

EXHIBIT NO. KRK-10
DOCKET NO. UE-10_____
WITNESS: KARL R. KARZMAR

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

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

Docket No. UE-10_____

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

JULY 15, 2010

COPY

PSE

PUGET SOUND ENERGY

ORIGINAL

April 30, 2010

Public Utility District #1 of Jefferson County
P.O. Box 929
230 Chimacum Road
Port Hadlock, WA 98339
Attention: Jim Parker, Manager

Dear Mr. Parker:

This letter of intent (this "Letter of Intent") is intended to set forth certain preliminary understandings as of the date hereof by and between Puget Sound Energy, Inc., a corporation organized under the laws of the State of Washington ("PSE"), and Public Utility District #1 of Jefferson County, a public utility district organized under the laws of the State of Washington ("JPUD"), and to serve as a basis for further discussions and negotiations between PSE and JPUD with respect to the terms and conditions of the Definitive Agreements (as defined in the non-binding term sheet attached hereto as Exhibit A (the "Term Sheet")) and the Proposed Transaction (as defined below). PSE and JPUD are sometimes hereinafter referred to individually as a "Party" and collectively as the "Parties." Unless otherwise defined herein, terms defined in the Term Sheet will have the same meaning when used in this Letter of Intent.

1. Proposed Transaction. This Letter of Intent outlines the general terms and conditions pursuant to which JPUD, under its threat of condemnation, proposes to purchase the PSE Assets (as defined below) from PSE, and PSE, under threat of condemnation by JPUD, proposes to sell the PSE Assets to JPUD (the "Proposed Transaction").
2. PSE Assets. PSE is the owner of certain electrical distribution assets, facilities and properties that are currently used by and useful to PSE to provide electrical service to its customers located in Jefferson County, Washington (the "PSE Assets"). The PSE Assets are described in the Term Sheet.
3. Timing. Time is of the essence in the negotiations and execution of the Definitive Agreements. Subject to Section 6 below, the Parties will employ commercially reasonable efforts to seek to complete the negotiation, execution and delivery of mutually acceptable Definitive Agreements on or prior to May 31, 2010, unless mutually extended by the Parties. The execution and delivery of the Definitive Agreements shall be subject, among other things, to the approval of such agreements: (a) on behalf of each Party by their respective boards of directors; (b) by the direct or indirect parent entities or affiliates of PSE, as required by their

COPY

April 30, 2010
Public Utility District #1 of Jefferson County

respective governing documents; or (c) other appropriate management bodies of the Parties.

4. **Access.** During the LOI Period (as defined below) and, as provided in the Definitive Agreements, during the Transition Period, PSE will, subject to reasonable advance notice from JPUD and subject to the Confidentiality Agreement (as defined below), afford reasonable access and all reasonable opportunity to JPUD representatives to investigate, inspect and perform due diligence regarding the PSE Assets during normal business hours. JPUD's employees and agents will be subject to and observe any applicable PSE rules regarding safety, security and confidentiality and shall not interfere with or hinder the operation of the PSE Assets.
5. **No Condemnation.** JPUD agrees that from the date that of this Letter of Intent has been executed by both Parties until the earliest of (a) the termination of this Letter of Intent without execution and delivery of the Definitive Agreements within the time period described above, or (b) the termination of the Definitive Agreements, if executed, in accordance with the terms thereof, JPUD will forbear from initiating or proceeding with any condemnation or other action to acquire the PSE Assets.
6. **LOI Period; Termination.** Unless otherwise agreed, this Letter of Intent shall remain in effect from the date of execution by both Parties until the earliest of (a) May 31, 2010; (b) the date of execution and delivery of the Definitive Agreements (the "Effective Date"); or (c) the termination of this Letter of Intent by either JPUD or PSE at its sole discretion at any time, effective upon written notice to the other (the "LOI Period"). Termination of this Letter of Intent without execution and delivery of the Definitive Agreements will release the Parties from the provisions hereof, except that Sections 7, 8, 9, 10 and 11 of this Letter of Intent shall remain binding on both Parties, notwithstanding termination hereof.
7. **Expenses.** Each Party shall bear its own legal, accounting, consulting, regulatory, tax and other professional fees and expenses and other transaction costs, regardless of whether the Proposed Transaction is consummated.
8. **Confidentiality.** The Parties agree that the terms of the "Production and Confidentiality of Information Agreement Regarding Public Utility District No. 1 of Jefferson County Acquisition of Puget Sound Energy's Assets and Interests in Jefferson County" ("Confidentiality Agreement") dated July 7, 2009, executed by JPUD and PSE, shall be binding on the Parties as to the subject matter of this Letter of Intent and the Term Sheet. All confidential information disclosed in accordance with the Confidentiality Agreement is and remains "Confidential Information" subject to the terms and conditions of the Confidentiality Agreement

COPY

April 30, 2010
Public Utility District #1 of Jefferson County

and consistent with RCW 42.56. The Parties acknowledge that, prior to execution of this Letter of Intent; JPUD will present this Letter of Intent and the attached Term Sheet to its Board of Commissioners at a public meeting, and that at such public meeting, this Letter of Intent and the attached Term Sheet will be disclosed to the public. Pursuant to subsection 3.2 of the Confidentiality Agreement, the Parties agree that, as of the date of such public meeting, this Letter of Intent and the attached Term Sheet are hereby designated to then be so disclosed to the public, and thereafter such documents shall no longer be "Confidential Information" subject to the terms and conditions of the Confidentiality Agreement. For avoidance of doubt, such designation and disclosure is not intended, nor shall it be construed, to apply to any other "Confidential Information" subject to the terms and conditions of the Confidentiality Agreement, including but not limited to, any such "Confidential Information" as may in any way, directly or indirectly, be related to the subject matter of the Letter of Intent or the Term Sheet.

9. Governing Law. This Letter of Intent shall be governed by the laws of the State of Washington, without regard to principles of conflict of laws that would call for the application of any laws other than the laws of the State of Washington.
10. Counterparts. This Letter of Intent may be executed in several counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same instrument.
11. Effect of This Letter of Intent. This Letter of Intent is not an offer or a commitment on the part of PSE or JPUD or any parent company or affiliate of any of them. The Parties understand that except as expressly set forth in this paragraph, this Letter of Intent (including the attached Term Sheet) constitutes a **non-binding** statement of the Parties' respective intentions with respect to the Proposed Transaction, does not contain all matters upon which agreement would need to be reached in order for the Proposed Transaction to be consummated, and therefore does not constitute a binding commitment or agreement with respect to the Proposed Transaction itself. Any transaction which might arise from discussions shall be contingent upon negotiation and execution of the Definitive Agreements and receipt of necessary or appropriate approvals, including, to the extent necessary or appropriate, those of the management and board of PSE and its direct and indirect parent entities or affiliates as necessary and JPUD and no binding commitment shall arise prior to then even if the Parties reach some understanding(s) or agreement(s) in principle. The Closing of such transaction shall be contingent upon receipt of all required governmental approvals and such other conditions precedent to Closing as shall be set forth in the Definitive Agreements. Any actions taken by a Party in reliance on the non-binding terms expressed herein (including in the Term Sheet) or on statements made during

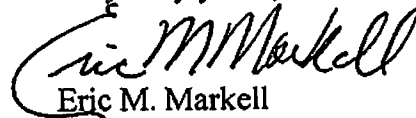
COPY

April 30, 2010
Public Utility District #1 of Jefferson County

negotiations pursuant to this Letter of Intent shall be at that Party's own risk, and this Letter of Intent shall not be the basis for a contract by estoppel, implied contract or any other legal theory. Notwithstanding the foregoing, the Parties acknowledge and agree that Sections 4, 5, 6, 7, 8, 9, 10 and this Section 11 create, and are intended to create, binding legal and contractual obligations of the Parties.

If the foregoing is satisfactory to you and reflects your understanding with respect to the matters referred to in this Letter of Intent, please sign and date the enclosed copy of this Letter of Intent where indicated below and return such copy, as so signed and dated, to the undersigned on or before May 10, 2010. If this Letter of Intent is not executed by JPUD and delivered to PSE on or prior to May 10, 2010, it shall be null and void.

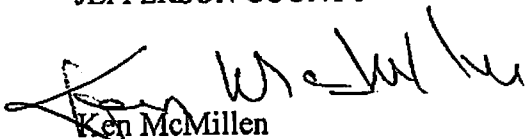
Very truly yours,



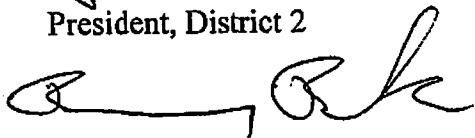
Eric M. Markell
Executive Vice President and
Chief Financial Officer
PUGET SOUND ENERGY, INC.

ACCEPTED AND AGREED TO BY:

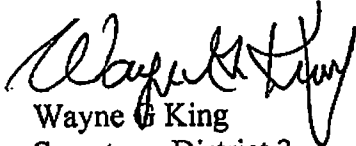
PUBLIC UTILITY DISTRICT #1 OF
JEFFERSON COUNTY



Ken McMillen
President, District 2



Barney Burke
Vice President, District 1



Wayne G. King
Secretary, District 3

COPY

Exhibit A

**Term Sheet for
JPUD's Proposed Acquisition of
the PSE Assets**

**Principal
Structure of
Proposed
Transaction**

The Proposed Transaction is proceeding under JPUD's threat of condemnation and, if consummated, would constitute a settlement between the Parties, and a disposal of property to a special purpose district pursuant to RCW 80.12.020(2). In order to consummate the Proposed Transaction, the Parties would enter into an asset purchase agreement (the "APA"), pursuant to which JPUD will acquire the PSE Assets. The Parties would also enter into such other agreements as the Parties may mutually agree in furtherance of the Proposed Transaction. Such agreements are referred to collectively herein as the "Definitive Agreements." The terms and conditions for the Definitive Agreements and the Proposed Transaction will consist generally of the following:

- (1) Acquisition by JPUD of the PSE Assets. At the closing of the transactions contemplated by the APA ("Closing"), PSE will sell to JPUD, and JPUD will purchase from PSE, all of the PSE Assets. The PSE Assets will be transferred by PSE and accepted by JPUD in their then existing condition, and in all respects, AS IS, WHERE IS, WITH ALL FAULTS AND DEFECTS, AND WITHOUT WARRANTY OR REPRESENTATION OF ANY KIND.
- (2) Determination of the PSE Assets. The Parties intend that the PSE Assets will include all of the electrical distribution assets, facilities, and properties (including real property) that, as of the Effective Date, are a part of the PSE Assets that PSE uses to provide electrical service to PSE customers located in Jefferson County, Washington. The PSE Assets will not include any assets, facilities or properties of PSE that are not then being used to provide electrical service to its customers located in Jefferson County even if such assets, facilities or properties are located in Jefferson County or were previously used in the provision of such electrical service. The PSE Assets to be transferred to JPUD will not include any electric revenue accounts receivable (money owed for electric service) as of the Closing Date. Set forth in Schedule I to this Exhibit A is a list of all of the assets, facilities and properties that the Parties currently intend to be part of the PSE Assets. As described below, the Parties anticipate that there will be additions and deletions to the PSE Assets prior to Closing. The Parties agree that the list of PSE Assets set forth in Schedule I to this Exhibit A is preliminary and that the

COPY

Parties will work cooperatively to finalize the list of PSE Assets for inclusion in the APA.

- (3) Other items of Personal Property. Upon receipt of JPUD's ninety (90) day notice to close the transactions contemplated by the Definitive Agreements, PSE shall prepare an inventory of stores, consumables, tools, equipment, furniture and other items of personal property that are then currently used by and useful to PSE to provide electrical service to its customers located in Jefferson County, Washington. As to any such items (or lots of such items) that PSE is willing to sell to JPUD, PSE shall provide JPUD with a list thereof, together with the price at which PSE is willing to sell such items to JPUD. The purchase price for such items shall not exceed PSE's actual cost (or a lesser amount, as may be determined by PSE, taking into consideration normal wear and tear). PSE shall provide JPUD such list not less than forty-five (45) days prior to the Closing Date (as defined below). Not less than thirty (30) days prior to the Closing Date, JPUD shall identify any items appearing on such list that it desires to purchase ("Stores") at the price designated for such items by PSE ("Stores Purchase Price"). At Closing, JPUD shall pay PSE through Escrow the Stores Purchase Price. At Closing, PSE shall transfer title to the Stores to JPUD, through Escrow, and JPUD shall accept the Stores in all respects AS IS, WHERE IS, WITH ALL FAULTS AND DEFECTS, AND WITHOUT WARRANTY OR REPRESENTATION OF ANY KIND. At Closing, PSE may leave the Stores in place and shall have no obligation to affect a physical delivery of the Stores to JPUD.
- (4) Disclosure of Information and Due Diligence Activities. PSE shall provide, to the best of its knowledge, all material information in its possession as of the Effective Date that reasonably relates to (i) PSE's title to the PSE Assets, and (ii) the physical condition of the PSE Assets, as follows:
- a. Review Materials and Review Period: Within one hundred and twenty (120) days of the Effective Date, PSE shall make available to JPUD for inspection all title reports, real estate documents, maps, facility inventories, maintenance records, logs, and other documents in its possession that reasonably relate to (i) PSE's title to the PSE Assets, and (ii) the physical condition of the PSE Assets (collectively, the "Review Materials"). JPUD's right to inspect the Review Materials shall commence as of the date that

COPY

the Review Materials are made available to JPUD for inspections and, unless extended by mutual agreement of the Parties, shall end twenty four (24) months thereafter (the "Review Period").

- b. JPUD's Right of Inspection. The Review Materials shall be made available to JPUD for inspection, on business days during normal business hours, at such locations where PSE normally retains such information (as the case may be) in PSE's offices in Jefferson County and Bellevue, Washington. The Parties shall cooperate as to the scheduling of such inspections. JPUD shall have the right, at its expense, to make copies of the Review Materials and, to the extent not otherwise included in the PSE Assets, request that PSE deliver the Review Materials (or portions thereof) to JPUD at Closing. If so requested, PSE shall deliver the Review Materials (or portions thereof) subject to its right to retain copies thereof, and subject to JPUD's executing appropriate releases of PSE's liability for the contents and accuracy thereof.
 - c. Termination of Definitive Agreements. JPUD shall have the right to terminate the Definitive Agreements on or before the expiration of the Review Period if, based upon its review of the Review Materials, JPUD reasonably determines that information contained therein presents an unanticipated and previously unknown material risk to JPUD were it to consummate of the transitions contemplated by the Definitive Agreements. In such event, JPUD shall promptly return to PSE all copies of any Review Materials obtained during the Review Period.
 - d. Additional Due Diligence Activities. JPUD may conduct, and PSE will reasonably cooperate with JPUD and facilitate, such other due diligence reviews during the Review Period as JPUD may elect to undertake concerning the status and prospects for acquisition, financing, operation and performance of the PSE Assets.
- (5) Closing Date: Transition Period. The date of Closing under the APA (the "Closing Date") shall occur on a date that is not earlier than eighteen (18) months, and not later than thirty-six (36) months, from and after the Effective Date. The period

COPY

beginning on the Effective Date and ending on the earlier of the Closing Date or the termination of the Definitive Agreements is hereinafter referred to as the "Transition Period."

- (6) Closing. At any time after the end of the fiftenth (15th) month of the Transition Period and subject to receipt by the Parties of all consents, authorizations and approvals and satisfaction or waiver of conditions precedent specified in the APA, JPUD shall have the right to instruct Escrow (as defined below) to close the transactions contemplated by the Definitive Agreements upon ninety (90) days' written notice to Escrow and to PSE. At Closing, PSE's obligations to provide electric service to its customers in Jefferson County shall cease, and JPUD shall assume full and complete responsibility for providing electric service to such customers.
- (7) Purchase Price. As the consideration for PSE's sale of the PSE Assets, JPUD will pay to PSE \$103 million, subject to adjustment as provided below (the "Purchase Price").
- (8) Adjustments to Purchase Price. The Purchase Price shall be subject to adjustment, during the Transition Period, for the following:
 - a. Reduction of the Purchase Price: At Closing, JPUD shall be entitled to a credit against the Purchase Price in an amount that is equal to the total net book value of any PSE Assets (that are part of the PSE Assets as of the Effective Date) and that are removed by PSE from service in the ordinary course of its utility operations during the Transition Period.
 - b. Additions to the Purchase Price: At Closing, PSE shall be entitled to an adjustment increasing the Purchase Price in an amount that is equal to the total net book value of any improvements (including but not limited to Planned Improvements and Expected Improvements, as defined below) to the PSE Assets (that are part of the PSE Assets as of the Effective Date) that are placed in service by PSE during the Transition Period in the ordinary course of its utility operations.
 - c. Equitable Adjustment: Any equitable adjustment to the Purchase Price that is determined by the

COPY

Transition Advisory Committee (as defined below) to be necessary to account for any material (i) loss of or damage to, or (ii) addition to or betterment of, the PSE Assets occurring during the Transition Period. Any such loss, damage, addition or betterment is material if, on an occurrence basis, the amount thereof exceeds Five Thousand Dollars (\$5,000), and in the aggregate, if the amount exceeds Twenty-Five Thousand Dollars (\$25,000). Such equitable adjustments shall not be made or available for losses or damages associated with normal wear and tear.

- d. JPUD Prior Approval. Subsequent to the Interim Payment Date (as defined below), PSE shall not sell any PSE Assets with a total net book value in excess of Five Thousand Dollars (\$5,000), nor shall PSE purchase any PSE Assets (other than Planned Improvements and Expected Improvements) with a total net book in excess of One Hundred Thousand Dollars (\$100,000), in either case, without JPUD prior approval, which such approval shall not be unreasonably withheld or delayed. JPUD's prior approval shall not, however, be required for any repair, removal, replacement or improvement of PSE Assets by PSE that are made in response to exigent circumstances (e.g., to repair storm damage) and reasonably required to provide safe and reliable service to PSE's customers in Jefferson County. The adjustment to the Purchase Price associated with any such repair, removal, replacement or improvement of PSE Assets shall, however, be subject to review by the Transition Advisory Committee.

- (9) Payment. The Purchase Price shall be paid by JPUD to PSE as follows:

- a. Interim Payment: JPUD shall pay into Escrow for the benefit of PSE by wire transfer of immediately available funds to the bank account specified by PSE an interim payment of Twenty Million Dollars \$20,000,000, to be applied to the Purchase Price at Closing (the "Interim Payment"). The Interim Payment shall be due and paid into Escrow within ten (10) days of receipt by JPUD of its long term financing ("Interim Payment Date").

COPY

- b. **Balance:** At Closing, JPUD shall pay in Escrow, and Escrow shall transfer to PSE by wire transfer of immediately available funds to the bank account specified by PSE the sum of: (i) the Purchase Price (if and as adjusted per the Definitive Agreements, less the amount of the Interim Payment), (ii) the Stores Purchase Price, and (iii) any and all other amounts as may then be due and owing PSE pursuant to the terms and conditions of the Definitive Agreements.
- (10) **Escrow.** The Parties shall designate [*Title Company*] as the escrow agent ("Escrow") responsible to provide the escrow services necessary to close the transactions contemplated by the Definitive Agreements. Escrow costs shall be shared equally by each Party.
- (11) **Liquidated Damages.** Not later than fifteen (15) days after the Effective Date, each Party shall tender to Escrow a promissory note in the amount of \$2.5 million, payable to the other Party, as liquidated damages ("Liquidated Damages") for the unexcused failure to close the transactions contemplated by the Definitive Agreements in accordance with the terms and conditions thereof. In lieu of Liquidated Damages, in the event that a Party, without excuse, fails to close the transactions contemplated by the Definitive Agreements in accordance with the terms and conditions thereof, then the other Party may seek to specifically enforce the Definitive Agreements. In the event that an action is brought by a Party to specifically enforce the Definitive Agreements, the prevailing Party shall be entitled to recover its costs and attorneys' fees from the other Party.
- (12) **Financing Plan.** Not later than six (6) months from and after the Effective Date, JPUD will provide PSE with a financing plan, for informational purposes only, together with such commitments from financing entities received as of that date as are sufficient to demonstrate that JPUD will be able to qualify for financing in an amount sufficient to fund the Purchase Price and that the proceeds of such financing will be available to JPUD to pay the Purchase Price within the time periods specified above. JPUD shall update its financing plan on a quarterly basis until Closing.

COPY

**Obligations and
Cooperation
During the
Transition
Period**

During the Transition Period, the Parties shall have the following obligations:

- (1) Transition Advisory Committee. PSE and JPUD shall appoint a transition advisory committee ("Transition Advisory Committee") composed of three (3) PSE appointed members and two (2) JPUD appointed members. The Transition Advisory Committee shall meet and confer no less than on a monthly basis during the Transition Period, and its primary purpose shall be to facilitate the cooperative efforts of the Parties to transfer the PSE Assets to JPUD in accordance with the terms and conditions of the Definitive Agreements.
- (2) Transition Advisory Committee Review of Additions and Deletions to the PSE Assets:
 - a) Prior to the Interim Payment Date. Prior to the Interim Payment Date, the Transition Advisory Committee shall be informed of all additions (including Planned Improvements and Expected Improvements) and deletions to the PSE Assets that would result in any adjustments to the Purchase Price. The Transition Advisory Committee's sole responsibility with respect to such additions or deletions shall be to determine the amount of any increase or decrease to the Purchase Price that is necessary to equitably account for such additions and deletions to the PSE Assets.
 - b) Subsequent to the Interim Payment Date. Subsequent to the Interim Payment Date, the Transition Advisory Committee shall review all additions and deletions to the PSE Assets that would result in any adjustments to the Purchase Price. To the extent either Party seeks an adjustment to the Purchase Price, the Transition Advisory Committee shall review such request in accordance with the provisions included in the Purchase Price adjustment section of this LOI. Prudent utility practice shall be the basis for the Transition Advisory Committee to determine whether such equitable adjustments are appropriate.
- (3) Use and Maintenance of the PSE Assets. During the Transition Period, PSE will construct, operate and maintain the PSE Assets, and provide electric service to its customers in Jefferson County, at substantially the same quality and level of service that PSE provides to its other customers, and to so construct, operate, maintain and serve in accordance

COPY

with the rules and regulations of the Washington Utilities and Transportation Commission (the "WUTC") (including, but not limited to, PSE rates and tariffs on file therewith). During the Transition Period, PSE shall maintain the PSE Assets in a condition that is substantially the same as the condition the PSE Assets are in as of the Effective Date, normal wear and tear excepted.

- (4) Planned Improvements and Expected Improvements. Schedule II to this Exhibit A sets forth planned upgrades and improvements to the PSE Assets that PSE anticipates that it will undertake during the Transition Period ("Planned Improvements and Expected Improvements"). The Planned Improvements set forth on Schedule II to this Exhibit A are hereby accepted and approved by JPUD. The Expected Improvements set forth on Schedule II to this Exhibit A are the improvements that PSE expects to make on an annual basis in the ordinary course of operating the PSE Assets and are included for purposes of notice and identification. If, during the Transition Period, PSE determines a need to change a Planned Improvement, and such change materially affects the cost thereof, PSE will advise the Transition Advisory Committee of such change and the Transition Advisory Committee shall determine the amount of any increase or decrease to the Purchase Price that is necessary to equitably account for such change. If, subsequent to the Interim Payment Date, the Parties are unable to agree upon the change to the Planned Improvements list or the amount of any such further equitable adjustment, then the matter shall be referred to Dispute Resolution (as defined below). During the Transition Period, PSE will advise the Transition Advisory Committee of the Expected Improvements actually undertaken and completed and the Transition Advisory Committee shall determine the amount of any increase or decrease to the Purchase Price that is necessary because of the completion of Expected Improvements to equitably account for such change.
- (5) Extraordinary Items. If, during the Transition Period, PSE determines a need for any extraordinary additions, deletions, upgrades or improvements to the PSE Assets in order to (i) maintain the safety and reliability of PSE's electrical system, (ii) operate and maintain PSE's electrical system and serve its customers in accordance with the rules and regulations of the WUTC (including, but not limited to, PSE rates and tariff on file therewith), or (iii) comply with any applicable law, then PSE will advise the Transition Advisory

COPY

Committee of such action. The Transition Advisory Committee shall then determine the amount of any increase or decrease to the Purchase Price that is necessary to equitably account for such action. If, subsequent to the Interim Payment Date, the Parties are unable to agree upon the amount of any such further equitable adjustment, then the matter shall be referred to Dispute Resolution.

- (6) Indemnification. During the Effective Period and the Transition Period, in addition to standard indemnity and insurance requirements for transactions similar to the Proposed Transaction, each Party ("Indemnitor") will defend, indemnify and hold the other Party ("Indemnitee") harmless for any and all claims, demands, costs, losses, liens, expenses, damages, harm or expenses (including, without limitation, costs and attorneys' fees) of any kind arising, in whole or in part, directly or indirectly in connection with the PSE Assets, to the extent caused by the Indemnitor, any person acting for or on behalf of the Indemnitor or their respective employees, agents, partners, affiliates, shareholders, directors, officers and assigns.

**Transfer of PSE
Assets; Risk of
Loss;
Residential
Exchange
Adjustments**

Quitclaim Deed; No Warranty. Title to the PSE Assets will be delivered by PSE through Escrow and transferred to JPUD at Closing by quitclaim deed and similar nonrecourse instruments, upon satisfaction of all terms and conditions of the Definitive Agreements. PSE shall secure a release of the lien of the mortgage encumbering the PSE Assets as security for its bondholders.

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

Residential Exchange Adjustments. JPUD shall indemnify PSE in an amount equal to fifty percent (50%) of any adjustment by Bonneville Power Administration after Closing to account for the overpayment of benefits, if any, for the period October 1, 2001, through September 30, 2008 (the "Lookback"), allocable to PSE's residential and small farm customers in Jefferson County, of the monetary benefits provided PSE under the Residential Purchase and Sale Agreement, by and between the United States of America, Department of Energy, acting by and through the Bonneville Power Administration, and Puget Sound Energy, Inc., Contact No. 08PB-11974.

**Representations,
Warranties and
Covenants**

The Definitive Agreements will contain standard representations, warranties and covenants by JPUD and PSE for transactions similar to the Proposed Transaction; provided, however, that PSE will not make

COPY

any representations, warranties and covenants with regard to the condition, quality, kind or characteristics of the PSE Assets. PSE shall provide JPUD the Review Materials as specified above.

**Environmental
Conditions**

Responsibility. PSE will be responsible for all Environmental Conditions (as defined below) that are in existence as of the Closing, whether known or unknown. JPUD will be responsible for all Environmental Conditions that: (a) arise or come into existence after Closing, and (b) exist at the time of Closing and are reasonably expected in the ordinary course of utility operations.

Phase I Environmental Assessment. JPUD will conduct, at its expense, Phase I Environmental Assessments for all PSE Assets set forth in Schedule III to this Exhibit A. JPUD shall provide PSE with a copy of any and all such Phase I Environmental Assessments. JPUD will have the right to terminate the Definitive Agreements on or before June 1, 2012 if, based upon its review of information disclosed by the Phase I Environmental Assessments, JPUD reasonably determines that information contained therein presents an unanticipated and previously unknown material risk to JPUD were it to consummate the transitions contemplated by the Definitive Agreements. For avoidance of doubt, JPUD shall not be entitled to a reduction in the Purchase Price for any Environmental Conditions.

PSE agrees to provide all relevant environmental studies it is aware of to JPUD during the Review Period. These environmental studies shall include, but not be limited to all PSE records on transformer testing and PCB testing and disposal.

Environmental Conditions. Environmental Conditions include all environmental conditions, circumstances or other matters of fact pertaining to, relating to or otherwise affecting the existing environmental condition of the PSE Assets, including any environmental pollution, contamination, degradation, damage or injury related to, arising from or in connection with the (i) presence, use, handling, storage, treatment, recycling, generation, transportation, release, spilling, leaking, pumping, pouring, emptying, discharging, injecting, escaping, leaching, disposal (including the abandonment or discarding of barrels, containers and other closed receptacles containing any hazardous materials), dumping or threatened release of hazardous materials in connection with the ownership, possession, construction, improvement, use or operation of the PSE Assets, (ii) offsite transport of hazardous materials from the PSE Assets, or the treatment, storage or disposal of hazardous materials transported from the PSE Assets to another site, and (iii) release of hazardous materials from the PSE Assets into the

COPY

atmosphere, soil or any watercourse or body of water not included in the Project Assets (collectively, the "Environmental Conditions").

**Regulatory and
Other Approvals**

The Parties anticipate that the following regulatory reviews and approvals will be required prior to Closing to implement the Proposed Transaction. The Parties will use best efforts in good faith to prepare and execute all filings to meet the referenced target dates.

- (1) Receipt by PSE from the WUTC of an order or orders (i) confirming that the amount of the Purchase Price is an amount that is sufficient to fully compensate PSE customers for the sale of the PSE Assets, (ii) confirming the provisions of the Definitive Agreements pertaining to PSE's transition of its responsibilities to provide electrical service to its customers in Jefferson County are sufficient and consistent with PSE's public service obligations, and (iii) confirming that, by operation of RCW 80.12.020(2), WUTC approval is not required prior to the transfer of the PSE Assets to JPUD. PSE shall apply for such an order or orders on or before July 1, 2010. In the event that the WUTC order or orders fail to confirm the items set forth in (i), (ii), and (iii) above, the Parties shall meet and confer to resolve the outstanding issues associated with the WUTC order or orders. If the Parties fail to resolve the outstanding issues in a manner that satisfactorily achieves the above-referenced confirmations from the WUTC, then either Party may terminate the Definitive Agreements. Upon termination, the terms and conditions set forth in paragraph 5 of the Letter of Intent shall be extinguished and JPUD shall be immediately free to initiate or proceed with any condemnation or other action to acquire the PSE Assets.
- (2) Receipt by PSE of an order, on commercially reasonable terms, approving the Proposed Transaction by the Federal Energy & Regulatory Commission ("FERC"), if and as required for the transfer of any FERC-jurisdictional facilities that are part of the PSE Assets. PSE shall apply for such an order on or before July 1, 2010.
- (3) If applicable, consents to the assignment and/or termination of all relevant permits, contracts, franchises or similar instruments.

**Conditions to
Closing**

Standard Closing Conditions. The APA will contain standard closing conditions for transactions of this nature including, but not limited to, those set forth elsewhere in this Term Sheet and the following:

COPY

- (1) Delivery of all instruments, consents, assignments, certificates and opinions required by the APA, including if applicable, consents to any assignments of permits, contracts, franchises or similar instruments;
- (2) No material adverse change in the financial condition of the Parties or in the business and operations of the PSE Assets; and

JPUD Conditions Precedent to Closing. In addition to the standard closing conditions, JPUD's obligation to close the transactions contemplated by the Definitive Agreements is contingent upon the following:

- (1) JPUD's receipt of long-term financing, on terms and conditions satisfactory to JPUD, within thirty-six (36) months from and after the Effective Date;

PSE Conditions Precedent to Closing. In addition to the standard closing conditions, PSE's obligation to close the transactions contemplated by the Definitive Agreements is contingent upon the following:

- (1) PSE's receipt of independent third-party verification of the value of the PSE Assets on or before July 1, 2010;
- (2) PSE's satisfaction with (or waiver) of the regulatory reviews and approvals set forth above;
- (3) JPUD's delivery to Escrow of sufficient funds to pay the Purchase Price, the Stores Purchase Price, and any and all other amounts (if any) as may then be due and owing PSE pursuant to the terms and conditions of the Definitive Agreements.

**Termination
Rights**

In addition to the Definitive Agreement termination rights set forth elsewhere in this Term Sheet, the Definitive Agreements will include termination rights of the type that are standard for transactions of this nature. In the event that the Closing has not occurred within three (3) years of the Effective Date, the APA will automatically terminate.

**No
Consequential
Damages**

The Definitive Agreements will provide that, except for a Party's potential obligation to pay Liquidated Damages, neither Party will have any liability for any loss of profits, any loss of revenue, or any indirect, consequential (including, but not limited to, lost profits, business interruption and the like), exemplary, special or similar damages arising from a failure to perform the Definitive Agreements in accordance with the terms and conditions thereof.

COPY

Indemnification	The Definitive Agreements will contain mutually acceptable provisions by which (i) JPUD will indemnify, hold harmless and defend PSE and its affiliates, directors, officers, employees, representatives and agents from and against certain losses arising from conditions, including Environmental Conditions, or events occurring after the Closing Date, and (ii) PSE will indemnify, hold harmless and defend JPUD and its affiliates, directors, officers, employees, representatives and agents from and against certain losses arising from conditions, including Environmental Conditions, or events occurring prior to the Closing Date.
Certain Tax Matters	In addition to the Purchase Price, JPUD will be responsible for paying in connection with the Proposed Transaction any and all sales, use, excise and other transaction taxes normally payable by a buyer in a comparable transaction. PSE will be responsible for paying any income and Washington State business and occupation taxes arising out of PSE's receipt of the Purchase Price. All continuing costs (e.g., taxes, fees, and other assessments as applicable) associated with the transfer and sale of the PSE Assets shall be prorated between PSE and JPUD as of the Closing Date. The Parties agree to cooperate to minimize each Party's and their respective affiliates' taxes resulting from or arising with respect to the Proposed Transaction.
Communications	Each Party shall coordinate with the other Party with respect to, and provide advance copies to the other Party for review of, the content and timing of any proposed public communications or publications concerning the Proposed Transaction, to the extent consistent with applicable laws.
Dispute Resolution	Except as otherwise provided with respect to the unexcused failure to close the transactions contemplated by the Definitive Agreements in accordance with the terms and conditions thereof, the Definitive Agreements will contain appropriate provisions for the resolution of disputes (" <u>Dispute Resolution</u> "), including (i) referral to senior management for a specified period; and (ii) remedies available at law or equity if senior management cannot resolve the dispute by the expiration of the specified period.
Time of the Essence	The Definitive Agreements will provide that time is of the essence of such agreements.
Governing Law	The Definitive Agreements will be governed by the laws of the State of Washington, without regard to principles of conflict of laws that call for application of law other than that of the State of Washington.
Assignment	Neither Party may assign the Definitive Agreements or their rights and obligations thereunder without the prior written consent of the other

COPY

Party. Except as otherwise agreed by the nonassigning Parties, no such assignment will relieve the assignor of its obligations to the non-assigning Party.

Transition

The Parties will cooperate and use their best efforts in good faith to facilitate all aspects of the efficient transition of electric utility service obligations for the customers of Jefferson County from PSE to JPUD.

COPY

**Schedule I
to
Exhibit A**

List of PSE Assets

To Be Provided with Definitive Agreements

COPY

**Schedule II
to
Exhibit A**

Planned Improvements and Expected Improvements

I. Planned Improvements

To be Provided with Definitive Agreements

II. Expected Improvements

To be Provided with Definitive Agreements

COPY

**Schedule III
to
Exhibit A**

**Phase I Environmental Assessment - PSE Assets
To Be Determined and Provided with Definitive Agreements**