. Any changes to be made to director compensation practices must be recommended by the Governance and Public Affairs Committee for approval by the full Board.

(c) Director Stock Ownership Guidelines. The Board believes that directors should have a financial stake in the Company. The Board has adopted stock ownership guidelines for directors generally requiring a director to hold a minimum of Company equity valued at two times (2x) the annual Board member retainer. The guidelines call for the Company to pay the quarterly Board retainer in the form of Puget Energy, Inc. Common stock until a director owns shares equal in value to the ownership target.

(d) Director Orientation and Continuing Education. New directors are required to attend a Company orientation program, which should be conducted within one (1) month of the meeting at which the director is elected. The orientation program includes: (i) informative materials and presentations by appropriate officers to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, the codes of business conduct and ethics and the Corporate Governance Guidelines; and (ii) meetings with senior management and the Company's internal and independent auditors. The orientation program also includes visits to Company headquarters and, to the extent practical, some of the Company's significant facilities. All directors are invited to attend the orientation program.

In addition, the Board is periodically provided with presentations by outside advisors regarding current issues and trends, including accounting and legal, affecting the Company's business affairs and industry. Directors are reimbursed reasonable costs associated with participation in educational programs relating to their service on the Board and the Committees.

Directors also routinely receive materials from the Company relating to its business affairs and industry, such as financial reports, press releases and analyst reports. Directors are responsible for reviewing these materials and generally staying current with the Company's business affairs and industry.

6. Board and Management Evaluation and Succession Planning

(a) Annual Board Evaluation. The full Board annually conducts an evaluation to assess whether the Board and its Committees are functioning effectively. The Governance and Public Affairs Committee is responsible for coordinating with the Chair of the Board (or, if appointed, Lead Independent Director) and the Chief Executive Officer to establish the evaluation criteria and implement the process for any such evaluation. The evaluation should focus on the contributions of the Board and its Committees as a whole and on any areas where the Board or management believes the Board and its Committees could make larger contributions. The full Board is responsible for discussing the results of the evaluation. Any director may make suggestions on Board or Committee practices and communicate them to the Chair of the Board or the Chair of the Governance and Public Affairs Committee.

(b) Annual Committee Evaluation. Each Committee annually conducts an evaluation to assess whether it is functioning effectively. The Governance and Public Affairs Committee is responsible for separately coordinating with each Committee Chair to establish the evaluation criteria and implement the process for any such evaluation. Each Committee is responsible for discussing the results of its evaluation. Any Committee member may make suggestions on Committee practices and communicate them to the applicable Committee Chair or the Chair of the Governance and Public Affairs Committee.

(c) Management Assessment and Succession Planning. The Board is responsible for succession planning for the Chief Executive Officer position as well as for other senior management positions. To assist the Board in this planning, the Compensation and Leadership Development Committee provides the Board with an evaluation of the current senior management and the leadership potential of senior management and other appropriate employees. The Chief Executive Officer should continually make available to the Board and the Compensation and Leadership Development Committee recommendations for potential successors to the Chief Executive Officer position and also for certain other senior management positions.

In addition, the Chief Executive Officer, in consultation with and with the assistance of the Chair of the Board (or, if appointed, Lead Independent Director) and the Chair of the Compensation and Leadership Development Committee, should make available a short-term succession plan which delineates temporary delegations of

authority to certain officers of the Company in the event all or a portion of senior management unexpectedly becomes unable to perform their duties. The short-term succession plan would be in effect only until the Board has the opportunity to consider the situation and take appropriate action.

7. Annual Review of Corporate Governance Guidelines

The Governance and Public Affairs Committee annually reviews these Corporate Governance Guidelines and recommends appropriate revisions to the Board for consideration.

In implementing these Corporate Governance Guidelines, the Board of each of Puget Energy, Inc. and Puget Sound Energy, Inc. should be cognizant of the relationship between Puget Energy, Inc. and Puget Sound Energy, Inc.

Reference in these Corporate Governance Guidelines to "the Company" shall mean to Puget Energy, Inc. and its respective subsidiaries or Puget Sound Energy, Inc. and its respective subsidiaries as applicable.

Attachment B

PUGET ENERGY, INC.
Audit Committee Charter

PUGET SOUND ENERGY, INC.
Audit Committee Charter

Purpose and Authority:

The Audit Committee (the "Committee") shall assist the Board in oversight of (1) the integrity of the Company's financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the Company's internal and independent auditors. In addition, the Committee shall have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent auditor. The Committee shall also have all authority necessary to fulfill the duties and responsibilities assigned to the Committee in this Charter or otherwise assigned to it by the Board.

Limitation of Audit Committee's Role

It is not the responsibility of the Committee to plan or conduct audits or to verify whether the Company's financial statements are complete and accurate or in accordance with generally accepted accounting principles.

Advisors and Delegation

As the Committee deems appropriate, it may retain independent counsel, accounting and other professionals to assist the Committee without seeking Board approval with respect to the selection, fees, expenses or terms of engagement of any such advisors.

The Committee, when appropriate, may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Committee.

Composition:

Independence

The Committee shall be composed of three or more directors, as determined by the Board, each of whom shall meet the independence requirements in the Company's Corporate Governance Guidelines.

Financial Literacy/Expertise

The Board shall determine in its business judgment whether Committee members are financially literate and whether any Committee member meets the definition of "financial expert" or similar term under regulations applicable to the Company from time to time,

and shall take appropriate action in accordance with such regulations.

Service on Other Public Company Audit Committees

Generally, no member of the Committee shall serve on more than three audit committees of publicly traded companies (including the Audit Committees of Puget Energy, Inc. and Puget Sound Energy, Inc.) at the same time; provided, however, that service on audit committees of substantially owned subsidiaries shall not count so long as the member serves on the audit committee of the parent company of such subsidiary. Any member's service on more than three audit committees of publicly traded companies will be subject to the Board's determination that such simultaneous service will not impair such member's ability to effectively serve on the Company's Audit Committee and the disclosure of such determination in the Company's annual proxy statement.

Appointment and Removal of Members

The members of the Committee shall be appointed by the Board on the recommendation of the Governance and Public Affairs Committee. The Board may remove any member from the Committee at any time with or without cause.

Duties and Responsibilities:

The Committee shall have the following duties and responsibilities, in addition to any duties and responsibilities assigned to the Committee from time to time by the Board.

Engagement of Independent Auditor

- Select and retain the independent auditor; determine and approve compensation of the independent auditor; resolve disagreements between management and the independent auditor; oversee and evaluate the independent auditor and, where appropriate, replace the independent auditor, with the understanding that the independent auditor shall report directly to the Committee and shall be ultimately accountable to the Committee and to the Board.
- Pre-approve the retention of the independent auditor for all audit and such permissible non-audit services as the independent auditor is permitted to provide the Company and the fees for such services. Pre-approval of non-audit services may not be delegated to management, but may be delegated to one or more members of the Committee so long as that member or members report their decision to the Committee at all regularly scheduled meetings. Ensure that the Committee's approval of any non-audit services is publicly disclosed pursuant to applicable laws, rules and regulations.

Evaluate Independent Auditor's Qualifications, Performance and Independence

- At least annually, evaluate the independent auditor's qualifications, performance and independence, including that of the lead partner.

- To the extent required by applicable laws, rules or regulations, at least annually, obtain and review a report by the independent auditor describing the firm's internal quality control procedures; any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, relating to one or more audits carried out by the firm and any steps taken to deal with any such issues; and (in order to assess the auditor's independence) all relationships between the independent auditor and the Company. Consider, from time to time, whether a rotation of the independent auditing firm would be in the best interests of the Company and its shareholders.
- Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards ("SAS") No. 61, *Communications with Audit Committee*, SAS No. 89, *Audit Adjustments*, and SAS No. 90, *Audit Committee Communications*, all as amended from time to time, together with any independence matters as may be required for public disclosure or otherwise under applicable laws, rules and regulations.
- Ensure that the independent auditor's lead partner and reviewing partner are replaced periodically to the extent required by applicable laws, rules or regulations.
- Present the Committee's conclusions regarding the performance, qualifications and independence of the independent auditor to the full Board.

Review Financial Statements and Financial Disclosure

- Meet with management and the independent auditor to review and discuss the annual audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- Review with the independent auditor any audit problems or difficulties and management's response, including significant disagreements with management, adjustments noted by the independent auditor but not taken by management, communications between the audit team and the national office on issues of concern, and any management or internal control letters issued or proposed to be issued regarding internal controls over financial reporting. Review the internal audit function and proposed audit plans for the coming year, including intended level of support for and coordination with the external audit process.
- If so determined by the Committee, recommend to the Board that the audited financial statements be included in the Company's annual report on Form 10-K.
- Discuss earnings press releases, as well as the financial information and earnings guidance provided to analysts and rating agencies. This may be done generally and does not require the Committee to discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.

Periodic Assessment of Accounting Practices and Policies and Risk and Risk Management

- Obtain and review timely reports from the independent auditor regarding (1) all critical accounting policies to be used, (2) all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternatives, and the treatment preferred by the independent auditor, and (3) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
- Review with management and the independent auditor the effect of new regulatory and accounting initiatives, as well as off-balance sheet structures on the financial statements of the Company.
- Review changes in promulgated accounting and auditing standards that may materially affect the Company's financial reporting practices.
- Discuss policies with respect to risk assessment and risk management, including the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- Review any reports by management regarding the effectiveness of, or any deficiencies in, the design or operation of internal control over financial reporting and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting. Review any report issued by the Company's independent auditor regarding management's assessment of the Company's internal control over financial reporting.

Internal Audit Review

- Review the responsibilities, functions and performance of the Company's internal audit department, including internal audit plans, budget, and the scope and results of internal audits.

Proxy Statement Report of Audit Committee

- Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

Hiring Policies

- Set clear hiring policies for the Company's hiring of employees or former employees of the independent auditor who were engaged on the Company's account, and ensure that such policies comply with any regulations applicable to the Company from time to time.

Business Conduct and Ethics

- In conjunction with the Corporate Governance and Public Affairs Committee, develop and monitor compliance with a code of ethics for senior financial officers pursuant to and to the extent required by regulations applicable to the Company from time to time.
- In conjunction with the Corporate Governance and Public Affairs Committee, develop and monitor compliance with a code of business conduct and ethics applicable to the Company's directors, officers and employees, pursuant to and to the extent required by regulations applicable to the Company from time to time.
- Establish, after consultation with the Corporate Governance and Public Affairs Committee, procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters.
- Establish, after consultation with the Corporate Governance and Public Affairs Committee, procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Reports to Board

- Report regularly to the Board any issues that arise with respect to the quality and integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements and the performance and independence of the internal and independent auditors.
- Provide minutes of Committee meetings to the Board and report to the Board on any significant matters arising from the Committee's work.

Executive Sessions

- Meet periodically in separate executive sessions with management, internal audit and the independent auditor to discuss matters that the Committee or the other groups believe warrant Committee attention.

Meetings:

The Committee shall establish a meeting calendar annually. The Committee may hold such other meetings as are necessary or appropriate in order for the Committee to fulfill its responsibilities. In the absence of a member designated by the Board to serve as chair, the members of the Committee may appoint from among their number a person to preside at their meetings. When appropriate, the Puget Energy, Inc. Committee and the Puget Sound Energy, Inc. Committee shall meet separately.

Evaluation:

The Committee shall review and reassess this Charter at least annually and, if appropriate, propose changes to the Board.

The Committee shall obtain or perform an annual evaluation of the Committee's performance and make applicable recommendations for improvement.

PUGET ENERGY, INC.
Compensation and Leadership Development Committee Charter

PUGET SOUND ENERGY, INC.
Compensation and Leadership Development Committee Charter

Purpose and Authority:

The purpose of the Compensation and Leadership Development Committee (the "Committee") is to discharge the responsibilities of the Board relating to compensation and benefits of the Company's officers and other employees. The Committee shall have overall responsibility for establishing, amending and administering compensation and nonequity benefit plans, policies and programs for officers and other employees of the Company. The Committee shall also oversee long-range planning for executive development and succession.

The Committee shall have the responsibility and authority to review and approve corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluate the Chief Executive Officer's performance in light of those goals and objectives and set the Chief Executive Officer's compensation based on this evaluation.

The Committee shall have the sole authority to engage or terminate any outside consultant that is retained to assist the Committee in the evaluation of the Chief Executive Officer or senior executive officer compensation, including the sole authority to approve fees and other retention terms. The Committee shall also have all authority necessary to fulfill the duties and responsibilities assigned to the Committee in this Charter or otherwise assigned to it by the Board.

As the Committee deems appropriate, it may retain independent counsel, accounting and other professionals to assist the Committee without seeking Board approval with respect to the selection, fees or retention terms for any such advisers.

The Committee, when appropriate, may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Board or Company officers.

Composition:

Independence

The Committee shall be composed of three or more directors, as determined by the Board, each of whom shall (a) meet the independence requirements set forth in the Company's Corporate Governance Guidelines, (b) be a "non-employee director" within

the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, and (c) be an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code.

Appointment and Removal of Members

The members of the Committee shall be appointed by the Board on the recommendation of the Governance and Public Affairs Committee. The Board may remove any member from the Committee at any time with or without cause.

Duties and Responsibilities:

The Committee shall have the following duties and responsibilities, in addition to any duties and responsibilities assigned to the Committee from time to time by the Board.

Compensation Philosophy and Goals

- Develop and monitor an executive compensation philosophy which will include the following key points to ensure a linkage between executive operational performance and executive compensation:
 - Place a significant portion of each executive's total pay at risk to motivate executives to achieve company and individual performance goals
 - Be aligned with operating goals that support continued emphasis on low cost, safe and reliable service to customers
 - Tie the long-term incentive component of CEO and executive compensation to Company performance and increasing value to shareholders
- Establish and annually review and approve policies regarding executive compensation programs and practices.

Executive Compensation

- Review the Chief Executive Officer's recommendations and approve annual compensation for the Company's other executive officers and other highly compensated employees of the Company and its subsidiaries.
- Establish and administer annual and long-term incentive compensation plans for key executives.
- Recommend to the Board for its approval and, where appropriate, submission to the Company's shareholders, incentive compensation plans and equity-based plans.
- Recommend to the Board for its approval changes to executive compensation policies and programs.

- Review and approve all special executive employment, compensation and retirement arrangements.

Leadership Development

- Ensure a framework, process and policies are in place for CEO and executive management succession including standards for assessment of the individual's development activities and progress.
- Periodically review CEO and executive management development and succession plans.

Stock Ownership Guidelines

- Annually review executive stock ownership and monitor progress toward meeting ownership guidelines.

Nonequity Benefit Plans (Including, Without Limitation, all Tax-Qualified Plans and all Nonequity Executive Plans)

- Oversee the administrative committees for the nonequity plans (including, without limitation, the Executive Plans Committee, Retirement Plan Committee, Investment Plan Committee and Welfare Plans Committee) subject to periodic notification to the Board.
- Periodically review plan administration, participation and legislative and regulatory compliance of nonequity benefit plans.
- Fulfill ERISA fiduciary and non-fiduciary functions by periodically monitoring fiduciary functions that have been delegated to the administrative committees for the nonequity benefit plans.
- Appoint and remove the members to the administrative committees for the nonequity benefit plans.
- Appoint any trustee(s), and authorize the execution of any trust agreement(s), for the nonequity benefit plans.
- Adopt amendments to the nonequity benefit plans.
- Approve the termination, merger or consolidation of, between or involving any nonequity benefit plan(s).
- Extend any nonequity benefit plan or plans to employee of affiliates or subsidiaries.

- Exercise any other authority as may reside with the Board with respect to the nonequity benefit plans.

Nonexecutive Incentive Plans

- Review management's recommendations for other nonexecutive corporate incentive plans and annually review plan goals and results.

Reports

- Provide minutes of Committee meetings to the Board and report to the Board on any significant matters arising from the Committee's work, including awards for top executives and special executive employment, compensation and retirement arrangements, and such other matters contemplated by the Company's Corporate Governance Guidelines.
- Prepare the report on executive compensation required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.
- Make an annual report to the Board on CEO and executive management succession planning.

Meetings:

The Committee shall establish a meeting calendar annually. The Committee may hold such other meetings as are necessary or appropriate in order for the Committee to fulfill its responsibilities. In the absence of a member designated by the Board to serve as chair, the members of the Committee may appoint from among their number a person to preside at their meetings. When appropriate, the Puget Energy, Inc. Committee and the Puget Sound Energy, Inc. Committee shall meet separately.

Evaluation:

The Committee shall review and reassess this Charter at least annually and, if appropriate, propose changes to the Board.

The Committee shall obtain or perform an annual evaluation of the Committee's performance and make applicable recommendations for improvement.

PUGET ENERGY, INC.
Governance and Public Affairs Committee Charter

PUGET SOUND ENERGY, INC.
Governance and Public Affairs Committee Charter

Purpose and Authority:

Purpose:

The purpose of the Governance and Public Affairs Committee (Committee) is to:

- (i) identify individuals qualified to become members of the Board;
- (ii) select and recommend to the Board director candidates;
- (iii) develop, update as necessary and recommend to the Board corporate governance principles and policies, including the Company's Corporate Governance Guidelines;
- (iv) monitor compliance with the corporate governance principles and policies; and
- (v) oversee the Company's involvement with its constituencies, including community activities; and
- (vi) oversee the development of policies relating to the safe operation and compliance of the Company's generation, transmission, main, and distribution systems and facilities.

Authority:

The Committee shall have the sole authority to retain and terminate any search firm used to identify director candidates, including the sole authority to approve fees and other retention terms. The Committee also shall have all authority necessary to fulfill the duties and responsibilities assigned to the Committee in this Charter or otherwise assigned to it by the Board (including in the Corporate Governance Guidelines).

As the Committee deems appropriate, it may retain independent counsel, accounting and other professionals to assist the Committee without seeking further Board approval with respect to the selection, fees or retention terms for any such advisers.

The Committee, when appropriate, may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Committee, the Board or Company officers.

Composition:

Independence

The Committee shall be composed of three or more directors, as determined by the Board, each of whom shall meet the independence requirements in the Company's Corporate Governance Guidelines. The Chair of the Board (if the Chair is a non-management director) or Lead Independent Director (if the Chair is a member of management) shall serve as a member of this Committee.

Appointment and Removal of Members

The members of the Committee shall be appointed by the Board on the recommendation of this Committee, after consultation with the Chair of the Board and, if appointed, Lead Independent Director. The Board may remove any member from the Committee at any time with or without cause.

Duties and Responsibilities:

The Committee shall have the following duties and responsibilities, in addition to any duties and responsibilities assigned to the Committee from time to time by the Board.

Director Selection

- Review and recommend for Board consideration, after consultation with the Chief Executive Officer and the Chair of the Board and, if appointed, Lead Independent Director, director candidates, including any current directors to be renominated, based on the Director Recruiting and Selection Criteria outlined in **Exhibit A** to this Charter, and advise the Board with regard to nomination or election of director candidates.
- Periodically review and recommend to the Board, after consultation with the Chair of the Board and, if appointed, Lead Independent Director, appropriate revisions to the Director Recruiting and Selection Criteria outlined in **Exhibit A** to this Charter.
- Determine procedures for the review and recommendation of director candidates, after consultation with the Chief Executive Officer and the Chair of the Board and, if appointed, Lead Independent Director.
- The Chair of the Committee and the Chair of the Board shall initiate any contact with a director candidate.

Board and Board Performance

- Periodically review and recommend the appropriate size of the Board.

- Periodically review appropriateness of any restrictions on Board service, such as term limits and retirement policy, and recommend changes to such policies to the Board.
- Establish performance criteria/expectations for directors in areas of attendance, preparedness, candor and participation. Periodically review each director's attendance at Board and applicable committee meetings.
- Periodically review and recommend to the Board director stock ownership guidelines and monitor compliance with such guidelines.
- Establish, coordinate and review with the Chair of the Board and, if appointed, Lead Independent Director, criteria and method for evaluating the effectiveness of the Board.
- After consultation with other non-management directors, recommend frequency of regular meetings of non-management directors, and develop format for such meetings. Identify the non-management Chair or Lead Independent Director as presiding director at non-management director meetings.
- Determine a method by which interested third parties may communicate any concerns directly to the non-management Chair or Lead Independent Director, or to the non-management directors as a group.

Board Leadership

- Determine whether the Chair of the Board shall be a non-management director, or instead shall be the Chief Executive Officer. Develop and recommend to the Board procedures for selection of the Chair of the Board. If Chair is a management director then develop and recommend procedures for selection of a Lead Independent Director.
- Develop and recommend to the Board procedures for Board review of the performance of the Chair of the Board or Lead Independent Director as applicable.

Board and Committee Compensation

- Annually review director compensation practices in relation to industry comparables and companies of similar size.
- Recommend to the Board, as appropriate, revisions to Board and committee compensation practices.

Board Committee Matters

- Recommend to the Board, as appropriate, number, type, functions, structure and independence of committees.

- Annually recommend to the Board, after consultation with the Chair of the Board and, if appointed, Lead Independent Director, director membership and rotation, as appropriate, on committees and advise the Board and/or committees with regard to selection and rotation, as appropriate, of the Chairs of the committees.
- Determine criteria and procedures for selection of committee members and the Chairs, as appropriate.
- Establish and coordinate with applicable committee Chair criteria and method for evaluating the effectiveness of the committees.

Director Orientation and Continuing Education

- Periodically review and revise, as appropriate, the Company's director orientation program.
- Monitor, plan and support continuing education activities of the directors.

Governance Policies

- Develop and periodically review and recommend to the Board, after consultation with the Chair of the Board and, if appointed, Lead Independent Director, appropriate revisions to the Company's Corporate Governance Guidelines pursuant to and to the extent required by regulations applicable to the Company from time to time.
- Monitor compliance with and the effectiveness of the Corporate Governance Guidelines.
- In conjunction with the Audit Committee, develop a code of ethics for senior financial officers pursuant to and to the extent required by regulations applicable to the Company from time to time.
- In conjunction with the Audit Committee, develop a code of business conduct and ethics applicable to the Company's directors, officers and employees, pursuant to and to the extent required by regulations applicable to the Company from time to time.

Committee Reports to Board

- Provide minutes of committee meetings to the Board and report to the Board on any significant matters arising from the committees' work.

Public Affairs Oversight

- Monitor activities and recommend action, as appropriate, relating to the Company's constituencies other than shareholders, including customers, local community, outreach programs and charitable organizations.

Systems Integrity Oversight

- Provide oversight of management's efforts to consider environmental, safety, and reliability matters in corporate decisions relating to gas and electric generation, transmission, main, and distribution systems and facilities.
- Review and report to Board on applicable practices and trends and support efforts to improve the efficiency and effectiveness of environmental, safety, and reliability policies and guidelines relating to gas and electric generation, transmission, main, and distribution systems and facilities.
- Review and make recommendations to Board regarding compliance with applicable federal, state, and local laws, regulations, and codes relating to gas and electric generation, transmission, main, and distribution systems and facilities, and report to the Board any significant issues or findings including information that may impact financial reporting and public disclosure.

Meetings:

The Committee shall establish a meeting calendar annually. The Committee may hold such other meetings as are necessary or appropriate in order for the Committee to fulfill its responsibilities. In the absence of a member designated by the Board to serve as the Chair, the members of the Committee may appoint from among their number a person to preside at their meetings. When appropriate, the Governance and Public Affairs Committee of Puget Energy, Inc. shall meet separately from that of Puget Sound Energy, Inc.

Evaluations:

The Committee shall review and reassess this Charter at least annually and, if appropriate, propose changes to the Board.

The Committee shall obtain or perform an annual evaluation of the Committee's performance and make applicable recommendations.

EXHIBIT A

PUGET ENERGY, INC.

Director Recruiting and Selection Criteria

PUGET SOUND ENERGY, INC.

Director Recruiting and Selection Criteria

The Charter of the Governance and Public Affairs Committee (Committee) requires the Committee to develop and periodically review and recommend to the Board appropriate revisions to these Director Recruiting and Selection Criteria. The Committee has recommended and the Board has adopted these Director Recruiting and Selection Criteria.

Director Qualifications – Character:

Consider these elements of *character* when considering potential candidates for nomination as director.

- A. Ethics: Impeccable personal and professional ethics, integrity and values.
- B. Credibility: High stature, established reputation in business, financial or other relevant areas and credibility in the community where the Company operates.
- C. Commitment: Ability to devote the required time and effort to fulfill the duties of Board and committee membership; willingness to serve on the Board for multiple terms, if nominated and elected.
- D. Civility: Ability to keep an open mind and to work effectively with colleagues on matters affecting interests of the Company and its constituents.
- E. Independence: Willingness not to engage in activities or interests that may create a conflict of interest with a director's responsibilities and duties to the Company and its constituents; and to act in the best interests of the Company and its constituents.

Director Qualifications – Experience and Expertise:

Consider the following elements of *experience and expertise* to ensure that the Board, taken as a whole, possesses the characteristics necessary to foster high standards of corporate governance.

- A. Financial expertise: The appropriate level of expertise, taking into account guidance from the New York Stock Exchange, the Securities and Exchange Commission, and other sources, for expertise and literacy on financial matters. This will take into account the needs of the Audit Committee as well as the needs of the Board as a whole.

- B. Diversity: Ethnic, gender, professional, geographic and philosophical diversity within the overall composition of the Board.
- C. Industry Knowledge: Broad knowledge of relevant industries (regulated or non-regulated), including having within the Board experience with industry-related business opportunities and regional utility and consolidation issues.
- D. Public Policy and Governmental Affairs: Training, experience and ability of making or overseeing policy in relevant sectors, including business, government, energy and education. This may include background in marketing, communications, public relations and law.
- E. Regional Knowledge and Contacts: Geographic knowledge of service territory, and/or knowledge of, and contacts within, the service region.
- F. Leadership: Current or recent senior executive experience, special expertise in behavior and leadership of organizations, or ability to contribute special competencies to Board activities.
- G. Continuity: Length of service and expertise a new board member could provide considering the length of time current board members have until their retirement.

Selection Procedures:

Candidates for director may include both current directors and other candidates. The Company's directors or senior management shall refer all potential director candidates to the Chair of the Committee for consideration by the Committee and possible recommendation to the Board. In addition, the Committee will consider candidates recommended by shareholders or others. Shareholders of the Company, and other individuals or organizations other than the Company's directors and senior management, wishing to suggest director candidates should submit their suggestions in writing to the Chairman of the Committee, c/o the Corporate Secretary, providing the candidate's name, biographical data and other relevant information.

The Committee shall maintain a list of director candidates to consider and propose to the Board, as required. If necessary or desirable in the opinion of the Committee, the Committee will determine appropriate means for seeking additional director candidates, including engagement of any outside consultant to assist the Committee in the identification of director candidates.

The Committee shall decide on the appropriate means for the review of individual director candidates, including current directors, and the recommendation of director candidates to the Board. In the event of a vacancy on the Board, the Chair of the Committee shall initiate the effort to identify appropriate director candidates.

The Chair of the Board and the Chair of the Committee shall initiate any contact with a director candidate, after consultation with the Chief Executive Officer.

PUGET ENERGY, INC.
Securities Pricing Committee Charter

PUGET SOUND ENERGY, INC.
Securities Pricing Committee Charter

Purpose:

The Securities Pricing Committee (the “Committee”) is established to assist the Board in the oversight and review of management’s recommendations relating to the final terms of financing transactions and the financial aspects of management’s strategic initiatives.

Authority:

The Committee shall have all authority necessary to fulfill the duties and responsibilities assigned to the Committee in this Charter or otherwise assigned to it by the Board. When the Committee deems appropriate, it may retain independent counsel and other professionals to assist the Committee without further Board approval, and may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Committee, the Board, or Company officers.

Composition:

Independence

The Committee shall be composed of three or more directors, consisting of the Chair of the Board, the Lead Independent Director and the Chair of the Audit Committee or as otherwise determined and appointed by the Board. Members need not be “independent” directors as defined by the New York Stock Exchange.

Appointment and Removal of Members

The Board may remove any member from the Committee at any time with or without cause.

Duties and Responsibilities:

The Committee, which shall also function as the Executive Committee for Puget Sound Energy, Inc., shall oversee and approve the final terms of significant debt and equity financing transactions, and any other duties and responsibilities assigned to the Committee from time to time by the Board.

Meetings:

The Committee shall hold such meetings as are necessary or appropriate in order for the Committee to fulfill its responsibilities. In the absence of a member designated by the Board to serve as the Chair, the members of the Committee may appoint from among their number a person to preside at their meetings.