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LLC

December 26, 2013

Robert Jones
Puget Sound Energy
Tax Department
PO Box 97034 PSE08S
Bellevue WA 98009

Re: Puget Sound Energy – City of Renton, WA

Dear Mr. Jones:

Tax Recovery Services (TRS) has been contracted by the City of Renton, Washington to conduct an Electric Utility Gross Receipts Tax audit, a Natural Gas Utility Gross Receipts Tax audit and a General Gross Receipts Tax audit of Puget Sound Energy (PSE) for the period of January 1, 2006 through December 31, 2012. The City of Renton, Washington applies the Gross Receipts Utility Taxes under Chapter 5-11-1 of the City of Renton Municipal Code. PSE is an electric and natural gas utilities company incorporated in the State of Washington.

The audit of Puget Sound Energy's electric utility gross receipts tax and natural gas utility gross receipts tax remitted to the City of Renton, Washington was conducted according to Generally Accepted Accounting Principals and the laws and regulations of the State of Washington and of the City of Renton, Washington.

Documents received from PSE and City of Renton, reviewed by TRS Auditors:

- Monthly utility tax returns submitted to the City of Renton by PSE for the period of January 1, 2006 through December 31, 2012.
- Customer billing reports from PSE for the months of October 2010 and December 2012.
- A sample of individual customer bills received from PSE.
- PSE Product Price Area Reports for the months of January 1, 2006 through December 31, 2012, received from PSE. The Product Price Area Reports are the primary gross income source documents for this audit.

Findings: Please refer to our worksheets of scheduled gross income and deductions.

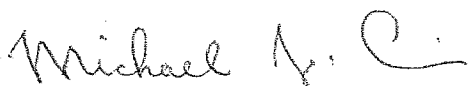
- As an electric service utility provider and natural gas service utility provider, PSE is subject to the Renton Utilities Gross Receipts Tax, RMC Chapter 5-11- 1.
- There was unreported gross income for various miscellaneous activities during the entire audit period of January 1, 2006 through December 31, 2012.
- These gross sales activities related to various wholesale, retail and service activities, which were identified on the Product Price Area Reports (PPAR).
- During the entire audit period of January 1, 2006 through December 31, 2012, PSE was allowed a deduction for bad debts. Please refer to our worksheets titled City of Renton, Washington Gross Income & Deductions, Schedule II.

The amount due for Puget Sound Energy (electric and natural gas) came to \$388,325.81. This include the amount of the tax for \$207,985.72, the interest amount for \$128,343.59 and the penalty amount for \$51,996.50.

In the future, when reporting the Renton, Washington Electric Utility Gross Receipts Tax and the Natural Gas Utility Gross Receipts Tax, Puget Sound Energy must report its total gross income from all sources on the Renton Electric Utility Gross Receipts Tax Return and the Renton Natural Gas Utility Gross Receipts Tax Return, each month. Renton Utility Tax Chapter 5-11-1 allows PSE to deduct bad debts. Total deductions taken by Puget Sound Energy must be identified and shown on each utility tax return filed with the City of Renton, Washington each month.

We also would like to thank you and your staff for all of your assistance in conducting this audit.

Sincerely,



Michael J. Crisp
President
Tax Recovery Services, LLC

cc: Iwen Wang
Administrative Services Administrator
City of Renton