EXHIBIT NO. ___(RG-39HC)
DOCKET NO. UE-09___/UG-09___
2009 PSE GENERAL RATE CASE
WITNESS: ROGER GARRATT

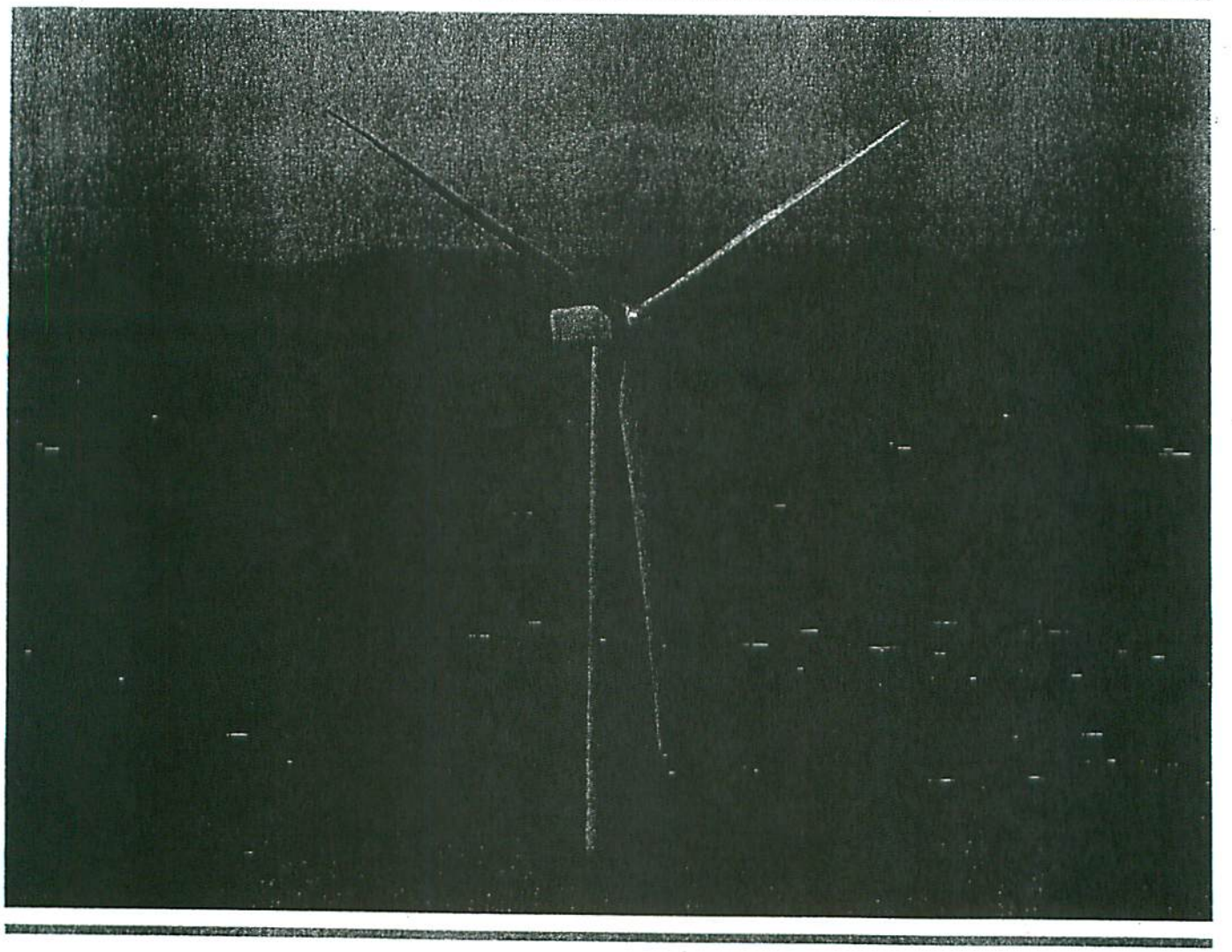
BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-09____** **Docket No. UG-09____**

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

REDACTED VERSION

MAY 8, 2009



Wild Horse Expansion

Board of Directors' Meeting
November 4, 2008

PSE PUGET SOUND ENERGY
The Energy To Do Great Things

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Wild Horse Expansion Update

MEMORANDUM

November 4, 2008

Privileged and Confidential Attorney - Client Communication

To: PSE Board of Directors

cc: Dewey & LeBoeuf LLP

From: Kimberly Harris

Subject: Proposed development, construction and operation of a 44 MW (22 turbines) expansion of the existing Puget Sound Energy ("PSE") Wild Horse Wind Generating Facility ("Wild Horse") to be located adjacent to Wild Horse in unincorporated Kittitas County, WA

The purpose of this Memorandum is to describe:

- PSE's progress in developing a proposed 44 MW wind turbine project (the "Expansion" or "Project") and the work required to complete the development and construction of the Project.
- The need for, and benefits of, the proposed Project.
- The analyses supporting the selection by PSE of the proposed Project.

- The principal definitive agreements for the proposed Project.
- Key risk factors related to the proposed Project.
- The development, construction and operation plans for the Project.
- The expected tax, accounting and ratemaking treatments for the proposed Project.
- The projected "stand-alone" financial pro forma[1] for the Project (income statement, cash flows and balance sheet) and the Project's estimated impact on PSE's gross revenue requirements (See **Exhibit 4**).
- The estimated costs of the Project's acquisition, development and construction.
- The estimated costs of operating the Project, inclusive of annual operation and maintenance and asset management costs.
- The plan to finance the costs of the turbines and construction.
- Management's recommendation to PSE's Board of Directors for approval to complete development, execute certain Project agreements, and construct the Project.

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[1] The Project will be wholly-owned by PSE and consolidated within PSE's financial statements. For clarity of interpretation, the stand-alone pro forma illustrates the financial impacts of the Project separate and apart from PSE's financial statements, similar to the presentation were the Project held by a wholly- owned subsidiary of PSE.

Summary Project Description

When completed, the Project will be a 44 MW expansion of the Wild Horse Wind Generating Facility located on an approximately 960-acre[2] site in unincorporated Kittitas County, approximately eleven miles east of the City of Kittitas. The Project site is located adjacent to Wild Horse on its northern border. It will incorporate 22 Vestas V80 2.0 MW wind turbine generators (the "WTGs") and will be electrically interconnected at the existing Wild Horse electrical substation. The Project site is uninhabited shrub steppe habitat currently used for cattle grazing and is owned by PSE.

The Project was originally developed by Whiskey Ridge Power Partners, LLC ("WRPP").[3] WRPP's parent, Horizon[4], is a leading developer of wind energy projects. WRPP commenced development of the Project in 2002 and, subsequently, secured purchase options with the landowner and conducted certain environmental studies necessary to obtain the required permits. Collection of meteorological data began in 2001 and includes including wind resource measurements from five met towers located within close range of the proposed turbine locations for the Expansion. Additionally, WRPP had applied for an interconnection of the Project with PSE's transmission system.

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[2] Approximately 1400 acres were purchased for the development of the Project; however, only approximately 960 acres are being proposed for permitting.

[3] WRPP is a special purpose entity created to own the development assets of the Whiskey Ridge Wind Project. WRPP has no employees; the management responsibility for the development of the Project was being performed under the direction of its parent, Horizon.

[4] Horizon Wind Energy, LLC began in 1998 as a developer known as Zilkha Renewable Energy, followed by a period of ownership by Goldman Sachs beginning in 2005. Following its acquisition on July 2, 2007 by Energias de Portugal, S.A. ("EDP"), a major Portuguese utility headquartered in Lisbon, Portugal, the Company is now owned by EDP Renováveis, S.A. ("EDPR").

In February 2008, PSE purchased the project development rights and assets from WRPP. At the closing of the WRPP transaction, PSE exercised the option held by WRPP to purchase the land owned by American Minerals and Land Corporation and Land Development and Promotion Services, Inc. ("AMLC"). PSE has continued the development of the Project by performing additional wind energy studies, selecting and negotiating turbine supply, performing preliminary engineering, and applying for a Project permit.

PSE will contract with Vestas - American Wind Technology, Inc. ("Vestas American"), a subsidiary of Vestas Wind Systems A/S ("Vestas") for the supply of the 22 WTGs pursuant to a Wind Turbine Supply Agreement. Vestas American will manufacture, deliver, and commission the WTGs, guarantee their performance, and warrant their availability and mechanical performance. Vestas will deliver at the closing, for the benefit of PSE, a parent guarantee.

PSE will select an engineering, construction, and procurement ("EPC") contractor to erect the turbines and construct the Project's balance of plant ("BOP") facilities under a fixed price, turnkey engineering, construction and procurement contract ("BOP EPC Agreement"). PSE will seek a payment and performance bond from the EPC contractor to be issued by a surety bond company that meets specified standards as set forth in the definitive agreements.

Upon substantial completion of the Project, PSE will assume responsibility for operating the Project. PSE will contract with Vestas American for service and maintenance of the

WTGs under a five-year Service and Maintenance Agreement, which includes a two-year warranty for the WTGs.

The execution of the Vestas agreements is expected to occur on November 5, 2008, subject to board approval, while the execution of the BOP EPC Agreement is expected to occur in January 2009. Substantial completion (i.e., commercial operation) is estimated to occur before the end of 2009.

Summary of the Program of Acquisition, Development, Construction and Operation

The development rights and assets of the Project were acquired on February 12, 2008 from WRPP. Simultaneously, PSE purchased the land from AMLC under an option agreement that WRPP held. A detailed summary of the acquisition agreements and the current drafts of the Vestas agreements are attached as **Exhibit 1**. The principal commercial terms of these agreements and other related Project agreements are briefly summarized below:

- Pursuant to an *Asset Purchase Agreement ("APA")*, on February 12, 2008 PSE acquired from WRPP all of its development assets related to the Project, including but not limited to the AMLC land purchase option, environmental studies, wind resource data and analysis, interconnection request, met towers and other development assets (the "Project Development Assets"). PSE paid an initial purchase price for the Project Development Assets of [redacted] at closing. Additional consideration will be paid to WRPP in the form of a production royalty

equal to [redacted] MWh for all energy generated by the Project during the 20-year period following substantial completion. The Project purchase price was structured in this way so that WRPP would share operational and availability risk with PSE, including wind resource risk, as compared to a structure whereby WRPP realized all of its compensation at closing.

- Pursuant to the *Option and Real Estate Purchase and Sale Agreement ("Option Agreement")*, PSE acquired on the closing date (February 12, 2008) approximately 1,400 acres of private land from AMLC. PSE paid the option exercise price of [redacted] at closing. Ultimately, 19 of the Project's WTGs will be located on this land with 3 additional WTGs to be located on the existing Wild Horse property. In connection with the exercise of the Option Agreement, PSE also entered into a *Wind Energy Royalty Agreement ("Royalty Agreement")*, and an associated release and indemnity agreement, with Caurus Power, Inc. ("Caurus")[5], the party that secured the option to purchase the property for the purpose of developing a wind farm. Pursuant to the Royalty Agreement, PSE will pay to Caurus a royalty interest in the wind energy produced by wind turbines located on the option land. The amount to be paid is equal to [redacted] MWh (escalating at 2.5% per year) for all energy generated by the Project for the 30-year period following substantial completion.

- PSE will contract with Vestas American for the supply, transportation, and commissioning of the 22 V80 WTGs pursuant to a *Wind Turbine Supply Agreement*

("*TSA*"). The turbine contract price will be fixed in dollars promptly following closing though a currency hedge to be executed by Vestas. Working with Vestas, we currently estimate the total contract price, including the hedge, to be approximately [redacted]

- PSE will select an engineering, procurement and construction contractor for the BOP scope of the Project pursuant to a fixed-price turnkey *Balance of Plant Engineering, Procurement and Construction Agreement Contract* (the *"BOP EPC Agreement"*). The construction contractor will, in turn, subcontract with various entities for the construction of the major facets of the Project, such as erection and installation of turbines, roads, WTG foundations, the electrical collection system, and the expansion of the existing Wild Horse substation. Using an open-book process to develop scope and pricing, the BOP EPC Agreement contract price will be fixed prior to closing. Based on current market rates, PSE estimates the BOP EPC Agreement contract price to be approximately $18,600,000.

- PSE will obtain appropriate security from the construction contractor to guarantee its performance under the BOP EPC Agreement, including, if appropriate, a *parent guarantee*. PSE anticipates requiring a *payment and performance bond* in an amount of at least 20% of the contract price as partial security for the performance and payment of the construction contractor's obligations.

[5] Caurus originally secured the option rights for the purchase the private land owned by the American Minerals Land Corporation ("AMLC"). In exchange for assigning that option to WRPP, Caurus obtained a long-term royalty payable based on production by the turbines situated on the AMLC property.

- Once the WTGs are placed into service, Vestas American will provide (i) a two-year mechanical warranty pursuant to the TSA and (ii) a five-year maintenance agreement, including spare parts and service of the WTGs under a five-year availability warranty pursuant to a *Service and Maintenance Agreement* (the "*Service Agreement*"). The availability guarantee will be at least 90% during the first six months of operation and will be 97% during the remainder of the five-year service period. The agreements provide for financial compensation to PSE in the event that there are shortfalls in the availability.[7] Vestas Wind Systems AS, parent company of Vestas American, will provide the guarantee for Vestas American's contractual obligations under the TSA and under the Service Agreement.

See **Exhibit 2** "Diagram of Transaction and Principal Contractual Relationships".

Energy Market Context

The Market

The U.S wind power generation market continues to expand at a record-breaking pace with year-over-year growth in 2007 of approximately 45% or 5,249 MW of additional wind capacity and over $9 billion of investment. By the end of this year, the American Wind Energy Association ("AWEA") estimates an additional 7,500 MW of wind generation will be added to the grid.

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[6] The pro forma estimate is $62,773,760 based on a exchange rate of $0.74/euro on 10/18/08.

[7] Financial compensation is calculated per defined formulae contained within the agreements.

Total wind generating capacity in the U.S. has now reached 20,152 MW. The U.S is now the world's largest wind power market. Last year Spain and China were the second and third largest markets with 3,515 MW and 3,449 MW of wind power capacity added, respectively. Overall, wind generation represents just over one percent of the nation's electricity generation. Of the total installed wind power capacity in the U.S., Washington State ranks fifth with 1,289 MW behind Texas, California, Minnesota and Iowa.

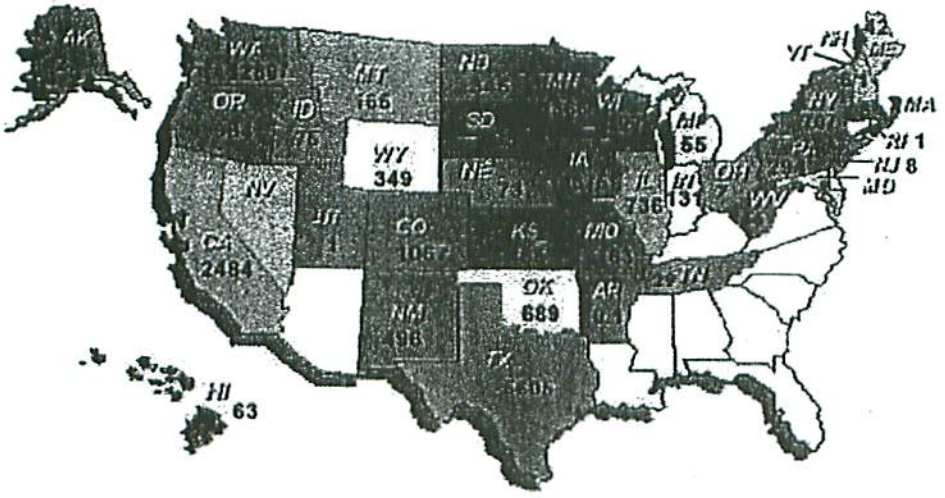

Figure 1. Megawatts of Installed Utility-Scale Wind Power as of June 30, 2008 (source: AWEA)

Market Forces

Public policy momentum for environmentally-friendly energy sources and increased security of energy supply continue to drive demand. The shift in demand to cleaner and greener generation has played an important role in shaping energy markets. The key driver of this evolution is the heightened awareness around carbon emissions and

climate change. In Washington and California, new emissions performance standards would prohibit the construction of any new generation with carbon emissions exceeding modern combined cycle gas turbines.

Renewable Portfolio Standard

Renewable portfolio standards ("RPS") have now been adopted by 32 states plus the District of Columbia. The RPS gives states a mechanism to increase generation through a market-based approach. Washington State's RPS, the Energy Independence Act passed in 2006, requires utilities with 25,000 customers or more to meet 15% of their load with renewable resources by 2020.

With 390 megawatts of owned wind generating capacity and 50 megawatts contracted under a power purchase agreement, PSE will need to acquire approximately 1,000 megawatts of additional wind generation capacity (or approximately 300 aMW of energy) to meet the 15% target.

The chart below shows PSE's need based on average energy. The Expansion project as well as two wind PPAs selected from PSE's 2008 RFP solicitation[8] will help meet PSE's near term renewable target.

[8] The two wind PPAs include: 1) a 200-MW PPA offer from BP Alternative Energy (Golden Hills Wind Project), and 2) a 50-MW prepay PPA offer from Iberdrola (Big Horn Wind Project). Given the global credit crisis as well as competitive pressure, there is much execution uncertainty with both of these PPAs.

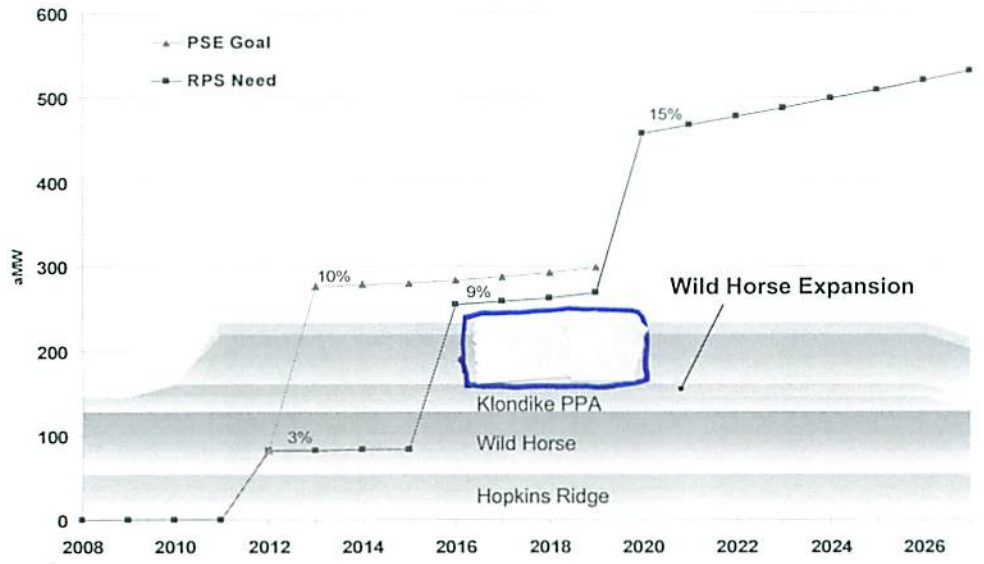

Figure 2: PSE's average energy need (aMW) to meet 2020 RPS

In early 2007 PSE developed a wind resource strategy that effectively provides a roadmap for meeting Washington's renewable targets (see **Exhibit 13** "Wind Development Strategy Presentation 01-03-2007"). As the Company has continued to see competition for renewables intensify, PSE has sought to identify and acquire projects in early stage development. By entering the value chain early, significant capital cost savings can be realized through the remaining phases of development, procurement, construction and commissioning due to PSE's access to lower cost capital versus that of a developer.

Over the last year, PSE has seen utilities in the Pacific Northwest, including PacifiCorp and Portland General Electric, adopt a similar development strategy to PSE's, so as to control more of the project cost and risk. Pacific Gas and Electric recently stated that their goal is to control 50% of their generation. In an environment where the developer

trend has been away from build-and-transfer and toward off-take or power purchase agreements, thereby continuing to harvest revenues and exert pricing power, ownership opportunities for renewables will be a challenge. PSE's wind development strategy coupled with its more formal RFP processes appears to be well-designed to meet the RPS.

There is some momentum for a federal RPS but much uncertainty as to whether or when passage of federal legislation will occur. In the meantime, Washington State may see a more aggressive RPS proposed in the next legislative session in Olympia. Oregon, Montana, Nevada and California have each adopted higher RPS standards and more recently the California PUC has advocated an even more aggressive RPS goal of 33% by 2017.

Production Tax Credit

In many areas of the country, wind energy is one of the most cost effective new sources of electric generation that a utility can acquire. Utilities have begun to see the value of diversifying an electric portfolio with wind power in an effort to protect against fuel price volatility.

However, wind's ability to compete is still largely dependent on the production tax credit ("PTC"). The recently passed Emergency Economic Stabilization Act of 2008 included a one-year extension of the PTC to December 31, 2009. While this provided developers that were already in advanced stages of development the certainty to complete their

projects, those with development pipelines that are expected to come on line after 2009 will likely slow their activities until there is greater certainty of an extension beyond 2009.

It is possible that the PTC may not be extended beyond 2009. If Congress adopts carbon regulation in the form of a cap and trade program or carbon tax, for example, the argument may be that wind would likely see greater parity among mainstream technologies and no longer require the subsidy.

Tax Equity

With the meltdown of the U.S financial markets, the tax equity market has contracted. It is estimated that of the approximately 18 tax equity participants in 2007, there are now fewer than seven. What tax equity is available is more expensive and is certain to be more difficult to obtain. With this contraction, the industry is likely to experience a slowdown in the near term until new participants enter. While well-capitalized developers may be able to suspend development and ride through this crisis, under-capitalized companies may begin to consider shedding development assets to meet debt obligations, thereby providing opportunities for those that have access to cash.

Tax equity issues will be of concern to PSE for future development projects[9].

Commodity Costs

Although wind turbine prices have increased in the past few years, the same market trends have also driven up the costs of every other form of electricity generation. PSE's

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[9] The Expansion will not require tax equity financing.

resource cost comparison provides a look at the 20-year levelized cost at PSE's 2004, 2006 and 2008 RFPs. Across technologies, 20-year levelized costs have increased by approximately 50% or more biannually from 2004 to 2008. (See Figure 3).

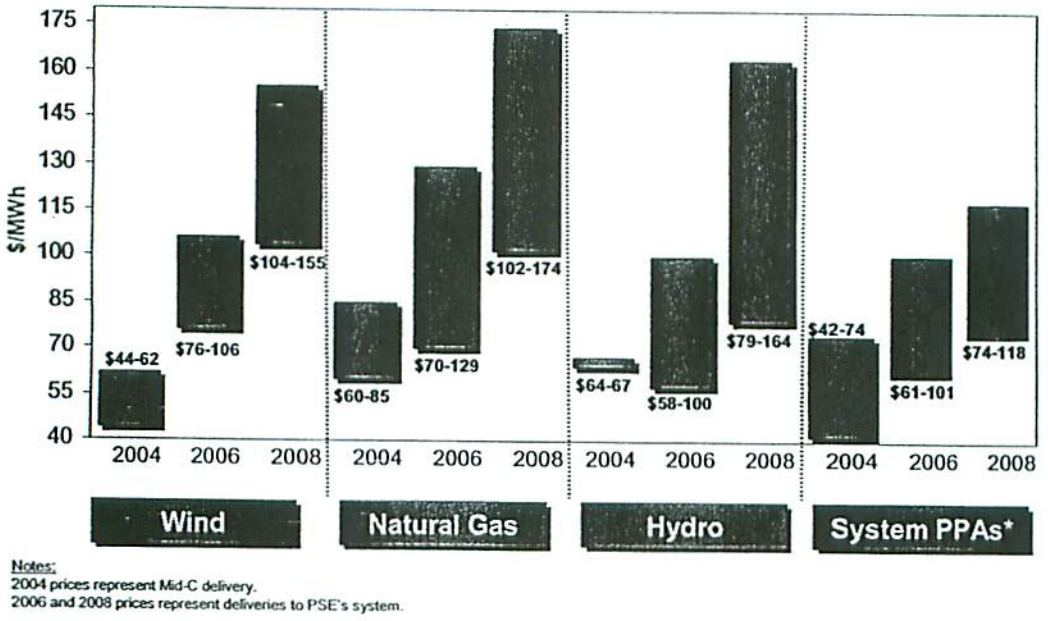
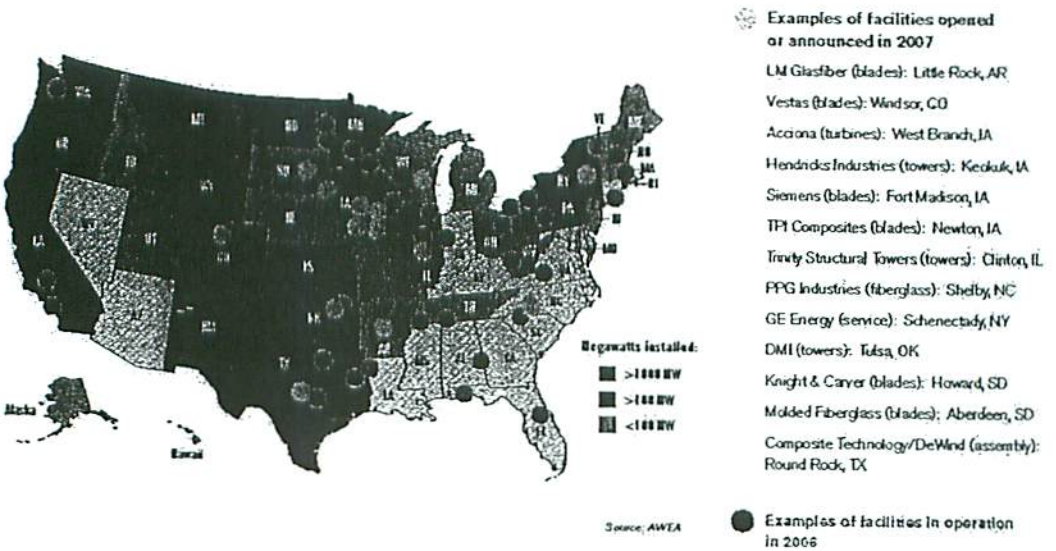


Figure 3: 20-Year Levelized Cost (source: PSE RFP proposals)

As illustrated in Figure 3, the incremental cost of power, calculated as a 20-year levelized cost metric is two to three times the Company's current embedded power costs of about $65 per MWh.



Note: The manufacturing facility identified in Washington State is PowerClimber, (traction hoists and rigging equipment)

Figure 4: Wind Turbine and Component Manufacturing in the U.S. (source: AWEA)

As turbine and component manufacturers respond to the growing U.S. market and begin rationalizing production, companies such as Vestas, Gamesa and Acciona have begun to locate to areas in the U.S. such as Colorado, Pennsylvania and Iowa, respectively. Over the past two years, AWEA has identified at least 41 domestic wind turbine and wind turbine component manufacturing facilities that have been announced, opened, or expanded. These facilities will create over 9,000 jobs when they are at full capacity.

Transmission

Fundamental to wind's continued expansion has been the need for additional transmission infrastructure. In March of this year, Southern California Edison announced the construction of the largest wind transmission project in the U.S. Capable

of delivering 4,500 MW of wind and other generating resources from the remote Tehachapi area, it is estimated to be completed by 2013.

In July Texas announced both the world's largest wind farm in the Texas Panhandle, at 4,000 MW, and a $4.93 billion wind power transmission project capable of handling 18,500 MW of power. This trend toward large transmission projects provides greater economies of scale and continued momentum for the wind industry.

In the Pacific Northwest this may also prove to be true. In June, the Bonneville Power Administration ("BPA") conducted an open season and identified approximately 6,400 MW of new service requests of which 4,700 MW was attributed to wind projects. (PSE has a request for 600 MW for wind development identified in Columbia and Garfield counties.) BPA is in the process of completing a cluster study which will determine what new infrastructure will need to be built to bring these resources to the load. BPA's efforts are significant in bringing more renewable energy into utility resource portfolios.

However, as additional wind is added to BPA's control area, the operational impacts of wind generation have placed enormous strain on BPA's reserve capacity. Until this additional cost to the system can be quantified, BPA has temporarily held up signing any interconnection agreements.

Summary

It is unlikely that wind will be able to continue at its current pace. While the recent PTC extension provides certainty for completing 2009 projects, it does not provide stability for continued investment. The credit crisis has also resulted in fewer tax equity participants,

which are necessary to most developers for getting their projects financed. Further, credit is becoming more expensive. With a potential worldwide recession looming, growth may be further stalled.

In the short term, those that have ready access to capital may be able to take advantage of opportunities to acquire distressed projects or development assets. In the long term, given the significant investment that has been made in the wind energy sector; i.e., wind generation, plant manufacturing facilities, ob creation, it is difficult to think that the momentum will change course, particularly as both Presidential candidates consider a green economy as a way to reinvest in the country's manufacturing base.

Need for Additional Supply Resources and Resource Solicitation Process

PSE's May 2007 Integrated Resource Plan ("IRP") analyzed and documented its projected energy load and resource needs. The IRP incorporated a comprehensive assessment of available conservation resources and a fully-integrated portfolio analysis that evaluated both conservation and supply resources. The IRP identified a need for additional electric energy resources based upon the "B2" planning standard as adopted by PSE's Board of Directors in 2002. Such standard requires that energy be added to meet PSE's highest deficit month. In 2008, PSE's most energy deficit month was expected to be January with a shortfall of 412 average megawatts. By winter 2014-2015, PSE's shortfall was expected to grow to more than 1,300 average megawatts.

To meet PSE's growing need, PSE identified a long-term resource strategy that included aggressive investment in energy efficiency, increased development of wind power to meet the RPS and gas-fired generation to reliably meet the balance of PSE's energy needs. As stated in the IRP, by 2015 PSE will need to acquire an additional 550 MW of wind capacity and 1,234 MW of natural gas-fired combined cycle generation. Such requirements mean one wind project every 18 months beginning in 2010 and a new 250 MW gas plant every eighteen months to two years, or an equivalent amount of purchased power.

Following its 2007 IRP, PSE described its resource needs in its Request for Proposals ("RFP") from All Generation Sources (the "All-Source RFP") and for Energy Efficiency programs that were approved by the Washington Utility and Transportation Commission ("WUTC") in an order issued on December 27, 2007 after which PSE then issued the final RFPs. Proposals were received at the end of February 2008 and evaluations commenced.

In response to its All-Source RFP, PSE received over 100 different offers from among 31 proposals. Of the 31 proposals, eight PPA proposals were received for wind projects; no wind ownership proposals were submitted. There were ten proposals for natural gas-fired simple cycle and combined cycle and nine offers for shorter term system PPAs. The remaining proposals were coal and hydro offers.

In addition to the formal RFP process, PSE has an ongoing obligation to its customers to consider all bona fide offers submitted for consideration, including greenfield

development opportunities. As a result, throughout the RFP process and after finalizing the short list selections, PSE has continuously compared the Expansion and other proposals received with those resources identified through the RFP.

So far, PSE has acquired two of the four shortlisted resources. In September 2008, PSE announced that it will purchase the 311 MW Mint Farm Energy Center fo illion. Additionally, in early October, the Company entered into a four-year winter only (November through February) market PPA with Barclays for 75 MW of fixed-price firm energy starting November 2011 and ending February 2015. This acquisition and market PPA commitment helps PSE fill its near-term energy need. However, PSE must still pursue additional resources to close the gap on its renewable energy resource needs, as well as natural gas needs.

Portfolio Analysis Demonstrates Project Benefits

The economic evaluation of the Expansion results in a slightly positive portfolio benefit and benefit ratio. PSE measures the Project economics against a 'generic' portfolio of future resources based on current market-based cost assumptions and the 2007 IRP strategy. The following attributes contribute to the Project's favorable economics:

- The Project minimizes new infrastructure development;
- PSE avoids additional developer fee premiums for development and construction, and;

- PSE benefits from the federal PTCs and Washington state's renewable energy asset sales tax exemption.

By taking advantage of the existing Wild Horse infrastructure, the Expansion avoids certain project costs, such as construction of an operations and maintenance building. Additionally, the Company avoids significant developer fees for the complete development and build-out of the Project. Given PSE's experience with Hopkins Ridge and Wild Horse, the development of the Expansion allows PSE to continue to build its expertise and in-house development capability for future large-scale development projects. Finally, the Economic Stabilization Act passed by Congress October 3, 2008 extends the provision that wind turbines installed and commissioned on or before December 31, 2009 will receive PTCs. It is unknown if Congress will extend the PTC beyond December 31, 2009. (The net present value of the PTC benefit to the Project is approximately $21 million.) Additionally, Washington State has a sales tax exemption for renewable energy assets, which expires June 30, 2009. While the renewal of the exemption is on the legislative docket for January 2009, there is some risk that it may not be renewed. Buying purchasing the wind turbines before June 30, 2009, PSE will avoid $5 million of sales tax expense.

The Project's 20-year levelized[10] pro forma cost delivered to, and integrated into, the PSE supply portfolio is estimated to be approximately [redacted] MWh in 2008 dollars[11]. This levelized cost is higher compared with earlier wind project costs such as Wild Horse and

[10] The levelized cost is the average annual cost per MWh produced over the life of the resource.

Hopkins Ridge due to a continued increase in the cost and demand for wind turbines world-wide and a Project net capacity factor ("ncf") o[redacted]

As illustrated in the following table, the net present value of the portfolio benefits[12] of the Project in the Portfolio Screening Model ("PSM") ranges from $3.1 to $5.4 million, depending upon which assumptions are used from the IRP (as updated in the 2008 RFP). PSE used two scenarios from the 2008 RFP to evaluate Project economics, "Current Trends" and "Green World", because these scenarios best replicate the current environment facing the Company and the wind industry. The main differences between the two scenarios is that the "Green World" scenario contains higher gas price forecasts, higher power price forecasts and larger carbon tax costs starting in 2013.

The portfolio evaluation indicates that the addition of the Project to the portfolio reduces cost relative to the generic portfolio of resources under each scenario. The results of the two scenarios are as follows[13]:

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[12] The portfolio benefit is the difference in present value cost of the portfolio with the new resource (the Expansion) compared to present value cost of the 2007 IRP generic portfolio strategy.

[13] Levelized costs differ between the pro forma and PSM. The pro forma is designed to model the complexities of the project, to be used as a tool to evaluate project economics during project development and to monitor ongoing costs after the commercial operation date. PSM, on the other hand, is a screening tool used to perform portfolio evaluations and is limited in capturing financial details as precisely as a project pro forma. Timing is one specific example. Due to the complexity of PSM, ownership projects have to be evaluated on a full-year basis starting with the first year of operation. The pro forma models the partial first year of operation. For the Expansion, more accurate modeling of project costs increases the levelized cost.

In addition to inherent model technique differences, levelized costs vary between PSM and the pro forma because PSE updated the weighted average cost of capital ("WACC") in the pro forma to reflect the applicable rates as identified in the 2007 General Rate Case settlement. PSM version 11-3, used for the purpose of comparing projects, uses PSE's previous WACC rate.

PSM 11-3 (as of 10/27/08)	Current Trends	Green World
Levelized Cost ($/MWh)	[redacted]	
Portfolio Benefit ($000's)	$3,120	$5,440
Benefit Ratio[14]	0.03	0.05

The portfolio benefit shown in the table above does not include any Project residual value that will exist since PSE owns the property and the "wind rights" and will be able to re-develop or re-power the Project at the end of its useful life.

In addition to the portfolio benefits, the Expansion is the most viable wind development opportunity currently available to the Company. A 2009 project allows the Company to capture the value of the PTCs and the Washington State sales tax exemption for renewable energy assets for its customers before both tax provisions expire. If neither provision is extended beyond 2009, all wind and renewable projects will be more expensive—an assumption which is not currently reflected in any of the PSM results and generic portfolio costs, but would increase the project costs by $26 million (2008 $).

Comparative Analysis

In addition to economic analyses, PSE compares projects' qualitative benefits and risks. To fulfill the 2007 IRP strategy of procuring the lowest, most reasonable cost combination of resources, each resource must be justifiable both on a stand-alone basis

[14] The portfolio benefit ratio is the present value of the portfolio benefit over the life of the new resource divided by the present value of project revenue requirements.

and when compared to other projects. The Expansion is the best opportunity PSE currently has to meet customers' growing needs and make progress on meeting Washington State's RPS.

When the Energy Management Committee ("EMC") approved the purchase of the Project's development rights in January 2008 (see Exhibit 14 "EMC Presentation 01-31-2008"), PSE compared the Project with six other renewable projects: [redacted] Then, the Project economics fell within the middle range relative to the six other projects and was close to breakeven when compared to the generic portfolio of resources. Since January, however, all six projects listed above proved to be unfeasible transactions for a variety of reasons: permitting challenges, decreasing economics from higher costs and reduced generation capacity factors, delays in construction, and competitive pressures as developers signed with other counterparties that can pay more for PPAs than PSE. The removal of these six projects in such a short period of time highlights the growing permitting, economic and commercial challenges that are present in the Pacific Northwest renewable energy development market.

Yet, as other projects were eliminated, the 2008 RFP provided a new selection of resources to which the Expansion can be compared. While eight wind PPAs were submitted in February 2008, PSE shortlisted only two projects, due to favorable economics and commercial feasibility: [redacted] (200 MW) and [redacted] (50 MW). Since PSE announced the 2008 RFP Short

List in July, these projects have become less executable and less economic as compared to the proposals originally submitted four months earlier; the renewable energy market continues to evolve rapidly and project benefits consistently decrease from original plans. The following is a brief comparative analysis of the Project to Golden Hills and Big Horn II:

Project/Counterparty			Wild Horse Expansion
PPA/Own	20 Year PPA	20 Year Pre Pay PPA	Own
Capacity	200 MW	50 MW	44 MW
Start Year	Late 2009	Late 2010	Late 2009
Capacity Factor	[redacted]	[redacted]	[redacted]
Price/Commercial Risk			• 22 Vestas Turbines Available for 2009 project. • 2009 project captures value of renewable sales tax exemption in WA and PTC Extension for 2009 • DNV-GEC reduced Net CF to [redacted] urbine locations fully sited, bank financeable project study completed. PSE believes capacity factor could be higher.
Development/Siting Risk			• Requires an amendment to the existing Wild Horse permit. Amendment submitted in July 2008. Low risk of not receiving the permit. Approval is expected in March 2009. • There is a chance the permit could be appealed, which would delay project COD to 2010.

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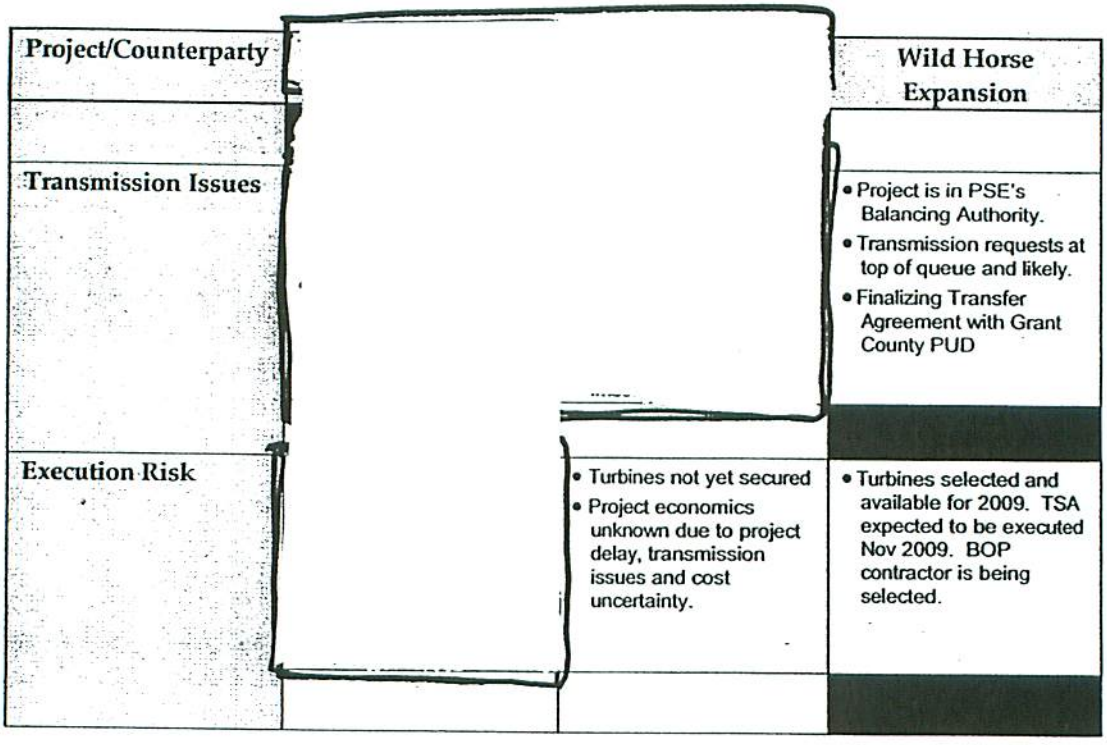

On a qualitative basis, the Expansion is the best opportunity that PSE has to capture the extension of the PTCs through December 31, 2009 and the renewable energy sales tax exemption, which expire June 30, 2009. Both of these provisions save significant costs to our customers and enable PSE to meet its IRP strategy for renewable acquisition with the lowest reasonable cost possible, given the current climate of increased competition, the credit crisis and growing transmission risk.

See **Exhibit 5,** "Comparative Analysis".

Development of the Project

PSE acquired the development rights in the Project at an earlier stage of development than the Wild Horse or Hopkins Ridge projects and thus further development activities are required to prepare for construction of the Project. PSE has continued to develop and permit the Project within the development budget approved by the Energy Management Committee on January 31, 2008. PSE will continue until final non-appealable permits are in place and the Project's development phase has been completed. Key development activities undertaken by PSE include:

- Completing environmental studies and obtaining necessary permits;
- Deploying community and communications plan and meeting with stakeholders;
- Requesting transmission service and updating the transmission interconnection;
- Completing wind resource analysis, selecting turbine manufacturer, performing preliminary engineering, and micrositing of WTGs;
- Procurement of long-lead equipment;
- Negotiating TSA for supply, transport, and commission of the WTGs and Service Agreement that provides long-term service and maintenance of the WTGs; and
- Commencing of BOP contractor selection and negotiation of BOP EPC Agreement for the turnkey construction of the BOP scope of the Project.

The Project's development will generally be concluded once these activities are finalized and the Project enters the construction phase.

Real Estate

The Expansion, as planned, will be constructed partly upon PSE-owned property previously purchased as part of the original Wild Horse wind project and on portions of the 1,400 acres[15] purchased by PSE on February 12, 2008. The newly purchased property abuts and is contiguous with the property previously acquired for the existing Wild Horse project.

Access to the Wild Horse Expansion lands will be via roads within the existing Wild Horse project. New roads will be constructed within the Expansion lands to enable both turbine construction and to meet future operational needs. All required site control and access has been finalized.

Environmental and Permitting

On July 2, 2008 an application for amendment of the Wild Horse Site Certification Agreement ("SCA") was submitted to the Washington State Energy Facility Site Evaluation Council ("EFSEC") to allow for construction and operation of the Expansion. A public hearing was held on August 6, 2008 in Ellensburg. No one spoke against the Project but several parties requested additional mitigation measures be put in place and that environmental review include the preparation of a Supplemental Environmental Impact Statement ("SEIS"). PSE chose to eliminate four turbines originally planned for

the most easterly portions of the Project site and to conduct a SEIS in order to minimize appeal risk. The likelihood of approval of the Expansion by EFSEC is extremely high. The project team believes the risk of an appeal is relatively low. An EFSEC decision is expected by March 2009, which includes a 30-day statutory appeal period.

On October 10, 2008, an Amended Development Agreement[16] was submitted to the Kittitas County Board of Commissioners. In 2007, Kittitas County adopted a Wind Overlay Zone to pre-identify areas suitable for the location of wind farms that will protect public health and safety and ensure compatibility with adjacent land use. The Project is located within this zone. It is expected that the Commissioners will hold a public hearing and approve the agreement in November 2008.

Community and Communications

The overall community involvement and communications strategy for the Expansion has been to reinforce public awareness of the success of the existing Wild Horse project during permitting, construction and operations, including the environmental, economic and energy independence benefits for Kittitas County and Washington State. The communications efforts to tell the story of success and expansion include media relations, advertising, community involvement, speaking engagements at community and civic groups, and public education along with direct, one-to-one outreach with political

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15 As currently proposed the Project consist of 960 acres.

16 In March 2005 during the development and permitting of the Wild Horse project, Kittitas County approved and adopted a development agreement that certified land use consistency.

leaders and influential citizens. Key messages include the more than $1.3 million in taxes paid annually and the more than 20 permanent jobs created by the facility.

A community open house was held in April 2008 two weeks after the public announcement of the Expansion, and individual informational meetings continue with area elected officials, businesses and civic leaders. Additional open houses for the public will be scheduled at project milestones to outline permitting, construction and operational issues. In addition, the Renewable Energy Center ("REC") and Wild Horse Solar Facility have been powerful tools in shaping favorable public opinion, with approximately 12,000 visitors since the REC opened in April 2008. Displays and handouts describing the Expansion have been available to the public, along with information on the efforts made to preserve and enhance the area's unique shrub-steppe habitat of cactus and sagebrush.

Preliminary Engineering and Procurement

David Evans & Associates is currently performing civil engineering including the design of the roads and the geotechnical work required for foundation design and to support underground electrical design. Initial underground circuit designs and cable sizings have been completed by RES America Construction, Inc. ("RES")[17]. RES has also started design work on the Project substation.

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17 RES America Construction, Inc. is a wholly-owned affiliate of RES Ltd., the international renewable energy arm of the Sir Robert McAlpine Group, one of UK's major engineering and construction companies.

Earlier this year the main step up transformer for the Project was identified as long-lead equipment that needed to be placed on order to enable completion of the Project in late 2009. PSE management's authorization was obtained and the transformer was ordered in August 2008. At the end of September, similar PSE management action was deemed necessary to place an order for a 245 kV breaker, which has a similarly long lead time.

PSE's development activities are further summarized in **Exhibit 8**.

Wind Resource and Energy Assessment

PSE retained DNV Global Energy Concepts Inc. ("DNV-GEC")[18] to complete an energy assessment for the Expansion. The energy assessment is for a 22-turbine layout consisting of Vestas V80 2.0 MW WTGs installed at a 67-meter hub height. The total installed project capacity for the Vestas V80 turbines is 44 MW.

The Expansion area is characterized by rolling hills and fingers that run west and east from a broad ridge oriented north to south. The mean proposed turbine elevation is 1,086 meters above sea level and these locations cover a 67-meter range in elevation between the lowest and highest turbine locations. Wind data examined for the analysis were collected at five met towers associated with the Project. All of the met towers are located within close range of the proposed turbine locations. DNV-GEC compiled, validated, and incorporated into this analysis all available on-site tower data. Long-term

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[18] DNV Global Energy Concepts Inc. (DNV-GEC) is a multi-discipline engineering and technology consulting firm recognized as a global leader in the wind energy industry. In June 2008, GEC merged with Det Norske Veritas (DNV), a global provider of services for managing risk.

reference stations were consulted for the purpose of adjusting on-site data to reflect the long-term mean wind speed. However, due to poor correlations with the off-site long-term reference stations DNV-GEC chose not to make a long-term adjustment to the on-site data.

DNV-GEC prepared several estimates for the Expansion at different phases of the development process. In January 2008 DNV-GEC reviewed an energy assessment report prepared by RAM Associates ("RAM") for a 22-turbine layout that differs from the current layout under consideration (the original preliminary site layout and energy estimate developed by WRPP). The RAM report estimated the net capacity factor to be [redacted] using the Gamesa G87 WTG. DNV-GEC made preliminary energy estimates based on RAM's met tower wind speeds and wind distribution[19] while applying DNV-GEC adjustments for topography and technical losses. In that analysis, DNV-GEC estimated net P50[20] energy for the 22-turbine layout for the Gamesa G87 and Vestas V80 1.8 MW wind turbines at a hub height of 67 m. The net P50 capacity factor estimates for the two turbine types were [redacted] and [redacted] respectively. Since, DNV-GEC has performed several analyses of project variations ranging in size from 22 to 28 turbines and using both V80 and V90 WTGs. On May 16, 2008, estimates for the V80 1.8 and the V90 1.8 using a layout consisting of 27 turbines showed a net capacity factor of were [redacted] and [redacted] respectively. However, after performing a turbine suitability

19 The distribution from the RAM report results in more energy output than produced by the distribution DNV-GEC calculated despite having a lower mean wind speed. The differences in energy can be attributed significantly to the different distribution shapes. This is one of the reasons for the difference between DNV-GEC energy assessment and the RAM energy assessment.

20 P50 refers to the 50:50 probability of achieving a prediction.

analysis, Vestas concluded that the V90 was not a fit for the wind regime at the Expansion site. Furthermore, Vestas sold out of V80 1.8 WTGs for 2009 and will no longer offer the V80 1.8 after 2009. Vestas presented PSE with a quote for the new V80 2.0 with a 2009 delivery date. On August 15, 2008, DNV-GEC supplied energy estimates for 22 and 26-turbine layout variants based on the Vestas V80 2.0 MW turbine. The net capacity factor estimates were [redacted] and [redacted] respectively. Through the permitting and micrositing process the planned 26-turbine layout was reduced to a 22-turbine layout. After completing the final micrositing, DNV-GEC updated the wind resource and energy assessment report to reflect the proposed layout of 22 V80 2.0 WTGs.

The long-term average wind speed is estimated at 6.9 m/s providing a gross energy estimate of 106.9 GWh/yr. Based on the gross annual energy estimated above, DNV-GEC estimated net energy production using a stochastic model to evaluate each source of loss or uncertainty identified for the project. Note that many of the losses and uncertainties are estimated based on DNV-GEC's current knowledge of the Project and DNV-GEC's experiences with other wind farms[21]. The following losses were estimated by DNV-GEC for the project.

[21] For example, the mechanical availability assumptions used are based on DNV-GEC's experience. DNV-GEC has assumed a mechanical availability of 94.6%. With an availability of 97%, the P50 estimate would be 91.6 GWh/year with a corresponding net capacity factor of [redacted]

Gross Energy (GWh/year)	[redacted]
Losses	**Long-Term P50 Losses, % of Energy**
Routine maintenance	0.4%
Faults	1.9%
Minor components [1]	1.7%
Major components [1]	1.5%
Balance of plant	0.5%
Wake	4.7%
Electrical line	2.0%
Blade soiling	0.5%
Weather, including icing, lightning, hail	2.3%
Turbulence and controls	1.0%
Blade degradation [1]	0.4%
Power performance	0.2%
Effect of asymmetric uncertainties	0.6%
Wind Sector Management	0.1%
Total Losses	**16.4%**
Net Energy (GWh/year)	[redacted]
Net Capacity Factor[2]	[redacted]

1. Values are long-term averages over a 20-year project life and are lower in initial years of operation.

2. Capacity factors are based on the turbine rating of 2000 kW for the Vestas V80 2.0MW.

The 20-year annual average net P50 capacity factor estimate (n.c.f.) is [redacted][2] with an annual energy production of 91.6 GWh.

See **Exhibit 6**, "Wind Resource and Energy Assessment".

[22] DNV-GEC's report assumes a 95% mechanical availability reducing the n.c.f. to [redacted]; however, PSE assumes an availability of 97%, consistent with the operation of Wild Horse and the Vestas guaranteed availability, which relates to a n.c.f o[redacted]

Wind Turbine Generators

PSE also retained DNV-GEC to provide a due diligence review of Vestas and the V80-2.0 WTG. DNV-GEC confirmed that Vestas is the world's leader in wind turbine market share and is considered the technology leader as well. Vestas has the largest number of wind turbines operating in the world today. Currently Vestas offers three distinct platforms: the V80, a nominally 1.8/2.0 MW turbine with several variations available, the legacy V82 (previously known as the NM82), a 1.65 MW turbine Vestas inherited as a result of the 2004 acquisition of NEG Micon by Vestas, and the V90, a 3 MW turbine. Vestas' share of the cumulative world market was 31.4% in 2007

PSE operates 127 V80-1.8 WTGs at its Wild Horse facility and 90 V80-1.8 WTGs at its Hopkins Ridge facility for a total of 217 V80-1.8 WTGs. Vestas has historically supplied two versions of the V80, the V80-1.8 and the V80-2.0. The former was deployed in North America, and the latter was deployed throughout the rest of the world. Both machines are built on the '2 MW platform', and are structurally identical; the difference is that the North American version is fixed speed whereas the European version operates with variable speed[23]. Vestas has discontinued the production of the V80-1.8 and now supplies a version of the V80-2.0 to the North American market.

The V80-2.0 is a three-bladed, upwind, full-span pitch controlled machine rated at 2.0 MW. To distinguish this model from the European version, the North American version is referred to as the Vestas Converter Unity System ("VCUS"). The VCUS uses

[23] Vestas and other turbine manufacturers have been prohibited from marketing variable speed turbines in North America by a patent held by GE Wind.

nearly identical power electrical components as the 'European' version. The capability of the VCUS allows for increased energy capture from the wind, which is an improvement from the V80 1.8, but is not fully optimized as with the 'European' version. Vestas has stated that VCUS does not interfere with the GE patent; however, details were not released for review. DNV-GEC states that they are unable to judge if the VCUS avoids patent violation concerns. DNV-GEC believes that it is reasonable to assume that the VCUS system could be readily converted to operate in the same manner as the 'European' version if and when the intellectual property issues are not longer relevant, thus allowing for optimizing the energy capture from the wind.

Although there are currently no V80-2.0 MW VCUS in operation in North America, Vestas' current product line reflects consistently applied design principles, building on their previous successes with other turbines. The V80-2.0 VCUS turbine is structurally nearly identical to the large fleet of V80-1.8 turbines that have been operating in North America since 2001. As of the end of last year, there were 872 V80-1.8 units operating in North America. Throughout the world, over 3000 of the 2 MW platform turbines are in operation. Vestas reports that the availability of V80-1.8 turbines in North America averages above 97%. Det Norske Veritas (DNV), an industry recognized certification agency, will be certifying the V80-2.0 MW VCUS 60 Hz turbine for use in North American class I sites and is a contractual requirement of the TSA. The projected delivery date of the main component type certificate is November 14, 2008. The projected delivery date of the 67m Class Ia tower is December 12, 2008.

Vestas is a well-established manufacturer of wind turbine equipment and has a strong presence in North America. Vestas has a well-developed system of specifications, vendor qualification program, and traceability. Recently, it has made a concerted effort to establish manufacturing facilities throughout world, and now manufacture turbines and components throughout Europe, in South America, and in China. Vestas manufactures, either directly or through owned companies, most of the wind turbine components that it uses. The table below lists the primary sources[24] for the 2.0 MW platform turbines.

Component	Supplier	Location of manufacture
Blades	Vestas	Denmark
Generator	ABB Weier (owned by Vestas)	Finland (Estonia) Austria
Gearbox	Hansen Winergy Rexroth	Germany Germany Germany
Bedplate	Vestas	Eastern Europe
Tower	Vestas	Various
Power Electronics	Vestas	Denmark
Controller	Vestas	Denmark

Vestas has a generally good reputation in the wind industry and can be considered one of the top-tier suppliers. However, as with most turbine manufacturers, Vestas has had its share of downtime problems and component failures. In DNV-GEC's opinion, its turbine reliability record is neither better nor worse than the industry standard. Like all turbine suppliers, Vestas has been struggling with developing adequate resources to support its rapidly-growing fleet in North America. DNV-GEC believes it does have the

[24] With the high demand for wind turbines throughout the world, the supply chain in general is stressed and this list may change as Vestas pursues additional sources.

technical capabilities to address any problems that arise, assuming that adequate resources are committed.

See **Exhibit 7,** "Wind Turbine Generators Due Diligence".

Construction of the Project

The notice to proceed under the TSA would be issued, subject to Board approval, upon, or shortly after execution (expected to be November 5, 2008). Vestas American will commence its performance immediately thereafter. Pursuant to the TSA, Vestas American will supply, transport, and commission 22 V80 WTGs. The contract price is estimated to be [redacted][25]. The contract price has a U.S. dollar-denominated portion and a euro-denominated portion. After closing, Vestas American will arrange for a currency hedge to lock the euro portion so that the entire contract price will be fixed in U.S. dollars.

Selection of the BOP contractor is currently underway. Once the selection is made negotiations of the BOP EPC Agreement will commence. Pursuant to a BOP EPC Agreement, PSE will pay to the BOP contractor a fixed, turnkey price for the construction of the BOP scope of the Project, subject to adjustment if the BOP contractor and PSE agree to changes in scope. PSE will negotiate with the BOP contractor on an open-book basis that allows PSE to see the BOP contractor's direct costs and its subcontractors' bids. After the subcontractors have been selected and the aggregate subcontractor and

[25] The pro forma estimate is $62,773,760 based on an exchange rate of $0.74/euro.

materials costs established, a pre-negotiated mark-up will be applied by the BOP contractor. The price will then be finalized and fixed. The current estimate of that fixed price is $18,600,000[26] based on current market pricing.

Management and Operation of the Project

Effective on the date of Project substantial completion, Vestas American will provide the day-to-day service, maintenance and warranty coverage for the WTGs pursuant to the TSA and the Service Agreement. The Service Agreement will have a five-year term and will contain terms customary for such agreements in the electric industry for wind energy facilities. The scope of services under this agreement includes diagnostic and maintenance services, the supply of consumables, and parts replacement for the WTGs. The annual cost payable to Vestas American under the Service Agreement is [redacted][27] per turbine, escalated with inflation starting in 2009, or approximately [redacted] million in 2010, including Washington State sales tax. During the term of the Service Agreement, PSE will be responsible for site management and the operations and maintenance ("O&M") of the BOP systems (i.e., the portion of the facility excluding the WTGs), including the collection system, Project roads, the site substation, and the interconnecting transmission line. PSE may provide some of its O&M services via third-

[26] The pro forma estimates the BOP at $18,600,000; however, dollars are allocated in the budget contingency to absorbed increase in costs.

[27] During the term of the existing Wild Horse service agreement with Vestas (year 2010-11). After the Wild Horse service agreement term expires (year 2012-14) the annual cost is [redacted] per turbine (in 2009 dollars). If PSE enters into an extension for the Wild Horse service agreement with Vestas, we expect the annual cost for the Expansion to be consistent with the first term.

party subcontractors. The Project will utilize the existing Wild Horse on-site O&M building housing the PSE plant manager and Vestas American employees as well as the parts and consumable supplies stored on site.

To the greatest extent possible, the Project is designed to facilitate consistent management within the existing project. WTGs and data system, main transformer and substation, roads, foundations, crane pads, electrical collection cable, and storm water management features are all substantially similar, or identical, to that designed for the existing Wild Horse project. Operations, maintenance, and management of both the original phase and the expansion Project will be seamless for PSE and Vestas American personnel. Owing to the expanse and topography of the combined Wild Horse project phases, one additional PSE operations employee will be required to properly manage and monitor the facility and is included in the pro forma.

The TSA and Service Agreement provide for both penalties and incentives for Vestas American. During the five-year term of the Service Agreement, there will also be an availability covenant. During the first six months of operation, the guaranteed average availability is 90%, and for the remainder of the five-year period, the guaranteed average availability is 97%[28]. Should the actual availability fall below this level, liquidated damages will be paid to PSE, calculated based on a defined formulae within the Service Agreement. Likewise, Vestas American is paid an incentive if availability exceeds 97% during any twelve-month period.

Subsequent to the five-year term of the Service Agreement, (i) PSE may assume responsibility for the O&M of the entire Project, including the WTGs, (ii) execute a service renewal agreement with Vestas American, or (iii) contract services from one or more third-party O&M providers. It is assumed that WTG maintenance requirements will increase over time, so that O&M cost is projected to grow over the life of the Project.

Likewise, subsequent to the five-year term of the Service Agreement, PSE may assume responsibility for replacement parts, as necessary. The attached financial pro forma assumes that the cost of parts replacement escalates annually with inflation. This assumption, along with labor, tools and other related expenses likely to rise commensurate with this assumption, is consistent with commonly-projected cost estimates. Estimates of future Project expenses are reflected in the financial pro forma in **Exhibit 4**.

Interconnection, Transmission and Integration Arrangements

The Project will be interconnected directly with PSE's transmission system via the existing Wild Horse substation which connects to PSE's Intermountain Power ("IP") line via an eight-mile 230 kV transmission line to the Wind Ridge Substation. As part of the Project, an extension to the existing Wild Horse Substation will be required to accept the anticipated two additional circuits (22 turbines). A new substation will be constructed adjacent to the Wild Horse substation utilizing an identical 34.5 kV/230 kV transformer to

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[28] During the first term (year 2010-11), the availability will be inclusive with the Wild Horse availability. After the first term (year 2012-14), the availability will include only the Expansion.

the existing two Wild Horse transformers, which provides redundancy for the entire project and allows for future project expansions. Due to the long lead times for the step-up transformer and the substation breaker, this equipment has been ordered so as to maintain a 2009 Project Commercial Operations Date ("COD"). The estimated total cost of the Project substation is $4.4 million. The Project substation will be constructed by the BOP contractor as part of its scope of work under the BOP EPC Agreement.

Initial studies indicate that the existing transmission system and the proposed substation are adequate to accommodate the Expansion, thus no other network upgrades are expected to be required to interconnect the Project to the transmission system.

PSE Merchant has requested an additional 40 MW of network transmission from PSE Transmission to its existing 240 MW capacity at Wild Horse for a total of 280 MW. This request is expected to be granted pending a 40 MW increase in PSE's Transfer Agreement with Grant County PUD[29]. A more detailed discussion on transmission and a map showing the location of the Project relative to the regional transmission system is attached as **Exhibit 9**.

PSE has evaluated the short-term operating impacts of integrating wind generation into the PSE system. PSE has estimated integration costs, based on using PSE's contracted Mid-Columbia hydro resources and related transmission assets, to be approximately [redacted] per MWh for hour-ahead and day-ahead integration. Both the hour-

[29] The Transfer Agreement provides PSE the path to the Mid-Columbia and assures Grant County that PSE's wind generation will have minimal effect on Grant County's transmission and distribution systems.

ahead and day-ahead costs have been included in the estimates of 20-year project levelized costs cited previously.

Summary of Project Benefits

Together with the acquisition of the Mint Farm facility, PSE's development of the Expansion for its fourth wind energy resource would be a valuable step in acquiring the necessary electric supply resources to meet the planning standard for supply adequacy. This development of 44 MW (10.5 aMW) Expansion of the existing Wild Horse facility will reduce the Company's projected energy shortfall projected in 2012[30] and contribute to RPS requirements and the Company's renewable goal. The principal benefits of this new resource would be as follows:

- Renewable generation ownership provides long-term wind resource value and avoids the liquidity and credit requirements that typically accompany many long-term PPAs;

- Captures 2009 Production Tax Credit (PTC) extension which provides $21 million benefit to customer ($21/MWh in 1st yr);

- Takes advantage of sales tax exemption which provides $5,700,000 savings to customer;

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[30] With the acquisition of Mint Farm PSE is not short energy until 2012. In January 2012 PSE will be approximately 453 aMW short. With the Expansion the energy shortfall will be approximately 442 aMW in 2012.

- Most viable opportunity for near-term renewable energy project that helps secures energy needs and contributes to the RPS requirement;

- Synergies with Wild Horse operations and Vestas that allows cost savings on infrastructure and personnel;

- Expansion of existing project which enjoys local community support; and

- PSE controls development and construction that saves developer premium, maintains flexibility and provides additional development experience.

Other benefits include:

- The Expansion is a least cost generation resource emerging from the 2008 All Source RFP;

- Project generation and projected power costs add portfolio value of over $3 million, as compared to PSE's portfolio. PSE's portfolio includes existing owned and contract resources as well as the 2007 IRP generic resources of PPAs, wind and CCCTs as dispatched in the current high gas price environment;

- Incremental addition that leaves open options for additional renewable and thermal resources;

- State-of-the-art WTGs and control technology provided by a world-class manufacturer (Vestas) with substantial experience and a worldwide commitment to wind energy resources;

- Zero emission technology with minimum impacts on the natural environment; and
- Engages the largest world-wide manufacturer of WTGs as the service contractor for the first five years of operation, coupled with the manufacturer's extensive West Coast support and parts inventory capability.

Tax Benefits/Considerations

The Project has been structured to reduce revenue requirements of customers by minimizing PSE's Federal and State tax costs. On October 3, 2008, a one-year extension (through December 31, 2009) of Production Tax Credits ("PTCs") for wind projects was signed into law by President Bush. The credit was first created by the passage of the Energy Policy Act of 1992 and applied to electricity produced by a qualified wind facility placed in service after December 31, 1992. The PTCs represent a 1.5 cent per kilowatt-hour federal income tax credit that is adjusted annually for inflation. The current value of the credit is 2.1 cents per kilowatt-hour (or $21.00/MWh). PSE will flow-through the PTC benefit created during the ten-year period following the tax in-service date, resulting in reduced customer revenue requirements of approximately $21 million. In addition, a significant portion of the investment in the Project will qualify for accelerated depreciation benefits over a five-year recovery period, thereby resulting in a significant reduction in PSE's otherwise-applicable federal income tax liabilities. A substantial portion of the equipment and services acquired by PSE pursuant to the TSA and the Balance of Plant Engineering, Procurement, and Construction ("BOPEPC")

Agreement will not be subject to Washington sales tax. In summary, the PTCs, accelerated depreciation, and state sales tax exemption lower the Project cost.

Renewable PTCs cannot be used by a company to reduce its corporate income taxes below a floor of 75% of the company's regular tax liability or the amount it would owe under the alternative minimum tax. Any credits that go unused in any one year because of this limitation can be carried back one year and forward for 20 years. The average amount of the PTCs expected from the Project is approximately $1.9 million in 2010 and escalated annually for 10 years. The Company's 2008 Strategic Plan and a trending of that forecast predicts adequate taxable income to use the PTCs generated, assuming no extension of the bonus tax depreciation that was allowed as part of the Federal Economic Stimulus Package for 2008.

Assets acquired and/or constructed as part of the Project will have book lives and tax lives that will differ, in certain cases significantly. Such differences will give rise to a deferred tax liability. For rate-making purposes, such deferred tax liability will cause PSE to have a somewhat lower earnings base than book basis in the acquired assets as the accelerated cash flow benefit of the shorter tax lives of the acquired assets reduce PSE's earnings base for rate-making purposes. Such difference will reverse by the end of the book life of the assets. The revenue requirement effects of such book/tax differences over the Project's life are reflected in PSE's estimate of the Project's 20-year levelized costs.

The financial effects of the Hopkins Ridge Project, the Wild Horse Project, the Expansion, and other prospective resource acquisitions are reflected in the Company's Financial Forecasts.

Accounting Treatment

The Project will be accounted for pursuant to the applicable accounting rules of the FERC and WUTC. For modeling purposes and valuation the overall useful book life of the Project is estimated to be 25 years[31].

A discussion of rates and accounting issues is contained in **Exhibit 10**.

Rate-Making Treatment

PSE will seek rate recovery for the Expansion in a filing made in 2009 with the Washington Utilities and Transportation Commission ("WUTC"). The filing will most likely be a General Rate Case ("GRC") filed in the second quarter of 2009. State regulatory approval of the rates is anticipated eleven months thereafter in early 2010. Construction is estimated to be completed with a COD prior to December 31, 2009. The filing may occur before all construction costs are known with certainty. If allowed and if necessary, cost estimates may be updated during the filing.

Concurrent with the rate filing, PSE may also file an accounting petition with the WUTC to request a cost deferral mechanism. Cost deferral is needed because the existing

Power Cost Adjustment ("PCA") mechanism does not allow recovery of fixed costs and limits the recovery of variable costs to the lesser of the actual variable costs or the PCA baseline rate. PSE will request deferral of all PCA defined fixed costs, similar to the approach taken with the acquisition of Goldendale. Fixed costs to be deferred include the following: fixed production operations and maintenance, depreciation, allowed return on ratebase, and other expenses such as property taxes and insurance. Such an accounting petition would seek permission from the WUTC to defer Project costs as described above for recovery that would begin when new general rates go into effect.

The General Rate Case would seek prudence determination for the Project as well as other potential resource acquisitions or contract restructurings.

A discussion of rates and accounting issues is contained in **Exhibit 10**.

Financing Program

The cash requirements are included in PSE's 2008-09 Capital Budget and Financial Forecasts and will be funded as a component of the Company's overall 2008/2009 financing program. It is expected that the Company will fund the initial cash requirements with its existing short-term cash and credit facilities and then refund those borrowings using the proceeds of permanent long-term financing when conditions for issuing such financing are favorable in the capital markets. The permanent financing will

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[31] In the 2006 GRC, PSE agreed to use a 25 year book life for accounting and ratemaking purposes as recommended by WUTC staff until PSE completes a full depreciation study.

most likely consist of senior secured notes (secured by a mortgage on electric and/or gas property) and/or common equity.

Insurance Program

Construction Period Insurance Program

During the construction period, Builder's All-Risk coverage (physical damage to the plant during construction) will be provided in one of two ways: (1) PSE will endorse coverage under its existing property insurance program or (2) PSE will purchase a project specific policy. PSE anticipates purchasing the Builders All-Risk coverage with a $250,000 deductible. The BOP contractor will probably not agree to such a large deductible and expect PSE to assume the risk to a lower level, for example, beyond $100,000.

During the construction period, the TSA requires Vestas American to carry the following insurance coverages:

(1) Workers' Compensation and Employers Liability Insurance

(2) Commercial General Liability Insurance with policy limits of $1,000,000 per occurrence.

(3) Excess/Umbrella Liability Insurance with policy Limits of $10,000,000 per occurrence.

(4) Commercial Automobile Liability Insurance with policy limits of $1,000,000 per occurrence.

(5) Transit Insurance from shipper's point of shipment to the delivery point.

Operating Period Insurance Program

Once construction is complete and the Project commences operation, it will be added to PSE's existing property insurance program for the full replacement value, subject to a $1,000,000 per occurrence deductible. In addition, the Service Agreement will require that Vestas American maintain the following insurance coverage:

(1) Workers' Compensation and Employers Liability Insurance

(2) Commercial General Liability Insurance with policy limits of $1,000,000 per occurrence.

(3) Excess/Umbrella Liability Insurance with policy limits of $10,000,000 per occurrence.

(4) Commercial Automobile Liability Insurance with policy limits of $1,000,000.

Risk Factors

PSE's risks associated with the Project vary in nature and extent based on the phase of the Project. The phases are:

- Pre-Construction
- Construction

- Operation

PSE has prepared a detailed description of the principal risks and identified mitigation plans. See **Exhibit 11,** "Project Risk Analysis". A summary of these risks follows:

- The Pre-Construction Phase extends from February 2008, when PSE acquired the development rights and the Expansion property, until the Balance of Plant ("BOP") contractor is issued a Notice to Proceed ("NTP") with construction. Principal risks during this Phase include an appeal of the environmental permit, inability to reach definitive agreements in an acceptable form with the turbine manufacturer, and unwillingness for a BOP contractor to provide flexibility surrounding the NTP date. The principal mitigation against these risks is to negotiate language in commercial agreements that provide flexibility in the event one or more project deadlines are impacted by factors outside of PSE's control.

  A thoughtful risk analysis was used to weigh the risks of proceeding with commercial agreements in spite of facing project construction uncertainty. In this analysis, the risks of delay and the resulting costs were measured against the benefits of the PTC and Washington State sales tax exemption. The outcome of this exercise suggests that the positive benefit to customers of capturing tax incentives in a 2009 project outweighs the risk of delaying project progress until all permits are obtained.

- The Construction Phase commences at the issuance of the NTP under the TSA and BOP EPC Agreement. Vestas American will be responsible for supply, transport, and commissioning of the WTGs. A BOP contractor will hold responsibility for turbine

erection and installation. Weather conditions at the site are challenging once the snow season starts. To ensure construction occurs in a timely fashion during the projected construction window, PSE has or will have negotiated liquidated damages from responsible parties if they cause delays.

- The Project enters the Operating Phase once substantial completion is achieved. The principal risks in this phase relate to the Project not meeting performance expectations. The reasons the Project might fall short include poor wind conditions over the long term, the WTGs being unable to meet performance projections, or mechanical availability problems with the equipment. In summary, during operation the primary concern is lost production.

Equipment performance, both initial and ongoing, is subject to warranty by Vestas during the defined, two-year warranty period and subject to incentives and penalties in the Service Agreement. With respect to the long-term wind resource, PSE's mitigation is thorough due diligence on the wind resource projection by independent industry experts as well as experience with the existing, adjacent Wild Horse Project, which has an excellent performance history.

Development Schedule

EFSEC is expected to issue a Final SEIS and rule on the amendment of the SCA in February 2009. A 30-day statutory appeal period will follow EFSEC's rulings. If no appeal is made, a non-appealable permit is expected to occur in March 2009.

PSE and Vestas American desire to execute definitive agreements and close the transaction as soon as possible. Execution of the Vestas TSA and Service Agreement is currently targeted to occur on November 5, 2008, following Board consideration. At closing of the TSA, PSE will issue a NTP to Vestas for the WTGs and make a down payment for 20% of the contract price, approximately [redacted]

Selection of the BOP construction contractor and negotiation of the BOP EPC Agreement will take place through February 2009. Execution of the BOP EPC Agreement is expected to occur by February 2009. PSE will issue a NTP for construction after final non-appealable permits are obtained, expected in March 2009. Construction is expected to take approximately nine (9) months, which would (i) permit the Project to achieve substantial completion by December 31, 2009 and (ii) allow PSE to take advantage of the production tax credits ("PTCs").[32]

See **Exhibit 12**, "Project Schedule".

Recommendation

Based on the described benefits of the proposed project development, management recommends that the Board of Directors approve the development and construction of the Project as proposed.

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[32] On October 3, 2008, PTCs were given a one-year extension (through December 31, 2009), before then the extension of the PTCs were unknown. A further extension of the PTC beyond 2009 is unknown. Constructing the Project in 2009 allows the Project to capture the economic benefits of the tax credits, approximately $21 million net present value.

GUIDE TO ACRONYMS AND SHORTENED TERMS

Abbreviation/Term	Meaning
AMLC	American Minerals and Land Corporation
APA	Asset Purchase Agreement
BPA	Bonneville Power Administration
BOP	Balance of Plant
BOP EPC Agreement	The Balance of Plant Engineering, Procurement and Construction Agreement
CCCT	Combined-Cycle Combustion Turbine
COD	Commercial Operations Date
DNR	Washington State Department of Natural Resources
DNR Lease	State DNR Land Lease
DNV	Det Norske Veritas
EFSEC	Washington Energy Facility Site Evaluation Council
EIS	Environmental Impact Statement
Expansion	The Wild Horse Expansion Project
DNV-GEC	DNV-Global Energy Concepts
GIA	Generation Interconnection Agreement
GRC	General Rate Case
Horizon	Horizon Wind Energy LLC
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
LCP	Least Cost Plan
Mid-C	Mid-Columbia
MW	Megawatt

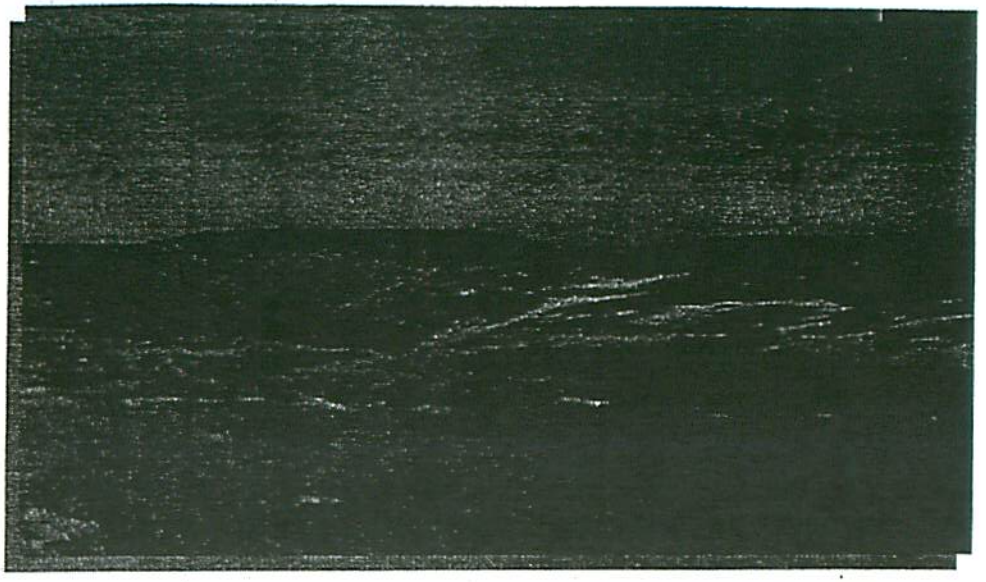
GUIDE TO ACRONYMS AND SHORTENED TERMS

Abbreviation/Term	Meaning
MWh	Megawatt-hour
nfc	Net capacity factor
NTP	Notice to Proceed
O&M	Operation and maintenance
Option Agreement	The Option and Real Estate Purchase and Sale Agreement and Assignment
Project	The Wild Horse Expansion Project
PCORC	Power Cost Only Rate Case
PLR	Private letter ruling
PPA	Power Purchase Agreement
PSE	Puget Sound Energy
PTCs	Production Tax Credits
RECs	Renewable Energy Credits
RES	RES Construction, Inc
RFP	Request for Proposals
RPS	Renewable Portfolio Standards
SCA	Site Certification Agreement
SEIS	Supplemental Environmental Impact Statement
Service Agreement	Service and Maintenance Agreement
TSA	Turbine Supply Agreement
Vestas	Vestas Wind Systems A/S
Vestas American	Vestas - American Wind Technology, Inc.
WDFW	Washington Department of Fish and Wildlife

GUIDE TO ACRONYMS AND SHORTENED TERMS

Abbreviation/Term	Meaning
WRPP	Whiskey Ridge Power Partners LLC
WTG	Wind turbine generator
WUTC	Washington Utility and Transportation Commission

LIST OF EXHIBITS



Wild Horse Expansion
44 MW Renewable Energy Project

Board of Directors' Meeting

November 11, 2008

PSE PUGET SOUND ENERGY
The Energy To Do Great Things

Kimberly Harris, Executive V.P. and Chief Resource Officer
Roger Garratt, Director – Resource Acquisition

Recommendation to the Board of Directors

Recommendation to approve the Wild Horse Expansion project:

1. Approval to enter into a Wind Turbine Supply Agreement ("TSA") and a Service and Maintenance Agreement ("SA") with Vestas American for the acquisition and servicing of 22 - V80 2.0 MW wind turbines;

2. Authority to negotiate and to execute a suitable Balance of Plant ("BOP") agreement with a contractor to construct the Wild Horse expansion; and

3. Approval of a capital budget not to exceed $107,500,000 (inclusive of TSA and BOP costs) to complete all necessary project agreements and construction activities.

Project Description and Status Summary

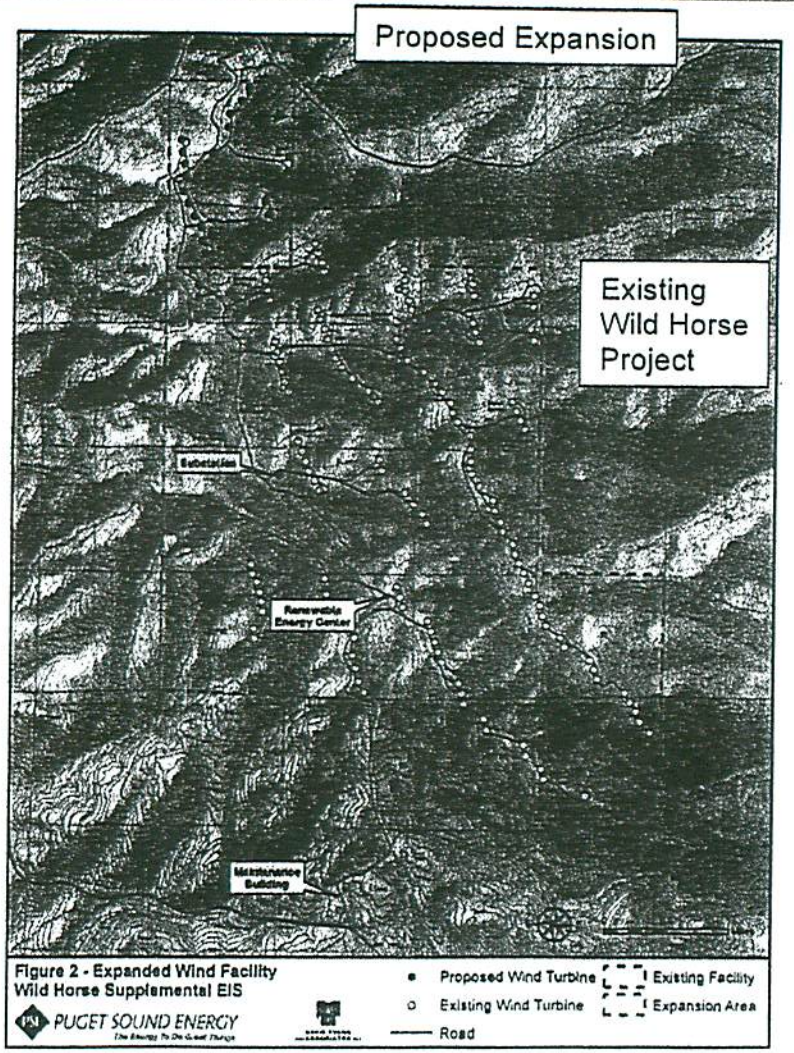
REDACTED VERSION

Project Description:

- *Size:* 44 MW; 22 - Vestas V80 2.0 MW
- *Energy:* [redacted] MWh per year; [redacted] n.c.f.
- *Site:* 1,400 acres of PSE fee-owned land
- *Interconnection:* Wild Horse 230kV Substation

Development Status:

- Negotiating Vestas turbine supply for 2009 deliveries
  - Execution of definitive agreements to occur November 5, 2008 (20% down payment due)
- Selection of Balance of Plant ("BOP") contractor is commencing
- Final permit approval expected March 2009
- Targeted Commercial Operation Date ("COD") is December 2009
- Estimate of "all-in" capital cost is $2,443/kW compared to generic wind at ~$2,700/kW



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Capital Budget & Economics

	$000's	$/kW	% of Total
TOTAL DEVELOPMENT BUDGET	7,245	165	6.7%
CONSTRUCTION BUDGET			
Wind Turbine Supply			
BOP EPC Agreement			
Project Substation			
Insurance			
Start-Up Costs			
Property Tax			
Sales & Use Tax			
PSE Project Management			
Contingency			
AFUDC			
TOTAL CONSTRUCTION BUDGET	100,255	2,279	93.3%
TOTAL ALL-IN CAPITAL COSTS	107,500	2,443	100%

REDACTED VERSION

Portfolio Screening Model (PSM) v.11.3 (updated 10/6/08)	"Current Trends"	"Green World"
Levelized Cost ($/MWh)		
Portfolio Benefit ($000's)	$3,120	$5,440

*Euro content (1.35 FX)

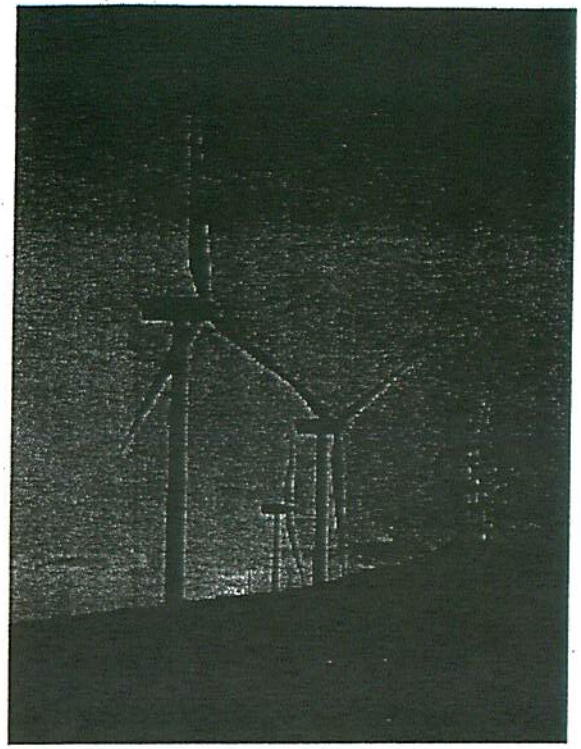
Project Risks and Mitigation

AREA	RISKS	MITIGATION
Permitting	• Permit is delayed • Permit is not issued	• Option to store turbines • Sell turbines / use on other site
Turbine supply	• Unable to reach definitive agreements in acceptable form • Turbine market softens after execution • Turbine operations	• Negotiate 2010 turbine supply and postpone COD to 2010 • 2009 supply locked in and project economics favorable • 2-year warranty and 5-year service agreement
Balance of Plant (BOP) Agreement	• BOP contractor unable to provide flexibility on Notice to Proceed (NTP)	• Competitive bid process will outline NTP risks • Costs to demobilize minimum
Construction Schedule	• Delay start / early winter pushing COD into 2010	• Commissioning for tax purposes as turbines are completed • Project Management involvement with construction planning
Capital Budget	• Budget exceeds current estimate	• Over 65% of budget are known costs; competitive bid process for BOP

Summary of Findings and Benefits

FINDINGS	BENEFITS
✓ Renewable generation ownership	⇨ Long-term wind resource value; PPA adds imputed debt and credit risk
✓ Captures 2009 Production Tax Credit (PTC) extension	⇨ $21,000,000 benefit to customer ($21/MWh in 1st yr)
✓ Takes advantage of sales tax exemption	⇨ Approximately $5,700,000 savings to customer
✓ Most viable opportunity for near-term renewable energy project	⇨ Secures energy needs and contributes to renewable portfolio requirement
✓ Synergies with Wild Horse operations and Vestas	⇨ Cost savings on infrastructure and personnel
✓ Expansion of existing project	⇨ Enjoys local community support
✓ PSE controls development and construction	⇨ Saves developer premium and maintains flexibility

** Numerical answers presented in 2009 dollars*



Appendix

Wild Horse Expansion

PSE PUGET SOUND ENERGY

The Energy To Do Great Things

Market Context

Past Trends

- Turbine price escalation and long lead times for turbine supply
- Diminished ownership opportunities from Request for Proposal (RFP)
- Competition for renewables
- Cyclical Production Tax Credit (PTC) extensions
- Active developers with cheap and plentiful project finance
- Higher demand for wind due to increasing oil and gas prices

Monday September 15, 2008*

- Credit crunch and market turmoil
- Oil and gas price drop?
- Steel / construction materials price drop?
- Secondary markets for turbines?
- Opportunistic acquisitions?
- Recession?
  - Foreign exchange rate?
  - Customer demand?

** First trading day following collapse of Lehman and Merrill Lynch purchase*

Project Agreements

- Turbine Supply Agreement ("TSA") – Vestas
  - [ ] (≈ [redacted] Euro content at 1.35 FX)
  - 20% down payment due at signing
  - One year storage option that maintains full 2-year warranty

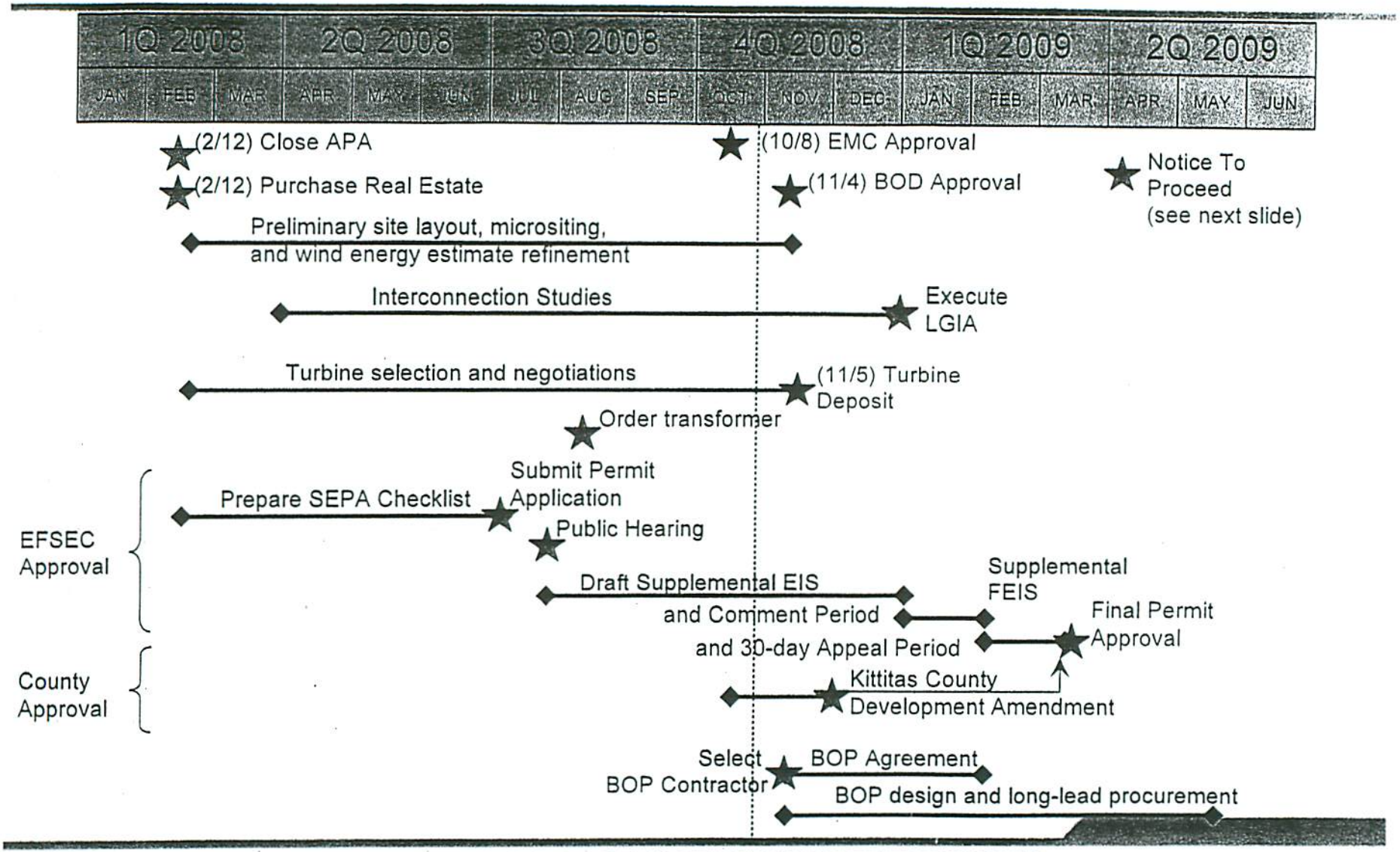
- Service and Maintenance Agreement ("SA") – Vestas
  - [ ] per turbine per year ($1,100,000 annually)
  - 5-year term
  - Availability guarantee (97%)

- Balance of Plant ("BOP") Agreement – To Be Determined
  - $18,600,000 budget estimate (includes turbine erection)
  - Pre-selected bidder solicitation
  - Request for "Open Book / Fixed Price" process

- Transmission / Interconnection
  - Large Generator Interconnection Agreement ("LGIA") with PSE-Transmission
  - Transfer Agreement amendment with Grant County PUD

REDACTED VERSION

Development Timeline



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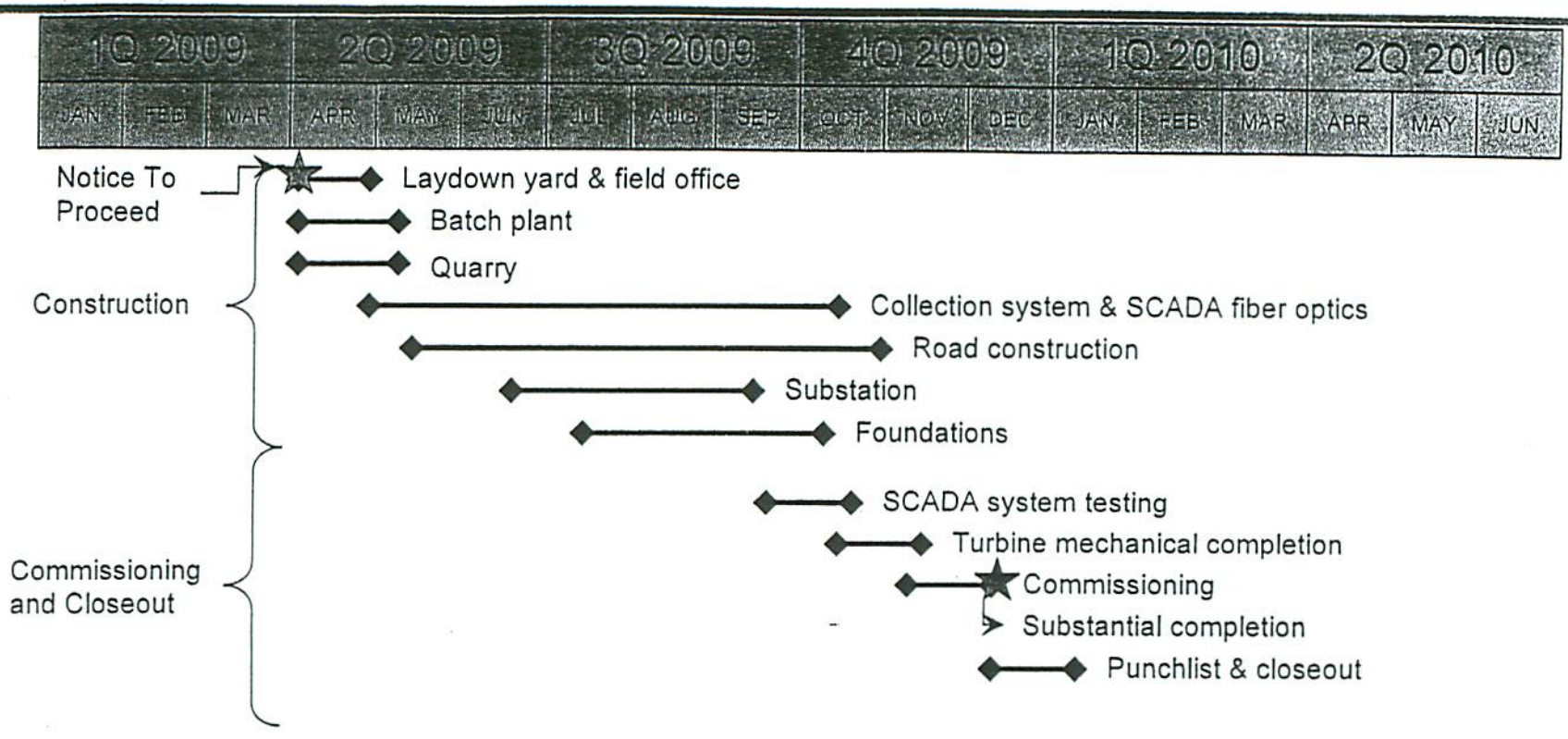
Construction Timeline



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State and Local Permitting Timeline

07-02-08	Submitted application for EFSEC Site Certification Agreement Amendment.
08-06-08	EFSEC Public Hearing: No one opposed the project but several parties, including WDFW, suggested additional mitigation measures related to the four eastern most turbines.
09-08-08	PSE agrees to modify the project plan to remove the four eastern turbines, thereby removing risk associated with the disputed location, avoiding a cultural site and eliminating the need for a WDFW access agreement.
09-29-08	PSE proposes preparation of Supplemental EIS (SEIS) to EFSEC Staff.
09-30-08	Engaged environmental consultant to prepare SEIS.
10-10-08	Kittitas County Development Agreement Amendment Request to allow for expansion of the project. Expansion site is within the area designated by the County for wind farms.
11-07-08	Fish & Wildlife Commission expected to give final approval of Conservation Easement.
11-30-08	Kittitas County Commissioners expected to approve the Development Agreement.
01-10-09	SEIS is completed and EFSEC requests comments on the SEIS.
02-10-09	Expected Issuance of Supplemental Final EIS and approval of the permit by EFSEC.
03-10-09	End of 30-day appeal period.*

**Based on Kittitas Valley Wind project appeal process it is expected that the timeline for appeal would be approximately one year.*

Permit Risk

The likelihood of approval of the Expansion by EFSEC is extremely high.

- PSE has employed the best EFSEC Counsel available and is in good communication with EFSEC staff.

PSE continues to believe the risk of an appeal is relatively low, as follows:

- A appeal of the Expansion is directly to State Supreme Court (the same process as for the Kittitas Valley appeal).
- It is an extremely expensive and burdensome process for an appellant.
- Strategies implemented by PSE have greatly limited the likelihood of success and limited allies for an appellant.
- PSE elected to prepare a supplemental EIS for the Expansion, which removes the only "low hanging fruit" on an appeal.

Decision Tree Analysis

Decision Tree Considerations:

2009 Project: Purchase Turbines Now

- Known opportunity to capture:
  - PTC value
  - Washington Sales Tax Exemption
- More cost certainty
- Most viable renewable project in near term
- Momentum with renewables visible to customers and stakeholders

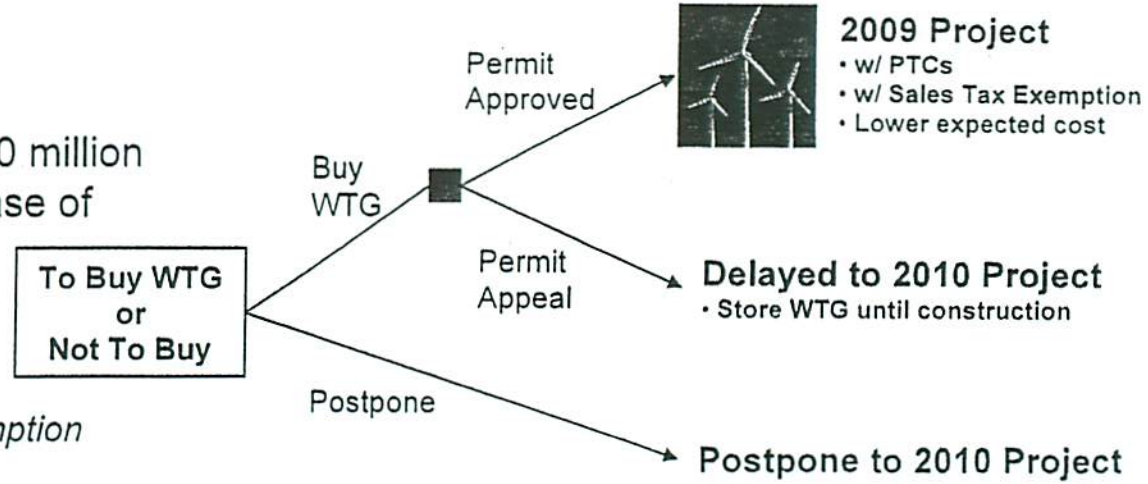
2010 Project: Defer Purchase of Turbines

- Wait to see if economic turmoil creates potential for opportunistic acquisitions of turbines
- Flexibility to address potential capital budget concerns
- Cost could be more favorable or unfavorable

Decision Tree Conclusion:

Buy turbines for 2009 project ≈$20 million better than postponing the purchase of turbines.

Analysis considers uncertainty:
- Permitting
- Extension of PTC and sales tax exemption



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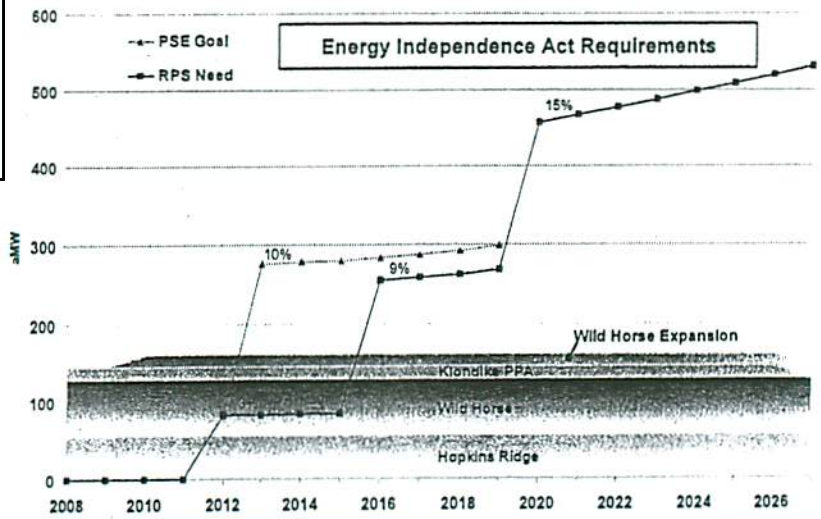
Comparative Analysis

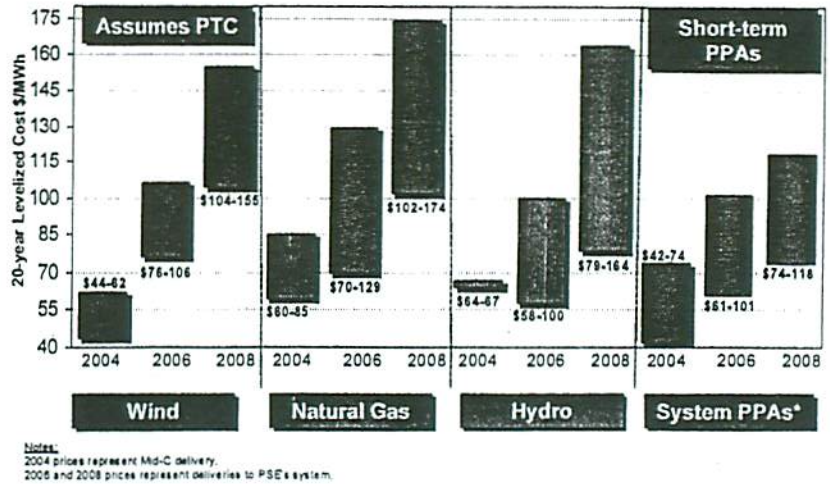
1. No other certain 2009 renewable projects. Bidders updating prices and changing turbine types.

	Current Trends PSM 11-3	Wild Horse Expansion-Ownership	2008 RFP Phase II Results	Post RFP-Update	2008 RFP Phase II Results	Post RFP-Update Indicative
			RFP 2008 Bids			
Lev. Costs ($/MWh)		[redacted]	[redacted]	Unknown	[redacted]	[redacted]
Port. Ben ($MM)		$3	$49		$158	$42
Ben Ratio		0.03	0.56		0.36	0.08
Project Capacity (MW)		44 MW	50 MW	No Change	200 MW	No Change
COD		Dec-09	Dec-09	Dec-10	Dec-09	No Change
Capacity Factor		[redacted]	[redacted]	Unknown	[redacted]	No Change

3. Over 300 aMW of additional renewable resources needed to meet 15% of load by 2020.



2. 2008 RFP: Costs keep going up



Notes:
2004 prices represent Mid-C delivery.
2006 and 2008 prices represent deliveries to PSE's system.

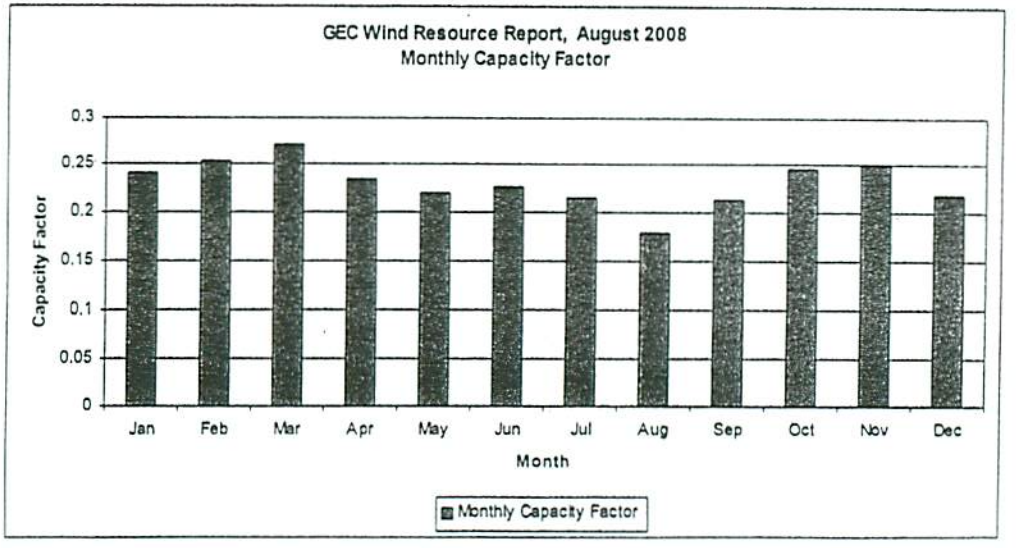
*System PPAs are offers that are shorter term in nature and not tied to a specific resource

REDACTED VERSION

Wind Energy Production Estimate

- Different turbine type
  - V80 1.8 phased out
  - V90 2.0 unsuitable
  - V80 2.0 has different power curve
- Turbine micrositing and refinement of energy estimates
  - "V" & "W" strings most productive turbines
- Final report bankable

	EMC Approval January 2008	EMC October 2008
WTG	V80	V80
Turbine Rating	1.8 MW	2.0 MW
MW	39.6	44
Wind Energy Analyst	[redacted]	GEC
Net Capacity Factor (n.c.f.)	[redacted]	[redacted]*
Annual Net Energy (MWh)	97,000	89,400



*October DNV-GEC Wind Resource & Energy Assessment Report assumed 95% mechanical availability; using a 97% availability increases the n.c.f. to [redacted]

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Regulatory, Accounting and Treasury

Rate Treatment and Cost Recovery

- Include in next rate filing. Anticipate a general rate case filing in April 2009
- Deferred accounting petition may be filed concurrent with Commercial Operation in late 2009
  - Accounting petition to request 1) deferral of all fixed costs, 2) deferral of variable cost in excess of power cost in rates, and 3) credit for avoided power purchases that were assumed in current rates
  - Absent deferral, unrecovered costs are estimated to be $2.2 MM if deferral is 3 months, December 2009 through February 2010.
- Estimated rate impact: 0.5% increase from 2008 GRC Rebuttal

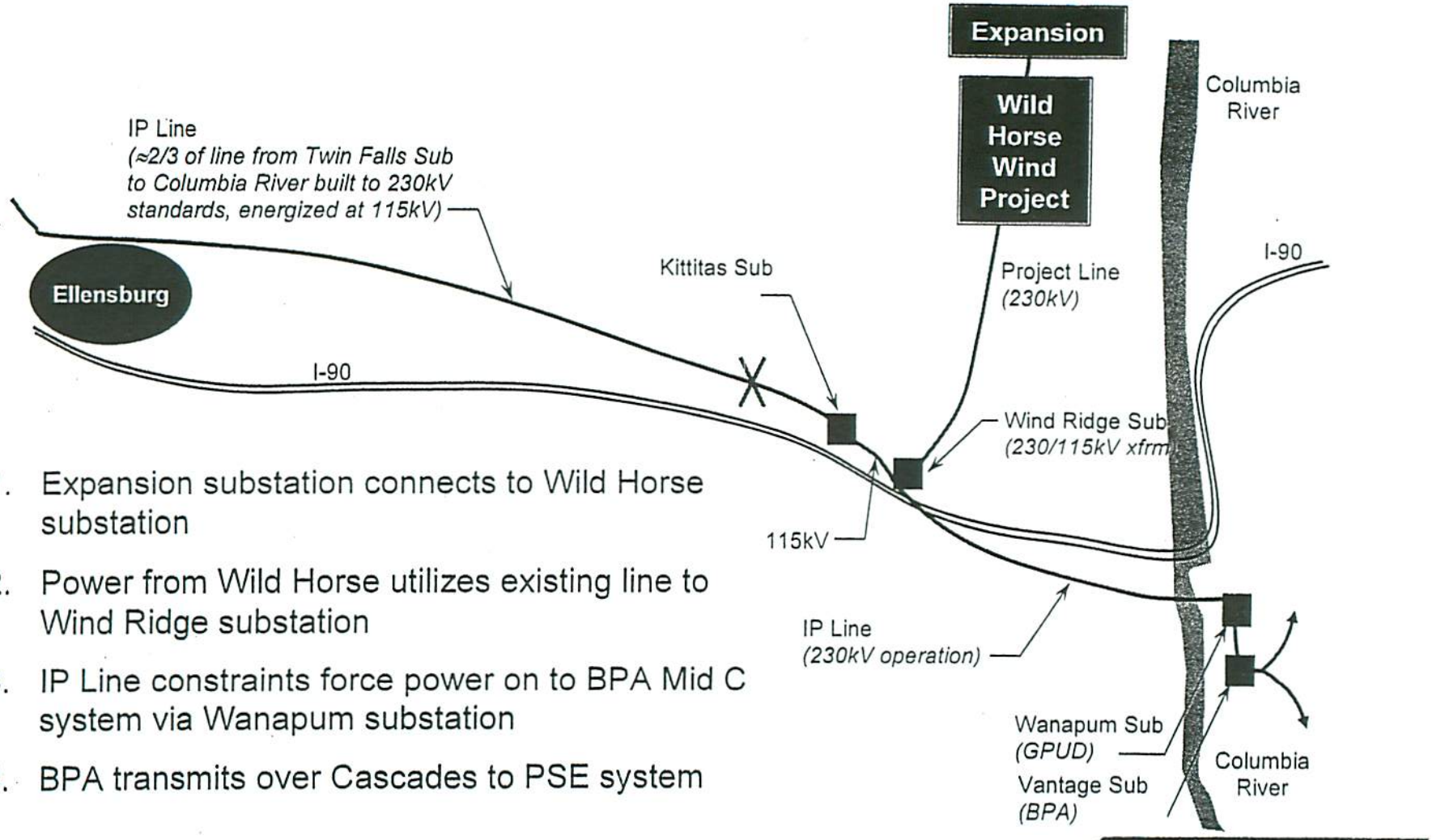
Accounting

- **Renewable Energy Credit (REC) Accounting**. Proforma forecast assumes sale of 95% of RECs generated will result in decrease in variable power costs. Currently REC sales revenues are placed into a deferred liability account.
- **Production Tax Credit** (PTC) Tracker mechanism used to flow benefits back to customers

Treasury

- Capital expenditures in 2008 and 2009 will be funded through the 2008 and anticipated 2009 budget and financing plans.

Interconnection and Transmission



1. Expansion substation connects to Wild Horse substation
2. Power from Wild Horse utilizes existing line to Wind Ridge substation
3. IP Line constraints force power on to BPA Mid C system via Wanapum substation
4. BPA transmits over Cascades to PSE system

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RESOLUTIONS OF THE BOARD OF DIRECTORS OF

PUGET SOUND ENERGY, INC.

APPROVAL OF DEVELOPMENT AND CONSTRUCTION OF EXPANSION OF WILD HORSE WIND POWER FACILITY

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

WHEREAS, the Company's review and analysis of a self-developed generation project has determined it to be a least cost resource for additional energy resource generation;

WHEREAS, the facility to be developed and constructed consists of a 44 MW wind powered electric generation facility to be situated on a portion of approximately 1400 acres of Company-owned land located in Kittitas County, Washington adjacent to the Company's Wild Horse Wind Power Facility, and to consist of 22 2.0 MW wind turbine generators (each, a "WTG") and associated electrical collection systems and other interconnection facilities (collectively, the "Wild Horse Expansion Project");

WHEREAS, the Company's management has negotiated with Vestas-American Wind Technology, Inc. ("Vestas American"), the WTG supplier, the terms and conditions of the purchase of the WTGs and the ongoing operation and maintenance of the wind farm, and is in the process of negotiating with other counter-parties the construction of the wind farm facility, pursuant to the principal definitive transaction documents (the "Principal Transaction Documents") described below:

1. PSE will contract with Vestas American for the purchase of the 22 WTGs, and for the delivery, testing and commissioning of the WTGs pursuant to a Wind Turbine Supply Agreement (the "TSA"). The contract price under the TSA is approximately [redacted] million, subject to currency exchange risk prior to hedging, payable by PSE pursuant to a payment schedule tied to the manufacturing, shipment, commissioning and final completion of the Project. Because the majority of the purchase price of the WTGs is in euros, shortly after execution the parties will enter into a forward hedge contract with a major bank to fix the euro-based amount of the contract in dollars. Consequently all payments to Vestas American over the course of the contract will be made in dollars regardless of subsequent exchange rate movements. A guaranty of the obligations of Vestas American under the TSA will be provided by its parent, Vestas Wind Systems A/S of Denmark.

REDACTED
VERSION

2. Once the WTGs are placed into service, Vestas American will provide an availability warranty and a two-year mechanical warranty pursuant to the TSA and will provide five years of maintenance, operation, spare parts and service of the WTGs under a separate Service Agreement ("Service Agreement") between PSE and Vestas.

3. Upon completion of analyses of bids submitted in response to a request for proposals, PSE will contract with a qualified contractor (a "BOP Contractor") to perform, or cause to be performed, all engineering, procurement and construction relating to the balance of plant for the Wild Horse Expansion Project pursuant to a fixed-price Balance of Plant, Engineering, Procurement and Construction Agreement (a "BOP Agreement"). The BOP Contractor will be paid an amount budgeted to be $18.6 million for performing its scope of work (which will consist of the civil and electrical engineering of the Project such as the roads, WTG foundations, the electrical collection system, and the project's interconnection with existing substation transmission facilities), which amount will be payable by PSE as the BOP Contractor reaches certain scheduled milestones on the construction schedule.

WHEREAS, the Principal Transaction Documents, the current development status and development plan of the Wild Horse Expansion Project, its anticipated budget, and the primary risks relevant to its development, construction and operation are described more fully in a memorandum provided to the Board of Directors in advance of this meeting and filed with the minutes (the "Wild Horse Expansion Proposal"); and

WHEREAS, the officers now seek Board approval of and authority to enter into the Principal Transaction Documents and all other contracts and actions described in the Wild Horse Expansion Proposal and relating to the development, construction and operation of the Wild Horse Expansion Project;

IT IS, THEREFORE

RESOLVED, that the Board, after full consideration and due deliberation, deems it advisable and in the best interests of the Company, its customers, shareholders and other stakeholders to approve the continued development, construction and operation of the Wild Horse Expansion Project pursuant to the Principal Transaction Documents, and any related agreements and the other transactions described in the Wild Horse Expansion Proposal and in accordance with the budget and other materials set forth therein; and be it further

RESOLVED, that the Board hereby authorizes the Company's Chief Executive Officer, its Chief Financial Officer, its Chief Resource Officer, its General Counsel, and any such other officers they deem appropriate (the "Authorized Officers") to execute the Principal Transaction Documents and all other agreements or contracts described in the Wild Horse Expansion Proposal, which may include such further additions, amendments or changes

to the terms thereof as are deemed necessary and appropriate by the Authorized Officers; and

RESOLVED, that the Authorized Officers are further authorized to waive any conditions precedent to the closing of any of the Principal Transaction Documents in order to facilitate the closing of such agreement, provided that each of the Authorized Officers agree to such waiver and deem it to be in the best interest of the Company.

GENERAL AUTHORITY

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

RESOLUTIONS OF THE BOARD OF DIRECTORS OF

PUGET ENERGY, INC.

APPROVAL OF GUARANTY IN CONNECTION WITH WILD HORSE EXPANSION

WHEREAS, the Board of Directors of Puget Sound Energy, Inc. ("PSE") has determined that it is in the best interests of PSE, its customers, shareholders and other stakeholders to develop and construct an expansion of PSE's existing Wild Horse Wind Power Project;

WHEREAS, in connection with the completion of the expansion, known as the "Wild Horse Expansion," PSE also will contract with Vestas-American Wind Technology Inc. ("Vestas American") for the purchase of 22 wind tower generators ("WTGs"), and for the delivery, testing and commissioning of the WTGs pursuant to a Turbine Supply Agreement (the "TSA");

WHEREAS, Vestas American is willing to enter into the TSA, and into a separate service agreement relating to the WTGs, only on the condition that Puget Energy, Inc. (the "Company") guarantee PSE's obligations thereunder pursuant to a corporate guaranty (the "Guaranty");

WHEREAS, it will be to the direct benefit, advantage and best interests of this Company that the Guaranty be given and the TSA and other contracts with Vestas American be executed;

WHEREAS, the TSA and other principal transaction documents relating to the Wild Horse Expansion are described more fully in a memorandum provided to the Board of Directors in advance of this meeting and filed with the minutes (the "Wild Horse Expansion Proposal"); and

WHEREAS, the officers now seek Board approval of and authority to enter into the Guaranty;

IT IS, THEREFORE

RESOLVED, that the Board, after full consideration and due deliberation, deems it advisable and in the best interests of the Company to approve the Guaranty; and be it further

RESOLVED, that the Board hereby authorizes the Company's Chief Executive Officer, its Chief Financial Officer, its Vice President Finance and Treasurer, its General Counsel, and any such other officers they deem appropriate (the "Authorized Officers") to execute the Guaranty, which may include such further additions, amendments or changes to the terms thereof as are deemed necessary and appropriate by the Authorized Officers; and

RESOLVED, that the Authorized Officers are further authorized to waive any conditions precedent to the closing of the Guaranty in order to facilitate the closing of such agreement, provided that each of the Authorized Officers agree to such waiver and deem it to be in the best interest of the Company.

GENERAL AUTHORITY

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

Exhibit 1
Summary of Principal Project Agreements

Acquisition and Construction of the Wild Horse Expansion Wind Power Project

- **Development Rights and Land Purchase.** In February 2008 PSE acquired all of the development assets of Whiskey Ridge Power Partners, LLC, an affiliate of Horizon Wind Energy LLC, relating to an 44 MW wind-powered electric generation facility to be situated on portions of approximately 1400 acres of land located in Kittitas County, Washington. PSE agreed to a purchase price consisting of (i) [redacted] million and (ii) [redacted] per MW hour of energy produced by turbines placed on the acquired property during its first 20 years of operation, payable quarterly. At that time PSE also acquired, from American Minerals and Land Corporation and Land Development and Promotion Services, Inc., the private land upon which the 44 MW wind power facility is to be located, for approximately [redacted] million. PSE also entered into a wind energy royalty agreement, and an associated release and indemnity agreement, with Caurus Power, Inc., pursuant to which PSE agreed to pay to Caurus a royalty interest in the wind energy produced by WTGs located on such land. The project to be built on the private land will consist of 22 Vestas V80 2.0 MW wind turbine generators (each, a "WTG") and associated electrical collection systems and other interconnection facilities (collectively, the "Project").

- PSE will acquire 22 WTGs for the Project and contract for their supply, transportation, testing and commissioning pursuant to a ***Wind Turbine Supply Agreement ("TSA")*** with Vestas - American Wind Technology, Inc. ("Vestas American"), the U.S. affiliate of Vestas Wind Systems A/S of Denmark ("Vestas"). The purchase price for the necessary WTGs, their transportation, and all requisite testing and commissioning is approximately [redacted] million, payable as follows: a down-

payment of approximately [redacted] million (or [redacted] of the total) within two days of the execution of the TSA (also anticipated to be approximately November 5, 2008); a [redacted] installment payment during construction of the turbines; a [redacted] payment made upon the date of shipment of the WTG equipment from the factory, on a pro rata basis; payments made upon placing the WTG equipment on board the ship; payments made upon delivery to the Project Site of such equipment; payments made upon commissioning of the WTGs, on a pro rata basis; upon substantial completion of the facility; and the balance due upon final completion of the facility. Once the WTGs are placed into service, Vestas American will provide a mechanical warranty for two years.

- Also subsequent to the placing of the WTGs into service, Vestas American will provide five years of maintenance, spares parts and service of the WTGs under a separate ***Service and Maintenance Agreement ("Service Agreement")*** between PSE and Vestas American. Under an availability guarantee, Vestas American will guarantee that measured average availability is at least 90% during the first six months of operation and 97% during the remainder of the five-year service period. The Service Agreement provides for financial compensation to PSE in the event that there are shortfalls in warranted availability.

- **Security and Parent Guarantees.** Vestas will provide a parent guaranty of all of the obligations of Vestas American under the TSA and the Service Agreement. The obligations of PSE under the Turbine Supply Agreement will be guaranteed by Puget Energy, Inc., pursuant to a parent guaranty.

- The Company is currently soliciting responses to a request for proposals relating to the engineering, procurement and construction of the Project, with the expectation that PSE will enter into an agreement with a satisfactory contractor pursuant to a ***Balance of Plant Engineering, Procurement and Construction Agreement (the "BOP EPC Agreement")***. The BOP EPC Agreement would not govern the procurement of the Project's WTGs. Turbines and towers are to be purchased pursuant to a turbine supply agreement, as noted above. The BOP Contractor may, in turn, contract with various subcontractors for the engineering and construction of all civil and electrical facets of the Project (such as the roads, WTG foundations and the electrical collection system).

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

Turbine Supply Agreement

PSE intends to purchase WTGs from Vestas American pursuant to the TSA. Vestas American will be obligated to provide PSE with a supply of 22 WTGs and to commission such turbines. (All Vestas American obligations will be guaranteed in full by its parent, Vestas.) The principal provisions of the TSA are as follows:

- **Scope of the Work.** Vestas American is obligated to perform, in a good and workmanlike manner, as an independent contractor, and in compliance with all applicable laws, all work and services relating to the sale, procurement, supply, transport, delivery, testing, commissioning and completion of the turbine equipment

(consisting of 22 Vestas V80 2.0 MW WTGs) and related SCADA[1] equipment, and the integration of such work with the balance of plant of the Project. The work is to be completed pursuant to a project schedule, starting upon execution, with pre-determined milestones. Vestas American will provide PSE with as-built drawings, spare parts lists, operating manuals and job books.

- **Subcontractors.** Vestas American is obligated to identify all major subcontractors, shall plan, schedule and coordinate the activities of all subcontractors, and shall provide PSE the right to inspect all aspects of the work. Vestas American may not permit any liens to be created on the Project or Project site and will provide PSE with lien waivers and releases from its subcontractors.

- **Agreement Price.** The contract price to Vestas American for performing the work and performing its duties under the Turbine Supply Agreement is approximately [redacted] million. Payment of the contract price shall be made in installments in accordance with a payment schedule, as follows: a down-payment of approximately [redacted] million (or [redacted] of the total) within two days of the execution of the TSA (anticipated to be approximately November 5, 2007); a payment of [redacted] of the total during the construction period prior to leaving the Vestas factory; a further payment of [redacted] of the total made upon the date of shipment from the factory of the WTG equipment, on a pro rata basis; payments equal to [redacted] of the total made upon placing the equipment on board the vessel, on a pro rata basis; payments equal to [redacted] of the total made upon delivery, on a pro rata basis, to the Project Site of such equipment; payments of [redacted] made upon commissioning of the WTGs, on a pro rata basis;

[1] SCADA refers to the supervisory control and data acquisition system, which is used to monitor and control the WTGs.

payment of [redacted] of the total upon substantial completion of the facility; and the remaining [redacted] due upon final completion of the facility. The contract price is also subject to adjustment in the event of scope changes required by PSE that impose a time and materials cost on Vestas American. A significant portion of the contract price under the TSA contains a Euro component. However, the parties have agreed to certain hedging procedures to occur shortly after execution, from which point the exchange rate will be fixed and all payments will be made in dollars.

- **Balance of Plant and other Buyer Obligations.** Under the TSA, PSE agrees to perform (or cause to be performed) all work relating to the purchase, construction, installation, start-up and commissioning of all balance of plant equipment and work, and all WTG erection. PSE will contract with a suitable contractor to undertake such obligations on PSE's behalf. PSE also is obligated to provide Vestas American with necessary access to the Project site, security at the Project site and the provision of necessary lay-down and storage areas.

- **Schedule and Liquidated Damages.** Vestas American is obligated to perform its duties in accordance with a project schedule. The schedule is subject to adjustment in the event of, among other things, the failure to complete certain priority balance of plant work in a timely manner or force majeure. Vestas American is obligated to provide delay liquidated damages under the TSA. The maximum liability for all such liquidated damages ("LDs") is [redacted] of the contract price, or roughly [redacted] million.

- **Parent Guarantees.** In order to secure performance by Vestas American of its obligations under the TSA (including possible payment of Delay LDs), PSE will receive a guaranty by Vestas, its corporate parent. In addition, in order to secure

payment of amounts still due and owing on WTGs after title for such WTGs has passed to PSE, Puget Energy will guarantee the obligations of PSE under the TSA.

- **Force Majeure.** The project schedule and the amount of possible Delay LDs could be affected if a Force Majeure event occurs during construction, which could include wind shear, lightning and certain accidents in shipping, among other items standard in contracts of this kind.

- **Indemnification.** The TSA provides that the parties will indemnify each other with respect to any claims arising out of the transactions contemplated by the TSA for which they are responsible.

- **Representations and Warranties.** Each of PSE and Vestas American represents and warrants to the other with respect to its organization and the due authorization of the transactions, that the TSA does not violate or breach any agreement by which either party is bound and that each party is in material compliance with all applicable laws. PSE will represent and warrant to the accuracy of the Project site's wind data.

- **Insurance.** Vestas American will provide PSE with evidence of insurance with such coverage, in such amounts and with such deductibles as are acceptable to PSE. PSE will obtain Builder's All Risk Insurance and will name Vestas American as an additional insured on such policy.

- **Title and Risk of Loss.** Title to all turbine equipment, towers and SCADA equipment provided under the scope of the TSA will pass to PSE upon the date PSE makes the payment due for shipment of such turbine, tower, component thereof, or SCADA equipment. The risk of loss and damage with respect to Project equipment

and supplies shall remain with Vestas American until substantial completion. Vestas American shall be obligated to repair, replace or reconstruct any work that is lost, damaged or destroyed during the period that Vestas American bears the risk of loss.

- **Dispute Resolution.** The parties have agreed to arbitration in Seattle to resolve any disputes under the TSA, which is to be governed by and construed in accordance with Washington law.

- **Limitation of Liability.** Vestas American's potential liability under the TSA cannot exceed the contract price and the parties have waived all rights to consequential, incidental or special damages.

- **Default, Termination and Suspension.** The TSA contains events of default, termination provisions and remedies typical for similar agreements. Events of default include the insolvency or bankruptcy of the corporate parent, Vestas.

- **Mechanical Warranty.** Vestas American warrants that all WTGs and related equipment, controls and systems shall be free of defects in design, engineering, materials, manufacture, assembly, erection, installation, commissioning and workmanship. Vestas American is obligated to repair or replace any defective component without cost or expense to buyer.

- **Exhibits.** Attached as exhibits to the TSA are the forms of all necessary certificates and notices, all requisite technical specifications, project and payment schedules, construction plans, permit and contractor lists, and other materials. Such exhibits include scope descriptions and equipment specifications for the WTGs, SCADA

system, FAA-required lighting and the switchgear. There are approximately 85 technical exhibits to the TSA.

Service and Maintenance Agreement

PSE will contract with Vestas American to maintain, service and remedy any defects or deficiencies in the constructed WTGs and their associated equipment on PSE's behalf. The principal provisions of the Services Agreement are as follows:

- **Term.** The Services Agreement shall commence, with respect to each WTG, on the date of such WTG's commissioning, and shall end on the fifth anniversary of substantial completion of the Project.

- **Fees and Expenses Payable to Vestas American.** The Services Agreement requires PSE to pay a fixed fee, expressed on a per-WTG basis, during each year of its term. The fee for Year 1 is set a[redacted]per WTG, adjusted annually based on an inflation index. The fee covers the cost of all labor, services, management, equipment, parts, consumables, insurance and materials necessary for Vestas American to operate, maintain and service the WTGs. In addition to the per-WTG fee, PSE may be obligated to pay Vestas American certain additional reimbursable costs in the event of, among other reasons, a Force Majeure event or a change in the scope of work required by PSE.

- **Maintenance Services Provided.** Vestas American will perform (or oversee performance by subcontractors of) all routine and unscheduled maintenance and service and other necessary activities needed for keeping the WTGs productive and performing at warranted levels of availability, output and reliability. Vestas American

will also maintain a complete inventory of spare parts, special tools and consumables related to its performance as service provider, will provide monthly reports to PSE (including availability and production figures) and log books, will be responsible for management and security of the facility, and will acquire and maintain necessary insurance and permits, all in compliance with applicable laws.

- **Spare Parts.** Vestas American is obligated to provide and maintain at its expense all spare parts and consumables used in performing its services during the term of the warranty period.

- **Indemnification.** The Services Agreement provides that the parties will indemnify each other with respect to any claims arising out of the performance of such party's obligations under the agreement.

- **Limitations on Liability.** The total aggregate liability of Vestas American under the Service Agreement is capped at the total amount of fees paid.

- **Availability Covenant.** Vestas American warrants to certain availability (measured as a percentage and calculated with respect to the availability of each WTG to generate electricity) of the Project during the term of the Warranty. The warranted availability is at least [redacted] during the first six months of operation and [redacted] during the remainder of the five-year service period. In the event that the warranted availability is not met during any particular one year "production period," liquidated damages will apply and Vestas American will be obligated to compensate PSE per defined formulae. Alternatively, if the warranted availability is exceeded during any particular one year production period, bonus payments will be payable by PSE to Vestas American per defined formulae.

Balance of Plant Engineering, Procurement and Construction Agreement

- PSE is in the process of soliciting for a qualified contractor for the balance of plant work for the Project and expects to enter into a BOP EPC Agreement with such contractor. The BOP EPC Agreement will set forth the terms upon which the BOP Contractor will perform certain work and services and provide certain equipment, materials, supplies, labor and services for the Project. Some of the principal provisions PSE anticipates the BOP EPC Agreement including are summarized briefly below:

- **Scope of the Work.** The BOP Contractor will be obligated to perform, in a good and workmanlike manner, as an independent contractor, and in compliance with all applicable laws, all civil infrastructure and electrical infrastructure work and services and to procure and supply all equipment for the Project, excepting wind turbine generators. The scope of the work includes the design and construction of all civil and electrical infrastructure facilities, the erection of the WTGs, and the design, scheduling and project coordination of the Project as a whole. The work is to be completed pursuant to a project schedule, starting upon issuance of a Notice to Proceed, with pre-determined milestones. The BOP Contractor will provide PSE with as-built drawings, spare parts lists, operating manuals and job books.

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

- **Agreement Price.** The contract price to the BOP Contractor for performing the work and performing its duties under the BOP EPC Agreement is expected to be approximately $18.6 million. Payment of the contract price shall be made in installments in accordance with a payment and values schedule, representing payment for work actually completed. The contract price will also be subject to adjustment in the event of scope changes required by PSE that impose additional time and materials cost on the BOP Contractor.

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

- **Liquidated Damages.** The BOP Contractor likely will be obligated to pay delay liquidated damages ("Delay LDs") in a fixed amount per WTG for each day that substantial completion of such WTG has not been achieved by the date required under the construction schedule. The maximum amount of Delay LDs payable under the BOP will be some percentage of the contract price.

- **Parent Guaranty.** In order to secure performance by the BOP Contractor of its obligations under the BOP EPC Agreement (including possible payment of Delay LDs), PSE may seek seek a guaranty of the BOP Contractor's obligations from a corporate parent, or some other security.

- **Completion.** The BOP Contractor will obligated to perform its duties in accordance with a project schedule, including the completion of an individual foundation for each

WTG, erection of each WTG, completion of all electrical works (including all work on infrastructure facilities necessary to energize the WTGs and other facilities and to connect and synchronize the WTGs to PSE's transmission system). Project substantial completion is anticipated to occur no later than early December 2009, and Project final completion no later than six months thereafter.

- **Force Majeure.** The project schedule and the amount of possible Delay LDs or PTC Damages could be affected if a Force Majeure event occurs during construction.

- **Indemnification.** The BOP EPC Agreement likely will provide that the parties will indemnify each other with respect to any claims arising out of the transactions contemplated by the BOP EPC Agreement for which they are responsible.

- **Insurance.** The BOP Contractor will need to provide PSE with evidence of insurance with such coverage, in such amounts and with such deductibles as are acceptable to PSE. PSE likely will obtain Builder's All Risk Insurance and will name the BOP Contractor as an additional insured on such policy.

- **Default, Termination and Suspension.** The BOP EPC Agreement likely will contain events of default, termination provisions and remedies typical for similar agreements. Also, in the event that PSE terminates the BOP EPC Agreement without cause prior to completion of the work, PSE may be obligated to pay the BOP Contractor liquidated damages in some amount for every WTG affected by such termination.

- **Title and Risk of Loss.** Title to all work and project equipment under the scope of the BOP EPC Agreement is likely to pass to PSE upon the earlier of PSE's payment

therefor, delivery to the Project site, the Project's substantial completion or termination. The risk of loss and damage with respect to project equipment and supplies will likely remain with the BOP Contractor until substantial completion. The BOP Contractor would be obligated to repair, replace or reconstruct any work that is lost, damaged or destroyed during the period that the BOP Contractor bears the risk of loss.

- **Dispute Resolution.** The contract will likely require arbitration in Seattle to resolve any disputes under the BOP EPC Agreement. The BOP EPC Agreement would be governed by and construed in accordance with Washington law.

- **Representations and Warranties.** Each of PSE and the BOP Contractor will represent and warrant to the other with respect to its organization and the due authorization of the transactions, that the BOP EPC Agreement does not violate or breach any agreement by which either party is bound and that each party is in material compliance with all applicable laws.

- **Exhibits.** Expected to be attached as exhibits to the BOP EPC Agreement will be the forms of all necessary certificates and notices, all requisite technical specifications, project schedules, construction plans, permit and contractor lists, and other materials. Approximately 50 exhibits are likely to be made part of the BOP EPC Agreement.

Other Agreements

Completion of the Project may require the Company to enter into a number of other agreements, possibly including royalty agreements, leases, interconnection agreements

and other matters. To the extent any such agreements have been identified and impose costs, such costs are reflected in the pro forma financial statement for the Project.

Exhibit 2
Diagram of Transaction and Principal Contractual Relationships

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Diagram of Transaction and Principal Contractual Relationships

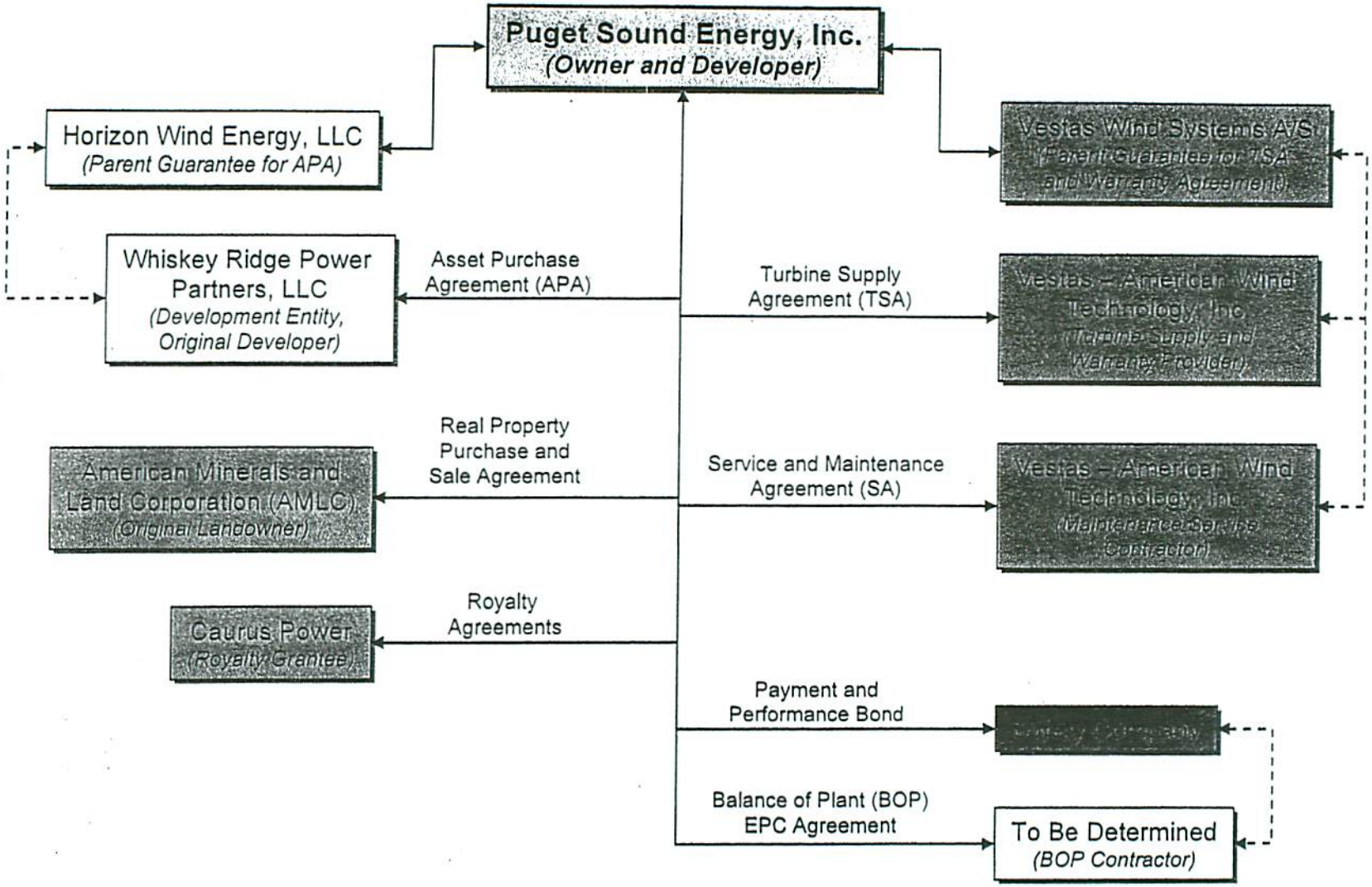


Exhibit 3
Project Description

Project Name:	Wild Horse Expansion
Nameplate Capacity:	44 MW
Developer:	PSE; acquired development rights from Whiskey Ridge Power Partners on 02/13/08
Location:	Adjacent to the northwest border of Wild Horse Wind Project approximately 13 miles east of Ellensburg in eastern Kittitas County, Washington
Site Description:	Open ridge tops of the Whiskey Dick Mountain hilly country that consists of dry, rocky shrub steppe grasslands historically used for grazing; approximately 3500 ft elevation
Real Estate:	PSE-owned property; previously purchased as part of the original Wild Horse Wind Project and on portions of the approximately 1400 acres purchased by PSE on 02/13/08
Wind Resource:	6.9 m/s average wind speed 24% net capacity factor (91,600 MWh/year)
Wind Turbines:	22 - Vestas V80 2.0 MW 80 m rotor diameter; 67 m hub height
Interconnection:	Wild Horse 230kV Substation
Operations and Maintenance:	Vestas 5-year service agreement PSE performs site management and BOP O&M
Estimated "All-in" Capital Costs:	$107,500,000
Projected On-line Date:	December 2009

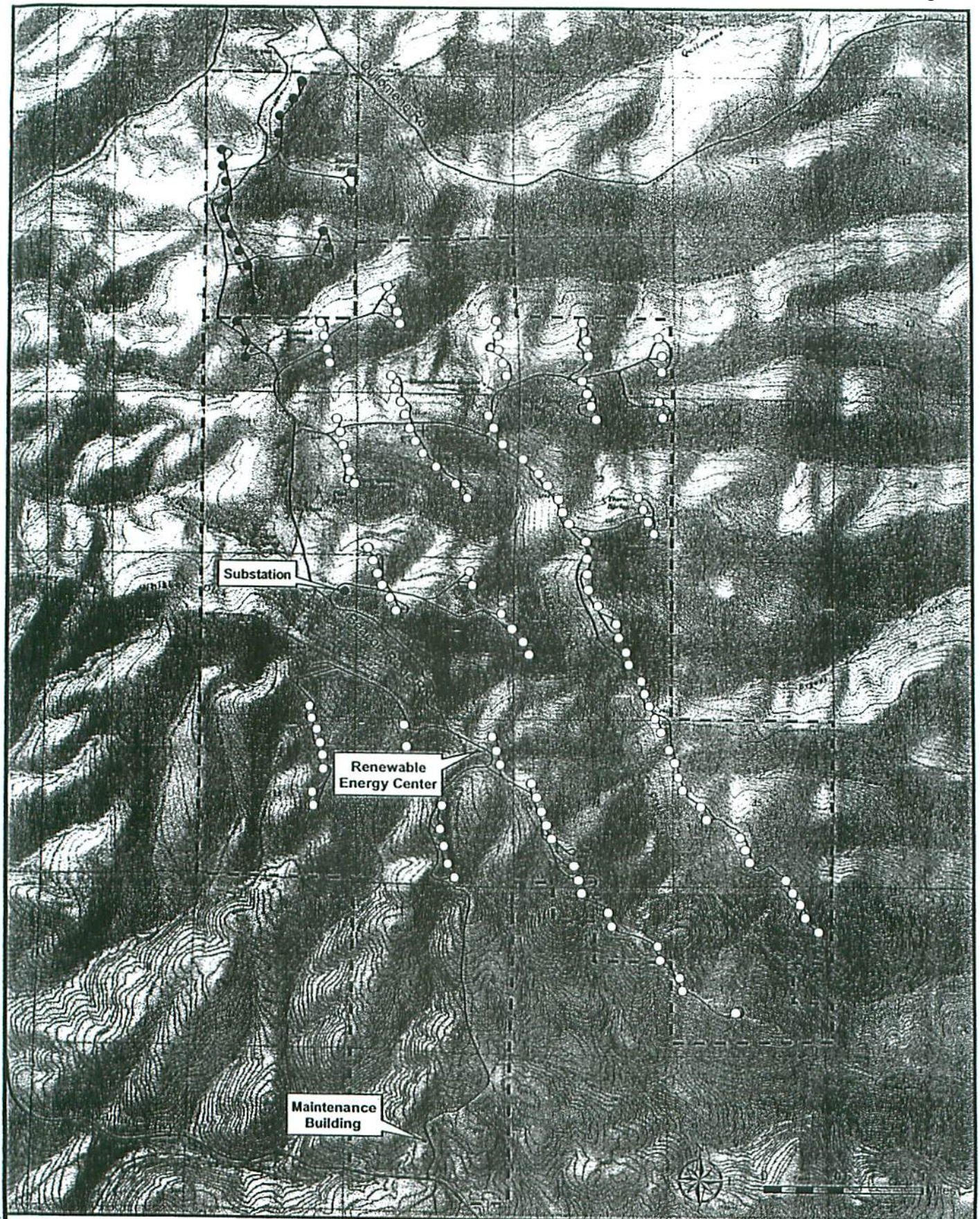


Figure 2 - Expanded Wind Facility
Wild Horse Supplemental EIS

PUGET SOUND ENERGY
The Energy To Do Great Things

DAVID EVANS and ASSOCIATES, inc.

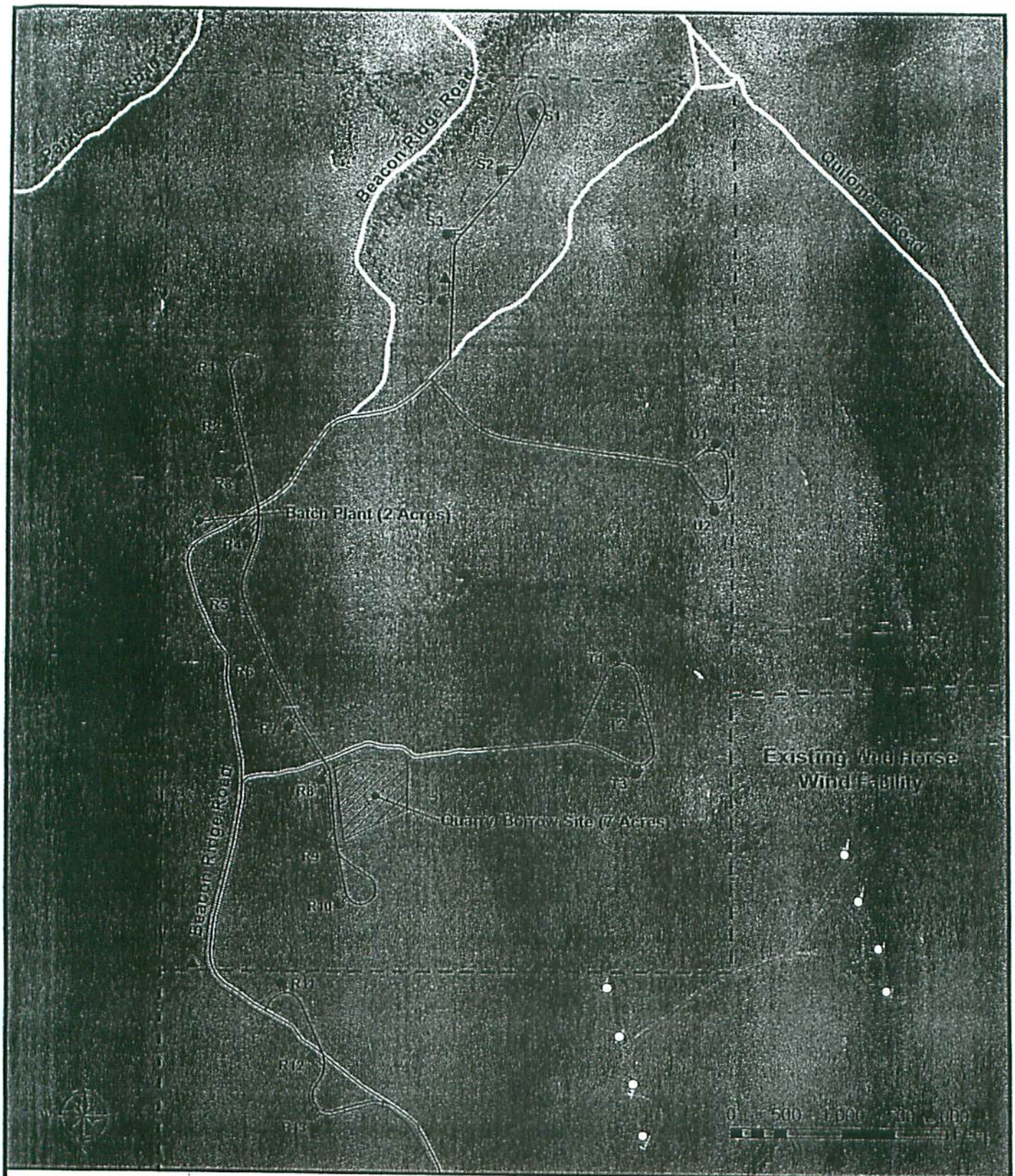


Figure 4 - Preliminary Site Layout
Wild Horse Supplemental EIS

PUGET SOUND ENERGY
The Energy To Do Great Things

DAVID EVANS AND ASSOCIATES INC.

- ▲ Temporary Met Tower
- ● Proposed Wind Turbine
- ○ Existing Wind Turbine
- —— Proposed/Improved Road
- —— Existing Road
- —— Crane Pad
- —— Underground Collector 1
- —— Underground Collector 2
- Expansion Area
- Existing Facility

Confidential and Proprietary

Exhibit 4
Wild Horse Expansion Project
Stand-Alone Financial Pro Forma

Facility Description

The Wild Horse Expansion Project ("Expansion"), to be described further herein, consists of the permits, real estate rights, interconnection agreements, and other necessary rights and agreements to develop, construct, own and operate the 44 MW Expansion of the existing Wild Horse Wind Generating Facilities ("Facility") located near Ellensburg, WA. The all-in cost to develop and construct the Expansion is approximately $107.5 million.

Description of Plant:

Project:	The 44 MW Expansion ("Expansion") of the original 229 MW Wild Horse Wind Project, just east of Ellensburg WA
Sellers:	The sale of early stage development assets by Whiskey Ridge Power Partners LLC, a wholly-owned subsidiary of Horizon Energy Company ("Horizon").
Owner:	PSE (as of February 2009)
Timing and Nature of Acquisition and Construction:	Since the acquisition of the development rights from Horizon in February 2009, PSE has progressed with the development of the project. PSE anticipates executing the Turbine Supply Agreement contract with Vestas American on November 5, 2008. Subsequently, PSE will negotiate a BOP EPC agreement with a BOP contractor. A Notice To Proceed will be issued once all non-appealable permits are acquired. Construction is expected to last approximately eight months.
Notice to Proceed:	April 1, 2009 (estimate)
COD:	December 2009 (estimate)
25-year Levelized Cost:	[redacted] MWh, in 2008 dollars
Net Capacity Factor:	The 44 MW Expansion is estimated to have a 24% net capacity factor, as determined by DNV Global Energy Concepts ("DNV-GEC").
Technology:	22 Vestas 80 2.0 MW Wind Turbine Generators.
Transmission:	Transmission from the Facility to PSE's service territory flows across BPA and Grant PUD transmission systems.
Real Estate:	Upon acquisition of the development rights from Horizon, PSE exercised the land option to acquire 1400 acres from American Minerals and Land Corporation ("AMLC"). The project site will require developing 960 acres of the 1,400 acres purchased. The Expansion abuts the north end of PSE's existing Facility and is contiguous with PSE's existing property.

The Projection

This document and its exhibits (the "Projection") illustrate the projection of the incremental financial results to PSE from its investment in the Expansion. Included in the Projection are pro forma financial statements illustrating operation of the Facility through the year 2028 and a description of the data and assumptions used to derive them. Although the Expansion will be developed and incorporated into the original Wild Horse Project, the financial statements are presented for clarity as though the Expansion were a wholly-owned subsidiary that would be consolidated on PSE's books.

Acquisition Cost – Summary

DEVELOPMENT BUDGET	$000's	$/kw	Percent of Total
Development Rights			
Asset Purchase Agreement			
Closing Costs			
Real Estate			
AMLC Real Estate Purchase & Sale Agreement			
WDFW Access Easement			
Closing costs			
Legal			
Commercial (Dewey & LeBoeuf)			
Real Estate (Perkins Coie)			
Environmental (Stoel Rives)			
Meterology			
Consultant (Global Energy Concepts)			
Met Towers - Data & Maintenance			
Environmental / Permitting			
Consultant (David Evans & Assoc.)			
Permits & Studies			
Community Relations / Communications			
Corporate Communications			
Community Activities			
Transmission Interconnection			
Substation Equipment			
Studies & Service Requests			
Preliminary Engineering			
Engineering Consultant (David Evans & Assoc.)			
Turbine Evaluation & Selection			
Geotechnical Report			
PSE Labor & Expense - Development			
Labor & Expense			
Overhead			
Contingency			
TOTAL DEVELOPMENT BUDGET			

REDACTED
VERSION

	$000's	$/kw	Percent of Total
TOTAL DEVELOPMENT BUDGET	7,245	165	6.7%
CONSTRUCTION BUDGET			
Wind Turbine Supply			
BOP EPC Agreement			
Project Substation			
Insurance			
Property Insurance			
General Liability Insurance			
Start-Up Costs			
Property Tax			
Sales & Use Tax			
PSE Project Management			
Construction Management			
Owner's Engineer			
Environmental Review			
Corporate Communication			
Corporate Overhead			
Contingency			
AFUDC			
TOTAL CONSTRUCTION BUDGET	100,255	2,279	93.3%
TOTAL ALL-IN CAPITAL COSTS	107,500	2,443	100.0%

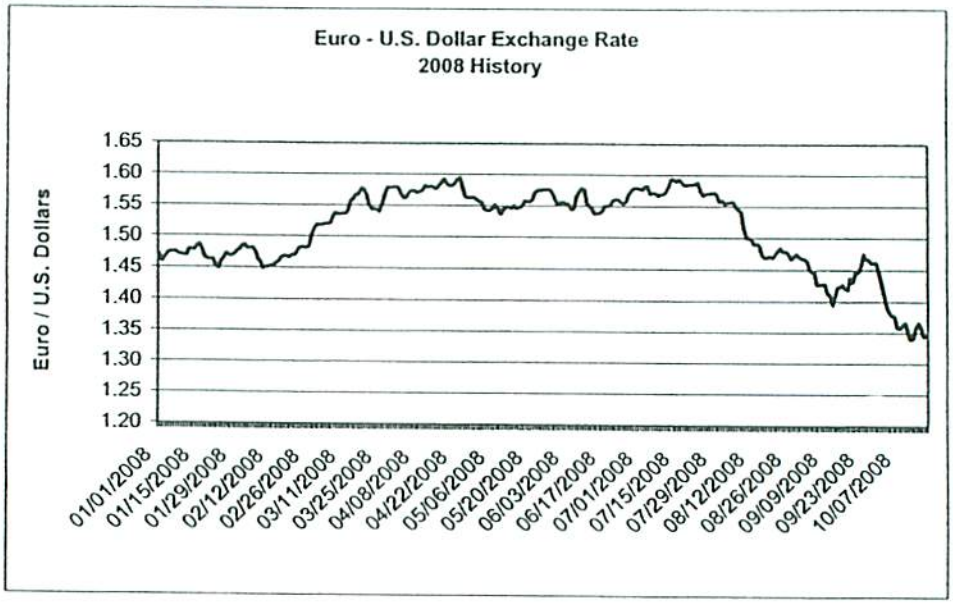
Development Budget: The development budget is a compilation of the costs necessary to negotiate the development rights and purchase agreements (such as the Turbines Supply Agreement with Vestas American), study the Expansion wind resource and obtain a permit for the project. The development budget was approved by the Energy Management Committee ("EMC") January 31, 2008 to purchase real estate and development rights for the Expansion. All costs incurred in the development phase will be capitalized.

Development Rights: PSE purchased the right to develop the Expansion Project from Whiskey Ridge Power Partners, LLC on February 12, 2008. Included in the development rights were wind data, transmission studies and site surveys completed before the date of closing.

Real Estate: The Real Estate costs include the purchase price to acquire 1,400 acres of real property from American Minerals and Land Corporation ("AMLC").

Legal Costs:	This budget includes the expected cost of using external legal representation to assist with the negotiations of purchase agreements, service contracts and permitting of the Expansion.
Meteorology:	PSE uses DNV-GEC to study wind data at the site and project a net capacity factor for the Expansion Project. DNV-GEC also maintains the anemometers on the acquired real property until the Commercial Operation Date of the project.
Environmental / Permitting:	Environmental / Permitting Costs are those that PSE will incur for the ongoing studies, surveys and applications it must conduct or submit to obtain the development permit from EFSEC.
Community Relations / Communications:	These are costs associated with holding public meetings and printing educational materials to inform the public about the Company's efforts to develop the Expansion project.
Transmission / Interconnection:	Transmission and Interconnection includes costs associated with the studies and service requests of BPA and Grant County to ensure the Company can interconnect and transmit additional generation across the existing transmission system.
Preliminary Engineering:	Preliminary Engineering includes costs associated with developing the project layout and documenting geotechnical characteristics of the land which impacts wind turbine, roads and underground cable locations.
PSE Labor & Expense	PSE internal labor and expenses during project development includes labor necessary to manage the progress of the development activities. Such activities include: project management, analysis of project economics, integration, negotiation of purchase agreements and contracts, site visits, etc.
Contingency:	A contingency of 5% is included in the development budget to mitigate and manage any necessary unforeseen changes identified during the development phase.
Construction Budget:	This budget identifies the capital costs the Company projects to spend to build the 44 MW Expansion. Items included in this category are turbine payments, BOP EPC costs, Project Substation, Insurance, Property and Sales Tax, PSE Project Management and Contingency.
Wind Turbine Supply:	Vestas will supply and deliver 22, 2.0 MW wind turbine generators ("WTG") to the Expansion project. Although the contract price is fixed, it includes a fixed euro component of [redacted] for which Vestas American will arrange for a currency hedge to lock the price in dollars. Based on the current hedge rate on 10/18/08 of €1.35 / $1, the total cost of turbine supply, delivery and commissioning is [redacted]. PSE has the option to instruct Vestas American to execute the hedge anytime in the first ten days after closing. The persistent decline of the U.S. dollar over the past six years is one of the main factors causing the persistent increase in wind turbine supply prices. However, the U.S. dollar has gained considerable strength since July 2008, as the credit crisis grew and the global economy has begun to soften. The following chart illustrates the exchange rate performance of the euro against the

U.S. dollar during 2008.



PSE will continue to monitor the exchange rate as TSA negotiations continue. Meanwhile, as the U.S. dollar continues to strengthen, the cost of wind turbines will fall and project economics will continue to improve. The following table illustrates the impact on overall project costs on a $/kw basis as the exchange rate changes. Current WTG costs are based on the exchange rate dated 10/18/08 and are highlighted in gray:

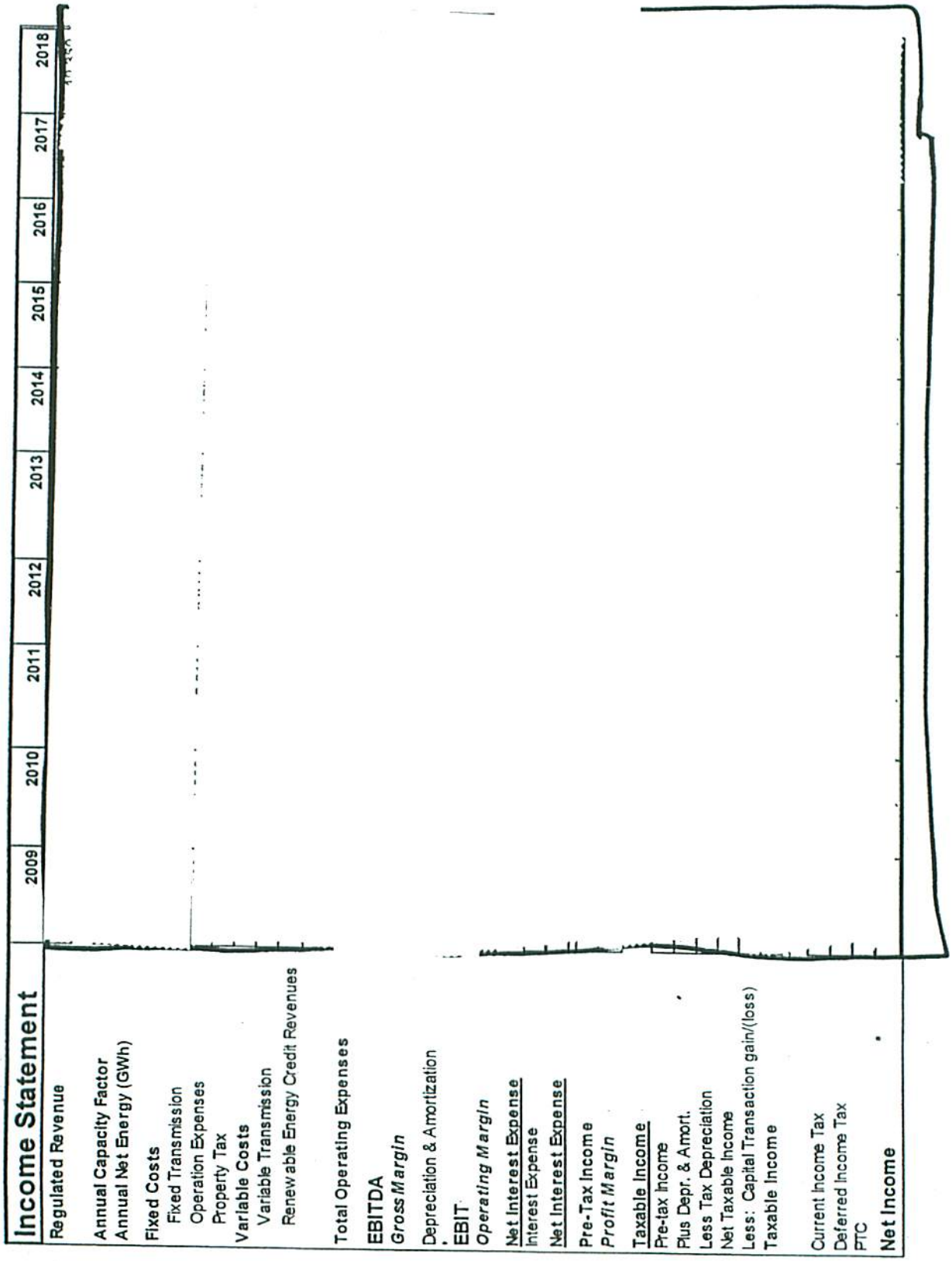
$ / Euro Exchg Rt	WTG $ / kw	WTG Cost	Total Prjct $ / kw
1.23			
1.24			
1.25			
1.26			
1.27			
1.28			
1.29			
1.30			
1.31			
1.32			
1.33			
1.34			
1.35			
1.36			
1.37			
1.38			
1.39			

Balance of Plant Engineering, Procurement and Constrcution:	PSE will select a contractor to complete the engineering of the site layout and construct the necessary infrastructure to erect and connect the wind turbines to the substation. In the absence of a selected proposal, PSE estimates that EPC costs will be about $420/ kw based on recent proposals PSE has seen for other projects in the Northwest.
Project Substation:	A new substation to accommodate the Expansion will be built adjacent to the existing Wild Horse substation. This cost category captures the investment associated with the procurement of transformer and substation build out.
Insurance:	PSE obtains property and general liability insurance to cover any losses that may occur during the construction period. Preliminary estimates for property insurance costs are $0.15 to $0.20 per $100 of replacement value. General liability insurance is estimated to cost $0.125 per kW.
Start Up Costs:	Start-up energy is the revenues received for power generated during the commissioning phase. As turbines are commissioned, they will operate as wind is available, subject to any operating constraints, until Project Substantial Completion is achieved. It is estimated that turbines will begin to be commissioned in October 2009 at a rate of no more than six turbines per week. Test power will either be sold or used to offset market purchases PSE makes to balance its load. This offset has been estimated to be $655,126 based on the Official Forward Price Marks for Mid-C energy prices from 9/10/08. Start-up revenues are treated for financial purposes as a reduction in the book and tax value of the turbine cost [redacted] - $655,126 = [redacted] For capital expense presentation purposes, this effect is shown separately from Wind Turbine Supply Costs.
Property Taxes:	In Washington State, property is assessed on January 1st of each calendar year with taxes paid in April and October of the following year, in arrears. It is customary in real estate transactions in Washington for property taxes to be prorated based on taxes payable in the year of closing and are capitalized at closing. As the development and construction of the Expansion take place over a two-year period and will enter service in December 2009, PSE will accrue and capitalize 2009 taxes to 2009 even though PSE will pay those taxes in April and October of 2010.
Sales and Use Tax:	In Washington state, renewable generating assets, notably wind and solar, are exempt from sales tax through 6/30/09, when this provision sunsets. A wind generating asset is considered to be anything from the tip of the blade to the substation. Items such as roads, crane pads, quarry site, etc. used or built during construction are not tax exempt. PSE has not included sales tax on the wind turbines as they will be considered exempt from sales tax upon transfer of title, which is projected to occur in May 2009. Previously exempted work that has not commenced before 6/30/09 for BOP EPC and Substation costs does have sales tax applied to it. Sales tax in Washington state is 6.5% and sales tax in unincorporated Kittitas County is 1.5%.
PSE Project Management:	PSE Project Management costs are associated with PSE's managerial oversight of the construction phase. Included in this category are costs to acquire an Owner's Engineer to sign-off on contractual commitments in the

Turbine Service Agreement, internal PSE management costs, environmental reviews, corporate communication activities during the construction phase and project overhead. Large projects are assessed 1% overhead to cover internal costs for accounting, reporting and tracking.

Contingency: Contingency is added to the project budget to account for cost risk as certain expenditures remain unknown. The contingency amount is calculated based on the following cost risks: euro / dollar exchange rate, steel price for WTGs, bunker fuel cost in transportation of WTGs, BOP EPC contract, number of days construction is delayed due to extreme weather, unanticipated scope changes.

AFUDC: Allowance for Funds Used During Construction is calculated using the allowed rate of return of 8.25% for book purposes. For tax basis, the company capitalizes the actual construction period interest.



Income Statement	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Regulated Revenue										
Annual Capacity Factor										
Annual Net Energy (GWh)										
Fixed Costs										
Fixed Transmission										
Operation Expenses										
Property Tax										
Variable Costs										
Variable Transmission										
Renewable Energy Credit Revenues										
Total Operating Expenses										
EBITDA										
Gross Margin										
Depreciation & Amortization										
EBIT										
Operating Margin										
Net Interest Expense										
Interest Expense										
Net Interest Expense										
Pre-Tax Income										
Profit Margin										
Taxable Income										
Pre-tax Income										
Plus Depr. & Amort.										
Less Tax Depreciation										
Net Taxable Income										
Less: Capital Transaction gain/(loss)										
Taxable Income										
Current Income Tax										
Deferred Income Tax										
PTC										
Net Income										

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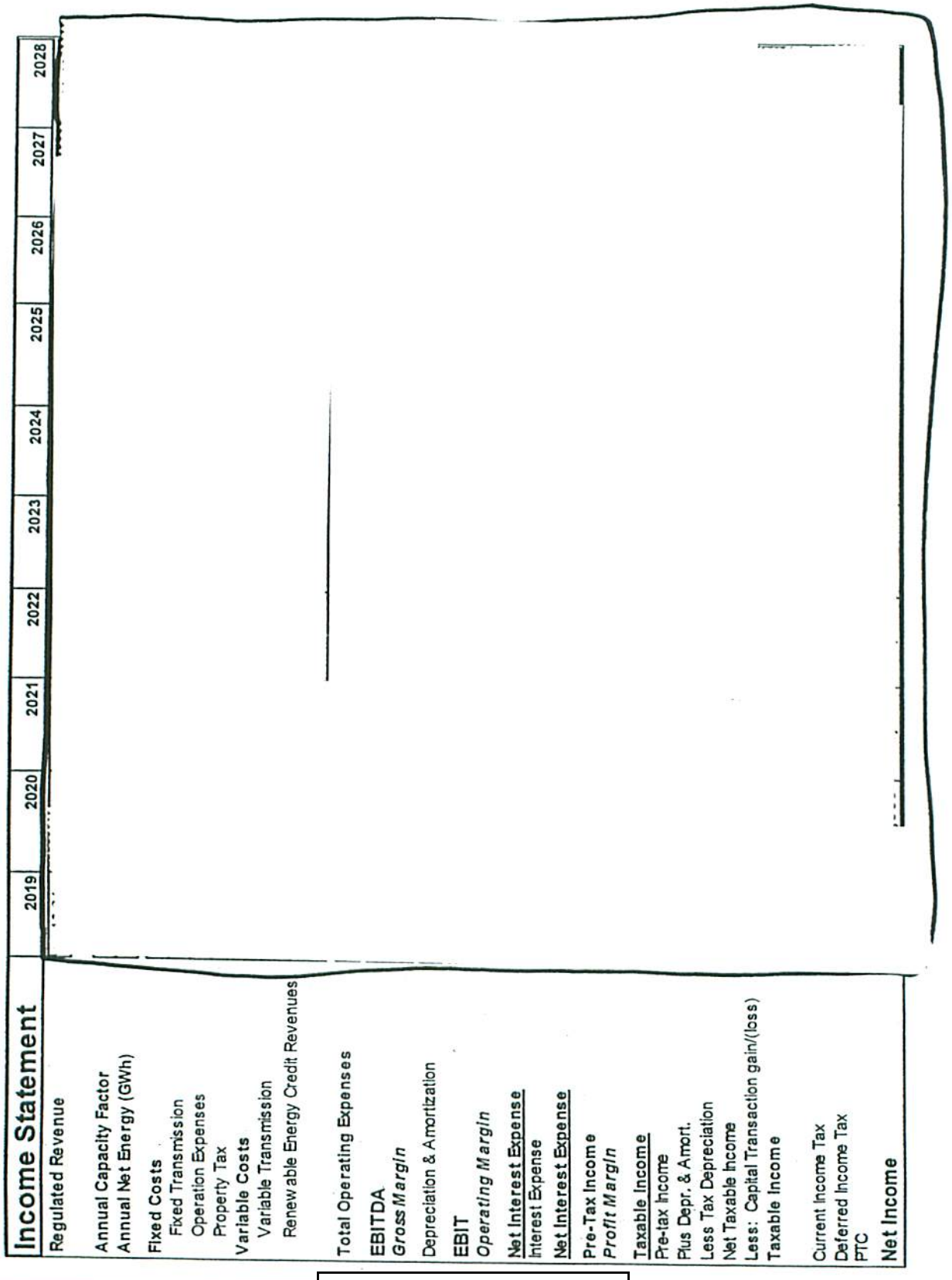
PSE Board of Directors
November 4, 2008

Exhibit 4, Confidential and Proprietary
Facility Stand-Alone Financial Pro Forma



Income Statement	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Regulated Revenue										
Annual Capacity Factor										
Annual Net Energy (GWh)										
Fixed Costs										
Fixed Transmission										
Operation Expenses										
Property Tax										
Variable Costs										
Variable Transmission										
Renewable Energy Credit Revenues										
Total Operating Expenses										
EBITDA										
Gross Margin										
Depreciation & Amortization										
EBIT										
Operating Margin										
Net Interest Expense										
Interest Expense										
Net Interest Expense										
Pre-Tax Income										
Profit Margin										
Taxable Income										
Pre-tax Income										
Plus Depr. & Amort.										
Less Tax Depreciation										
Net Taxable Income										
Less: Capital Transaction gain/(loss)										
Taxable Income										
Current Income Tax										
Deferred Income Tax										
PTC										
Net Income										

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Revenues:

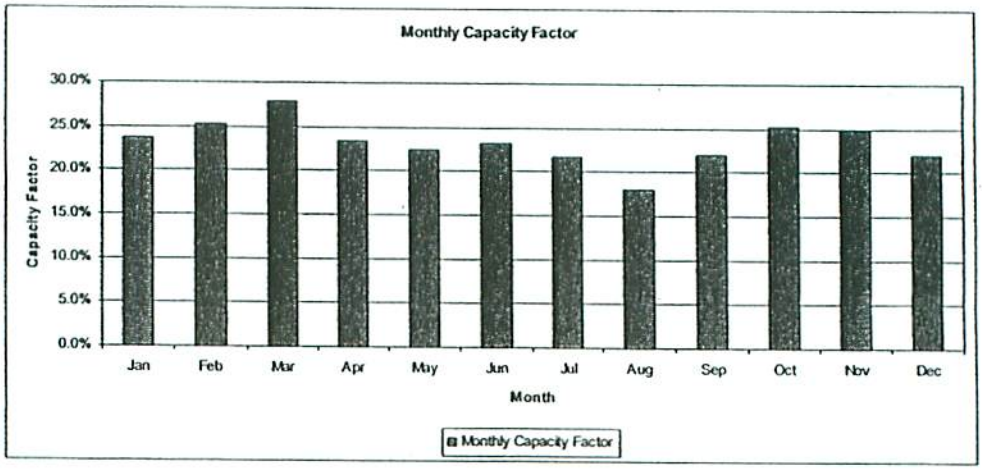
Revenue Requirement: The Projection calculates revenues required to recover Expansion costs, including return on assets included in the rate base, as well as fixed and variable operating expenses.

The revenue requirement calculation assumes complete cost recovery and no regulatory lag. At the time of the next General Rate Case filing in April 2009, PSE may ask for an accounting order to defer costs from COD until completion of the rate case, so as to minimize regulatory lag and under recovery of fixed and variable costs.

Annual Capacity Factor: The Projection uses DNV-GEC monthly capacity factor and wind generation profile submitted in the final wind resource report dated 10/8/08 to predict average annual wind generation from the Expansion project. Overall, the Expansion is expected to have a 24% net capacity factor average over 20 years; some years will result in over production and vice versa.

Annual Energy: Annual Energy is equal to the Net Capacity Factor multiplied by the Capacity multiplied by 8760 (365 x 24) hours. Generation from the Expansion will yield about 92,000 MWh annually.

Monthly Energy Distribution: The Projection makes use of monthly energy distribution for partial year operation since Substantial Completion is projected at December 1, 2009. The Projection pro-rates energy production and variable expenses for 2009 according to the table below. The monthly distribution of Annual Energy assumed by the Projection is as follows:



Fixed Costs:

All Fixed Costs below are representative for 2010 as this will be the first full year of operation for the Expansion.

Inflation: Both fixed and variable costs are escalated over time by using Global Insight's projected inflation. Global Insight is a well respected firm providing macro economic data and is also used in PSE's IRP and load growth estimations. Global Insight's inflation projection is as follows:

Year	Annual Inflation	Inflation Factor	Wage Inflation	Wage Inflation Factor
2008	Base Year	100%	Base Year	100%
2009				
2010				
2011				
2012				
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				

Fixed Transmission: Transmission from the Expansion to PSE's service territory flows across BPA and Grant PUD transmission systems. From the Wild Horse Substation, the power is transferred to Grant Public Utility District's ("GPUD") Wanapum Switchyard. Power is then transferred across the Wanapum bus to BPA's Vantage substation on the Mid-C, where BPA's high voltage transmission system delivers the power across the Cascades to Puget's system.

All transmission expenses are escalated annually at Global Insight's projected inflation rates. Below is a breakdown of all fixed transmission costs for 2010:

Fixed Transmission	$/ Unit	2010
Point To Point ($ / kW Month)	$1.38	$ 726,616
Scheduled ($ / kW Month)	$0.23	$ 119,703
Reactive ($ / kW Month)	$0.01	$ 3,514
Grant County PUD ($/MW/month)	$42.76	$ 22,577
Fixed Transmission Total		**$ 872,410**

Operations Expense:

Operations expenses are shown below for a typical operating year. The Expansion will require PSE hire another power generation employee to manage the additional workload. PSE also budgeted operation expenses associated with incremental internal demands on PSE's staff, such as the information technology and communications departments. Production payments for both Caurus and Horizon are explained in the section below. These expenses are escalated annually at Global Insight's projected inflation rates.

Operating Expenses		2010
Power generation personnel	$	[redacted]
Other PSE Personnel	$	
Site services	$	
Operating supplies & expenses	$	
Vehicle expenses	$	
Royalty Payments/ Caurus	$	
Production Payments/ Horizon	$	
Forecasting services	$	
Operating Expenses Total	**$**	**536,186**

Royalty Payments – Caurus:

Caurus Power originally secured the option rights for the Expansion land purchase. As such, PSE has agreed to pay Caurus Power an ongoing royalty fee based on [redacted] of the total revenues generated by the Expansion. Revenues are calculated by pooling total generation of the Expansion Project multiplying it by the ratio of Expansion turbines on the new land to total installed number of turbines in the Expansion, which is then multiplied by a proxy price of [redacted] MWh in 2009, which escalates at [redacted] thereafter. During the Expansion, a total of 22 WTGs will be installed: 19 WTG will be located on the newly acquired land and 3 will be placed on the existing Facility land.
(Royalty Payment 2010 = [redacted] *(MWh* (19/22)*$[redacted]

The Royalty Payment calculation for the 3 turbines located on the original Wild Horse Property is calculated using the same formula. However, revenues are determined by a base energy price of [redacted] MWh in 2006, escalating at a rate of [redacted]

Royalty Payments - Caurus				
	WTGs	$/ MWh	Inflation Rate	2010
Wild Horse Facility	3	[redacted]		
Expansion Project	19			
Total	22			

Production Payments – Horizon:

PSE will pay Horizon an additional development fee in the form of an ongoing production payment for selling the development rights to PSE. Horizon will receive a non-escalating payment of [redacted] per MWh for the generation of the 19 turbines that will be placed on the Expansion property. The three turbines placed on the existing Facility land will be assessed a non-escalating $3.25 per MWh charge in accordance with the original asset purchase agreement with Horizon.

Production Payments - Horizon	WTGs	$/ MWh	Inflation Rate	2010
Wild Horse Facility	19	[redacted]	0.0%	[redacted]
Expansion Project	3		0.0%	
Total	22			

Maintenance Expense:

Incremental maintenance expense for the Expansion is budgeted. PSE will negotiate another Service Agreement with Vestas for the annual maintenance of the 22 turbines. Other incremental maintenance expense in the form of non-Vestas professional services is based on the current experience and needs of the original Wild Horse Project. The 2010 pro rata incremental expected costs is itemized below.

Maintenance Expenses		2010
Vestas OM&W Agreement	$	[redacted]
Professional Services Maintenance	$	
Maintenance Expenses Total	**$**	**1,253,475**

Transmission & Substation Expenses:

The incremental cost for transmission and substation expenses is a pro rata increase based on current experience at the Wild Horse Project to maintain the substation and distribution lines on project lands.

Transmission & Substation Expenses		2010
Wild Horse Substation	$	[redacted]
OH 34.5KV Distribution Maitenance	$	
UG 34.5KV Distribution Maintenance	$	
Transmission & Substation Expenses Total	**$**	**56,890**

Administrative Expenses:

This Projection expects administrative expenses to be minimal. As such, PSE has only budgeted for the incremental expense of business memberships to which PSE currently subscribes.

Administrative Expenses		2010
Business Memberships	$	[redacted]
Administrative Expenses Total	**$**	**200**

Environmental Expenses:

The Expansion has certain permit obligations that require the Company to conduct ongoing environmental monitoring and studies. PSE anticipates these expenses to be minimal, starting at [redacted] a year (escalated using Global Insights's inflation forecast). However, in 2010 and again in 2012, PSE will conduct a thorough avian study which will require additional funding. Annual fees for licenses and permits are also captured.

Environmental Expenses		2010
Environmental Monitoring-Other	$	[redacted]
Licenses, Permit & Reg. Fees	$	
Environmental Expenses Total	$	36,203

Property Tax:

The Washington Department of Revenue ("DOR") combines three methods to arrive at PSE's annual tax on personal property, two of which involve evaluating PSE's market value based on stock price and PSE's earnings, respectively. Since it is not possible to estimate PSE's future financial or stock performance, the method used in the Projection applies DORs discount factor approach which divides PSE assessed value of personal property by the original book value. The result is an annually varying discount factor, set at 46% for personal property in the Projection.

The personal property tax is calculated by multiplying this discount factor by the Kittitas County estimated mil rate of $10.07 per $1,000 of assessed value by the ratio of 96%. The real property tax is calculated by multiplying Kittitas County's real property adjustment of 73% by the same mil rate of $10.79 per $1,000 of assessed value.

In Washington State, property is assessed on January 1st of each calendar year with taxes paid in April and October of the following year, in arrears. The Projection illustrates property taxes on an accrual basis, consistent with PSE's accounting practices.

Cost calculation for a typical year:

Annual Property Taxes							
Tax Year	Year Paid	Property Type	Value	Levy	Ratio	Discount Rate	O&M
2009	2010 / Acrd 2009	Real	1,680,000	10.07	73%	0.461	12,318
		Personal	-		96%		-
2010	2011 / Acrd 2010	Real	3,220,000	10.07	73%	0.461	23,610
		Personal	95,940,320		96%		427,732

Insurance:

PSE will add the Facility to its permanent property insurance program with an insured replacement value of approximately $99 million, which is the All-in Capital cost less, land and asset purchase agreement cost, AFUDC and construction-period insurance cost. PSE's permanent insurance program assesses an insurance rate of [redacted] per $100 of replacement value. The insured replacement value and the insurance rate are both adjusted annually

using Global Insights' inflation rate.

Insurance Details		2010
Replacement Value	$	
Premium per $100 of Insured Value		
Total Premium	**$**	

Variable Costs:

Variable Transmission:

Variable transmission costs are comprised of four components as described below.

1. Day Ahead Operating Costs: PSE cost to integrate wind on a day-ahead basis.
2. Hour Ahead Operation Costs: PSE cost to integrate wind on an hour-ahead basis.
3. Losses: The cost of the power lost due to resistance in transmission lines. Losses are purchased from BPA to replace 2% of total generation.

Cost calculation for a typical year:

Variable Transmission Details	$ / MWh	2010
Day Ahead Operating Costs	$	
Hour Ahead Operating Costs	$	
Losses	$	
Variable Transmission Total		**$ 877,098**

Renewable Energy Credits:

PSE intends to sell 95% of the renewable energy credits ("RECs") generated from the Expansion until the Company needs RECs to be compliant with RCW 80.80, the law that established the renewable portfolio standard in Washington, or with the Company's internal goal of having 10% renewable energy by 2013, whichever comes first. For the purposes of this model, this Projection models that the Company will keep RECs once the 10% corporate renewable energy goal begins. From current experience of selling RECs, PSE expects that REC prices will average [redacted] per MWh in 2010.

Renewable Energy Credits		2010
Generation (MWh), less 5%		
REC Price Forecast	$	
Total REC Revenue	**$**	

This Projection models REC revenue as a negative variable expense and is therefore passed straight to the customer in the form of lower annual revenue requirement. However, there is currently no defined method by which the Company passes this revenue on to customers. The Company submitted an accounting petition to the Commission asking for accounting guidance and the petition remains outstanding. Until a ruling is received, PSE is placing all revenues from RECs into a deferred asset account on the balance sheet.

EBITDA:

Earnings before interest, taxes, depreciation and amortization ("EBITDA") are calculated as revenues less all expenses.

Depreciation and Amortization:

The Projection assumes the following depreciable lives for book and tax purposes. All assets except land are depreciated using the straight line method for book depreciation. For tax purposes, all assets except land and AFUDC receive a 5 year Modified Accelerated Cost Recovery System ("MACRS") treatment.

	Book Depreciation	Tax /MACRS
Land	N/A	N/A
Turbines and BOP	25	5
Transaction and Due Diligence	25	5
Property Tax & Sales Tax	25	5
AFUDC	25	N/A
Construction Period Interest	N/A	5

EBIT:

Earnings before interest and taxes are equal to EBITDA less Depreciation and Amortization.

Interest Expense:

Interest Expense is calculated based on PSE's mid-year pro forma rate base multiplied by the assumed debt percentage in the capital structure. This method is consistent with conventions used by regulated utilities. The Projection assumes a rate of return of 8.25% and a debt percentage of 53.97% at a weighted pretax cost of 6.64%. These rates are based on the Settlement Agreement in the 2007 General Rate Case. The Washington Utilities and Transportation Commission will rule on the Settlement in the fourth quarter of 2008. If the Commission modifies the Settlement capital structure, PSE will modify as necessary.

Pretax Income:

Pretax income is equal to EBIT less Interest Expense.

Net Taxable Income:

Net Taxable Income is equal to Pretax Income plus book depreciation and amortization, less Tax Depreciation.

Income Taxes Paid:

Income Taxes paid are calculated as Net Taxable Income multiplied by the Federal corporate income tax rate of 35%.

Deferred Income Taxes:

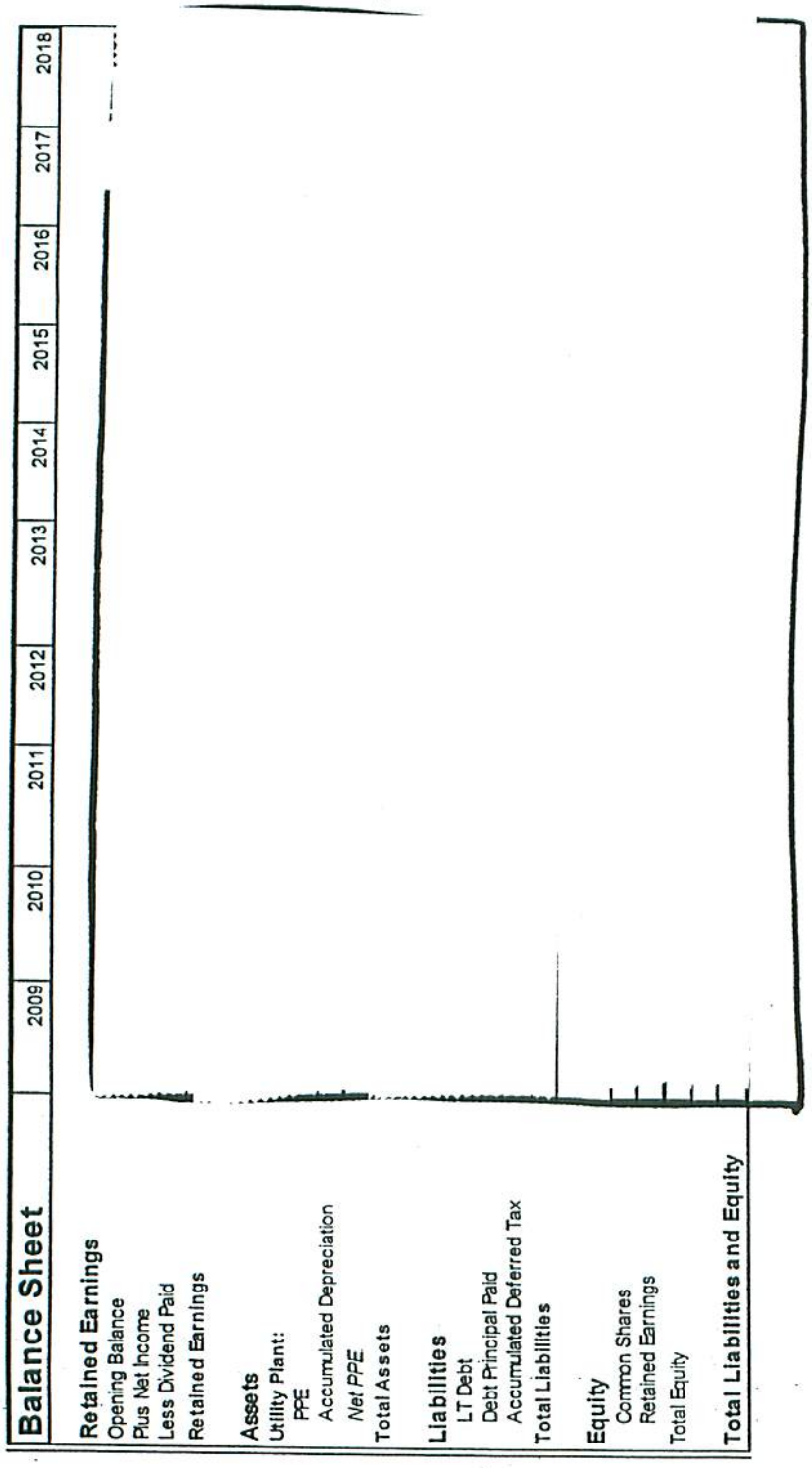
Deferred Income Taxes are calculated as the difference between book and tax depreciation expenses multiplied by the Federal corporate income tax rate of 35%.

Production Tax Credit:

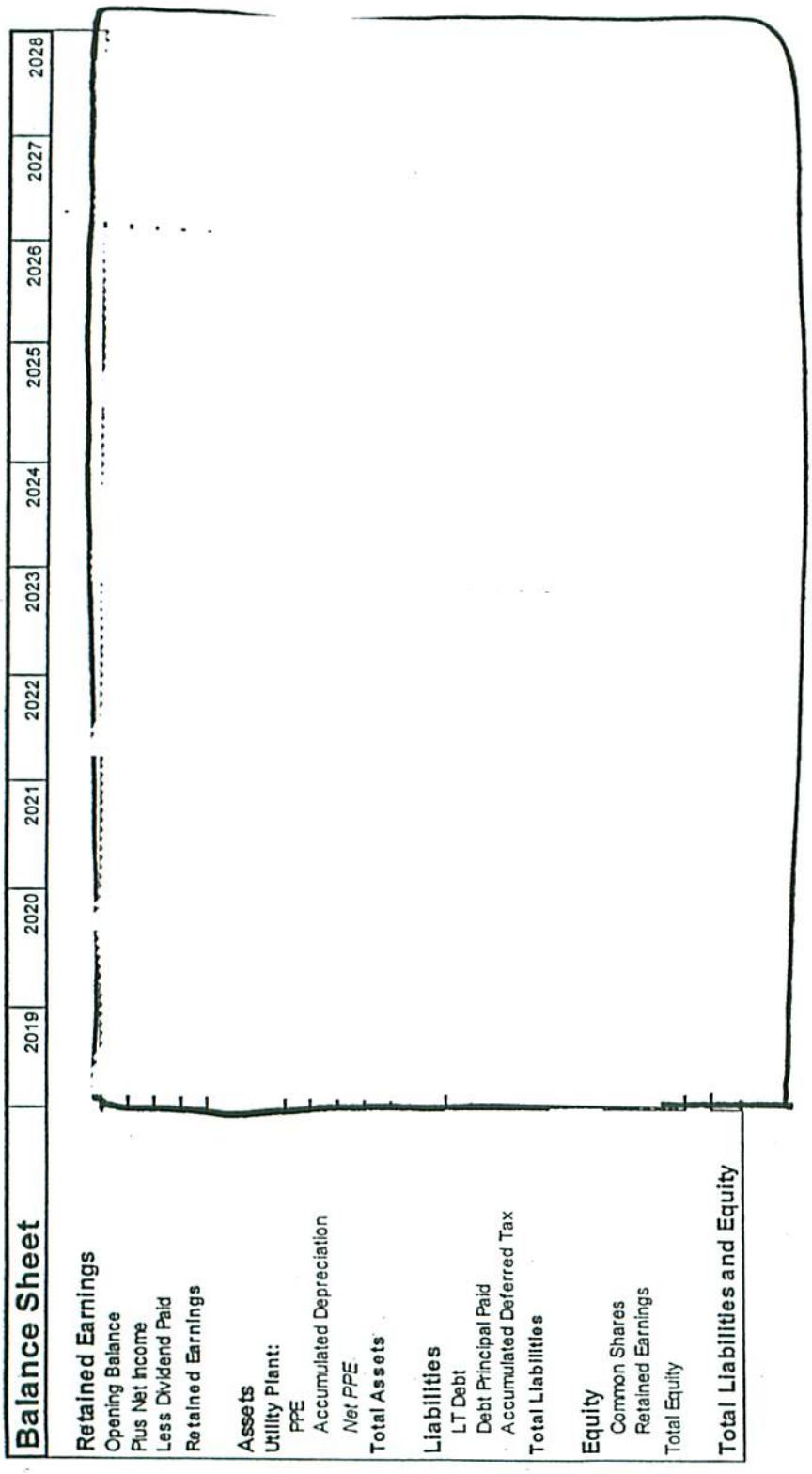
The Federal Production Tax Credit ("PTC") has been extended through December 31, 2009. As such, the Projection includes PTC values, which in 2010, results in a tax credit of $22 per MWh. PSE is projected to have enough tax credit appetite throughout the first 10 years to capture most if not all of the PTC value in each year it is earned.

Production Tax Credit		2010
Generation (MWh)		88,384
PTC value	$	21.00
Total PTC	**$**	**1,856,074**

Balance Sheet – Assumptions



Balance Sheet	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Retained Earnings										
Opening Balance										
Plus Net Income										
Less Dividend Paid										
Retained Earnings										
Assets										
Utility Plant:										
PPE										
Accumulated Depreciation										
Net PPE										
Total Assets										
Liabilities										
LT Debt										
Debt Principal Paid										
Accumulated Deferred Tax										
Total Liabilities										
Equity										
Common Shares										
Retained Earnings										
Total Equity										
Total Liabilities and Equity										

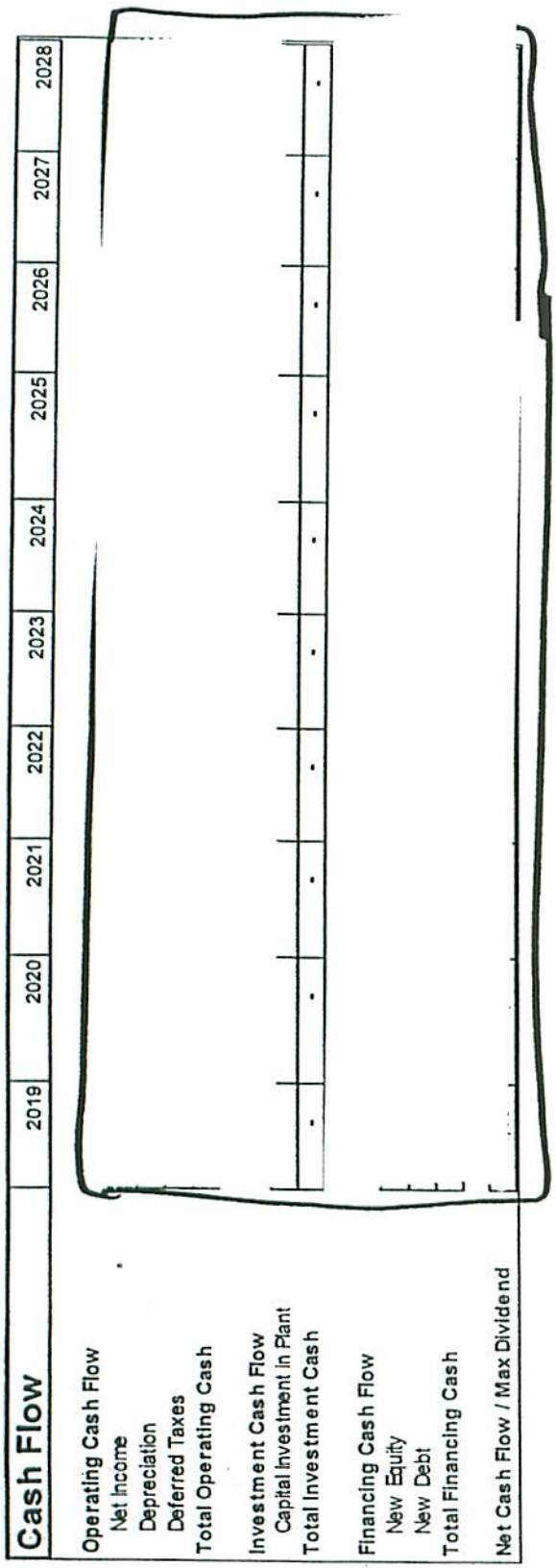


Balance Sheet	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Retained Earnings										
Opening Balance										
Plus Net Income										
Less Dividend Paid										
Retained Earnings										
Assets										
Utility Plant:										
PPE										
Accumulated Depreciation										
Net PPE										
Total Assets										
Liabilities										
LT Debt										
Debt Principal Paid										
Accumulated Deferred Tax										
Total Liabilities										
Equity										
Common Shares										
Retained Earnings										
Total Equity										
Total Liabilities and Equity										

Retained Earnings:	Retained Earnings are calculated as the previous year's Retained Earnings balance plus Net Income, less Dividends Paid. The balance sheet contains no line items for cash or short-term debt, and the Projection assumes that any cash shortfalls or surpluses are financed with debt.
Property Plant and Equipment:	For book purposes, the value of the plant reflects capitalization of all Expansion capital costs.
Inventory:	Inventory captures the value of major component parts and Balance of Plant ("BOP") items.
Accounts Payable:	The Projection assumes that vendor accounts will be paid within 30 days, and the balance reflects one month's worth of payables.
Long Term Debt:	Long-term debt is based on a capital structure of 53.97% debt at a long term rate of 6.64%. Consistent with regulated utility modeling methods, debt is repaid in a fashion that allows the Projection to maintain PSE's equity/debt split on the Balance Sheet throughout the life of the Facility. This is accomplished by equating debt payment to the sum of depreciation, deferred tax, and working capital multiplied by the PSE debt percent.
Accumulated Deferred Taxes:	Accumulated Deferred Taxes is calculated as the deferred tax balance from previous year plus/less the deferred tax balance from current year.
Common Shares:	Common Shares is the cumulative capital contributions from equity holders.
Total Shareholders' Equity:	Total Shareholders' Equity is calculated as the Common Shares balance plus/less Retained Earnings balance.

Cash Flow – Assumptions

Cash Flow	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Cash Flow										
Net Income										
Depreciation										
Deferred Taxes										
Total Operating Cash										
Investment Cash Flow										
Capital Investment in Plant										
Total Investment Cash										
Financing Cash Flow										
New Equity										
New Debt										
Total Financing Cash										
Net Cash Flow / Max Dividend										



Cash Flow	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Operating Cash Flow										
Net Income										
Depreciation										
Deferred Taxes										
Total Operating Cash										
Investment Cash Flow										
Capital Investment in Plant	-	-	-	-	-	-	-	-	-	-
Total Investment Cash										
Financing Cash Flow										
New Equity										
New Debt										
Total Financing Cash										
Net Cash Flow / Max Dividend										

Operating Cash Flow:	Operating Cash Flow is calculated as the sum of After Tax Net Income and depreciation from the Income Statement plus the change from the previous year in deferred taxes and working capital balance from the Balance Sheet.
Investment Cash Flow:	Investment Cash Flow is calculated as the capital expenditures net of any gain/loss on investments.
Financing Cash Flow:	Cash from Financing is cash received from/paid to debt holders, and cash received from equity holders. Debt is repaid in a fashion that allows the Projection to maintain PSE's capital structure ratio on the balance sheet throughout the life of the Facility. This is accomplished by equating debt payment to the sum of book depreciation, deferred tax, and working capital, multiplied by the debt percent assumed for PSE's capital structure.
Max Dividend:	All available Cash from Operations is distributed to equity holders net of the debt repayment. This cash distribution methodology results in the Projection showing negative cumulative retained earnings.

Exhibit 5
Comparative Analysis

This exhibit summarizes the benefits of the Wild Horse Expansion as well as describes legislation supporting renewable development, the qualitative and quantitative evaluation conducted, and current market observations. In addition, this exhibit will draw conclusions about the Wild Horse Expansion project in the current power market environment.

Benefits of Wild Horse Expansion in 2009

- Renewable generation ownership
- Captures 2009 production tax credit ("PTC") extension
- Takes advantage of Washington's sales tax exemption for all major capital components of renewable energy projects
- Generates Renewable Energy Credit ("REC") revenues that will benefit PSE's customers
- Most viable opportunity for near-term renewable energy projects
- O&M and transmission synergies with existing Wild Horse facility
- Expands existing Wild Horse facility from 229 MW to 273 MW
- Allows PSE to control development and construction costs

Legislation Supporting Renewable Development

The Wild Horse Expansion will help meet the Company's renewable requirement under the Energy Independence Act, RCW 19.285, which is the state's renewable portfolio standard ("RPS"). In Washington state, this was passed by voter initiative in 2006. The Washington RPS requires that electric utilities with more than 25,000 customers use new renewable energy of certain defined types, such as wind and solar power, to serve at least 15 percent of their customers' needs by 2020, with benchmarks in 2012 and 2016 to demonstrate progress. The new law requires Washington state's electric utilities to meet the following targets:

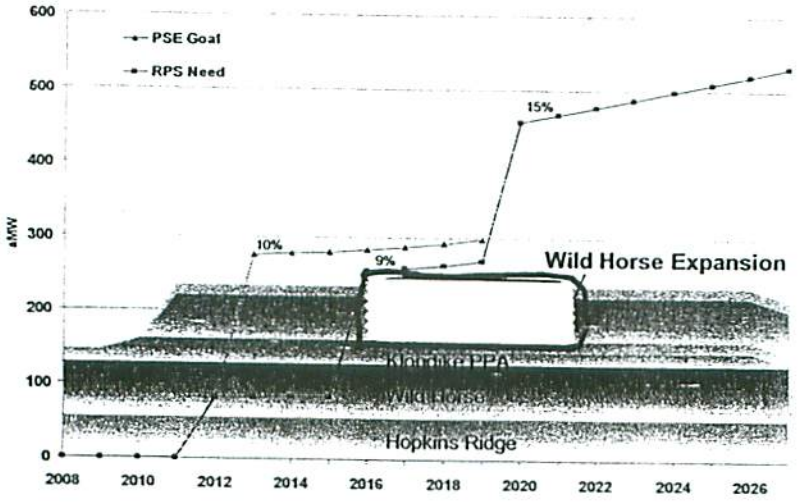
- 3% of load from qualifying renewables by 2012;
- 9% of load from qualifying renewables by 2016;
- 15% of load from qualifying renewables by 2020;
- Penalty: $50/MWh for every MWh that a utility falls short;
- Cost Cap: total incremental renewable cost at 4% annual revenue requirement.

Other states in the region have enacted similar or more aggressive RPS requirements, including California, Oregon and Montana. The competition for renewable resources in the Pacific Northwest, especially by California given their more aggressive RPS of 20% by 2010, as a consequence, has driven up both renewable power purchase agreement ("PPA") prices as well as the acquisition cost of the few ownership opportunities that may remain.

Figure E6-1 shows the contribution of PSE's existing and proposed near-term additions of renewable resources toward meeting the state RPS requirements. Included are

PSE's Wild Horse and Hopkins Ridge operating facilities, the planned development of the Wild Horse Expansion, [redacted] both of which were selected from PSE's 2008 Request for Proposals ("RFP") process.

Figure E5-1. PSE Renewable Resources versus Targets



Further, as shown by the green line, PSE has an internal goal of 10% by 2013. PSE's wind initiative which was developed in early 2007 is designed to meet both PSE's goals and the state RPS requirements. As part of its development strategy, PSE is pursuing strategic opportunities with development partners and is currently negotiating with RES Americas and Horizon Wind Energy to pursue joint development of wind projects in Washington State. Additionally, as projects are proposed to PSE, the Company will continue to explore these opportunities as well.

[redacted]

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In addition to the RPS legislation, in 2007, Washington passed Senate Bill 6001 which set targets to reduce CO_2 emissions down to 1990 levels by 2020. Wind development is the most cost effective and commercially viable technology available today to help meet these goals.

Although the Federal government recently extended the PTC for another year through December 31, 2009, the larger question is what happens beyond 2009. Few wind projects are available to coincide with the short term extension of the PTC. Wild Horse is on schedule for a 2009 commercial online date.

Qualitative Evaluation of Renewable Projects

The Company reviews many qualitative factors in the evaluation of proposed resources. Highlighted below are the main criteria, which include price and commercial risk, development and siting risk, transmission, and executability. The table provides a comparison of the Wild Horse Expansion project to the most attractive renewable projects selected to the 2008 RFP shortlist.

Table E5-1. Qualitative Evaluation of Renewable Resources October 2008

Project/Counterparty	[redacted]	[redacted]	Wild Horse Expansion
PPA/Own	20 Year PPA	20 Year Pre Pay PPA	Own
Capacity	200 MW	50 MW	44 MW
Start Year	Late 2010	Late 2010	Late 2009
Capacity Factor	[redacted]	[redacted]	23%
Price/Commercial Risk	• PPA price bid into RFP attractive; BPAE raised price citing higher BOP costs • [redacted] • Is Tax Equity financing available?	• Turbines not allocated to project for 2009. Potential for [redacted] in 2009 but more likely for 2010. [redacted] and 2010 start will require reprice. Sales tax likely to be applicable and influence reprice • Is Tax Equity financing available?	• 22 Vestas Turbines Available for 2009 project. • Sales Tax exemption in WA state sunsets 6/30/2009 (Majority of costs should get sales tax exemption) • PTC Extension for 2009 projects to capture benefits for PSE customers
Development/Siting Risk	• GEC analysis reduced Net CF to [redacted] • [redacted]	• Some analysis would be required to understand P99 percentage of P50 • GEC reduced Net CF to [redacted]	• Requires an amendment to the existing Wild Horse permit. Amendment is expected to be submitted in mid-September. Little risk of not receiving the permit. • GEC reduced Net CF to 23%, turbine locations fully sited, bank financeable project study completed. PSE believes capacity factor could be higher.
Transmission Issues	• Interconnection request approved • Transmission request in queue • Interconnection questions remain due to BPA generation imbalance concerns	• Transmission requests at top of queue and likely. • Interconnection questions remain due to BPA generation imbalance concerns	• Transmission requests at top of queue and likely. • Finalizing Transmission interconnection agreement with Grant County PUD
Execution Risk	• Turbines not yet secured	• Turbines not yet secured	• Turbines selected. TSA, O&M, and BOP agreements being negotiated.

As shown in the table, one of the attractive features of the Wild Horse Expansion is the ability of the Project to be online by 2009 and, therefore, greater certainty of capital costs and ability to take advantage of the PTCs.

At the end of September 2008, BPA submitted an Open Access Transmission Tariff filing describing the challenges BPA faces in meeting its generation imbalance service requirements as a result of an enormous influx in regional wind generation. BPA is currently assessing how it will provide this service in the future. BPA will continue to evaluate interconnection agreements and determine whether it can offer generation imbalance service. If BPA cannot offer the service, BPA will indicate what alternatives may be available. This poses a potential risk or additional cost to executing the [redacted] and [redacted] PPAs. Wild Horse Expansion does not interconnect with BPA and will not be delayed by BPA agreements.

Summary Results from Qualitative Review

PSE saw two wind proposals withdrawn from its 2008 RFP process. These included the [redacted] development project proposed in [redacted] and the [redacted] development project proposed in [redacted]

Four wind proposals were eliminated in Phase I of the RFP process: [redacted] wind development project and [redacted] development project on [redacted] and [redacted] projects were also eliminated because neither evaluated well. Further [redacted] still faces uncertainty on permitting.

Other renewable proposals considered outside of the RFP process included a proposed [redacted] geothermal project located in [redacted] phased-in wind development project proposed in [redacted] wind development project in [redacted] wind development project near [redacted] The discussions ended for a variety of reasons including other counterparties willing to pay higher prices, development schedule changes, transmission issues, inability to confirm the sufficiency of the resource, in the case of the [redacted] permitting challenges and an inability to reach agreeable commercial terms.

Quantitative Evaluation of Renewable Projects

Currently, PSE uses its Portfolio Screening Model ("PSM") to evaluate project economics when considering generation resource alternatives. The AURORA™ model is used to forecasts long-term power prices for input to PSM. The long-term power price forecasts are updated periodically to reflect changes in resource costs, natural gas prices, coal prices, and energy policies both at the regional and state levels. Ultimately these changes will affect the long-term regional generation resource supply, both in magnitude and resource mix. For the evaluation of the Wild Horse Expansion, PSE used PSM 11-3, which was used for the Phase II evaluation of the 2008 RFP.

The quantitative screen applies three economic evaluation metrics to the proposals:

- Portfolio Benefit Ratio- The present value of the portfolio benefit over the life of the new resource divided by the present value of project revenue requirements.

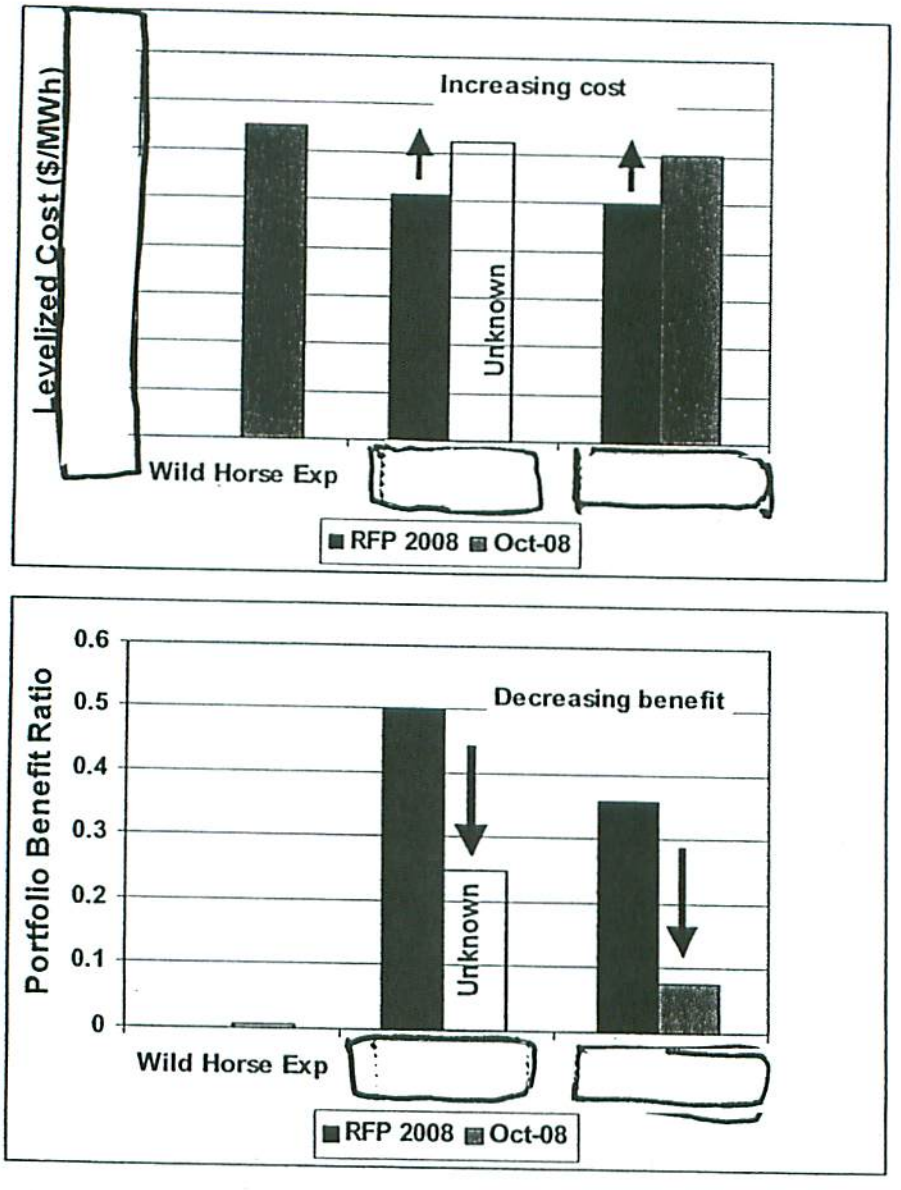
- Portfolio Benefit- The difference in present value cost of the portfolio with the new resource compared to present value cost of the 2007 Integrated Resource Plan (IRP) generic portfolio strategy.

- Levelized Cost- The average annual cost per megawatt hour produced over the life of the new resource

While each metric provides a slightly different perspective on the economic benefits associated with each proposal, the Portfolio Benefit Ratio and the Levelized Cost are the primary economic screens applied to evaluate each project. The Portfolio Benefit Ratio metric provides the insight into the benefits per unit of cost incurred by the ratepayers and allows projects of different sizes to be evaluated by removing bias for size. The Levelized Cost shows the magnitude of the cost on a per unit basis.

As of October 2008, the Wild Horse Expansion is evaluating with break-even economics, as compared to a generic wind resource cost. Few renewable projects are available to PSE for 2009 development and projects with later on-line dates have uncertain costs. Post-RFP renewable PPA negotiations are developing slowly and wind generation imbalance service is questionable in the near term for theses PPAs. Figure E5-2 shows the comparison of levelized cost and portfolio benefit. These quantitative results do not take into account whether the projects are executable in the near term.

Figure E5-2. Comparative Analysis results October 2008

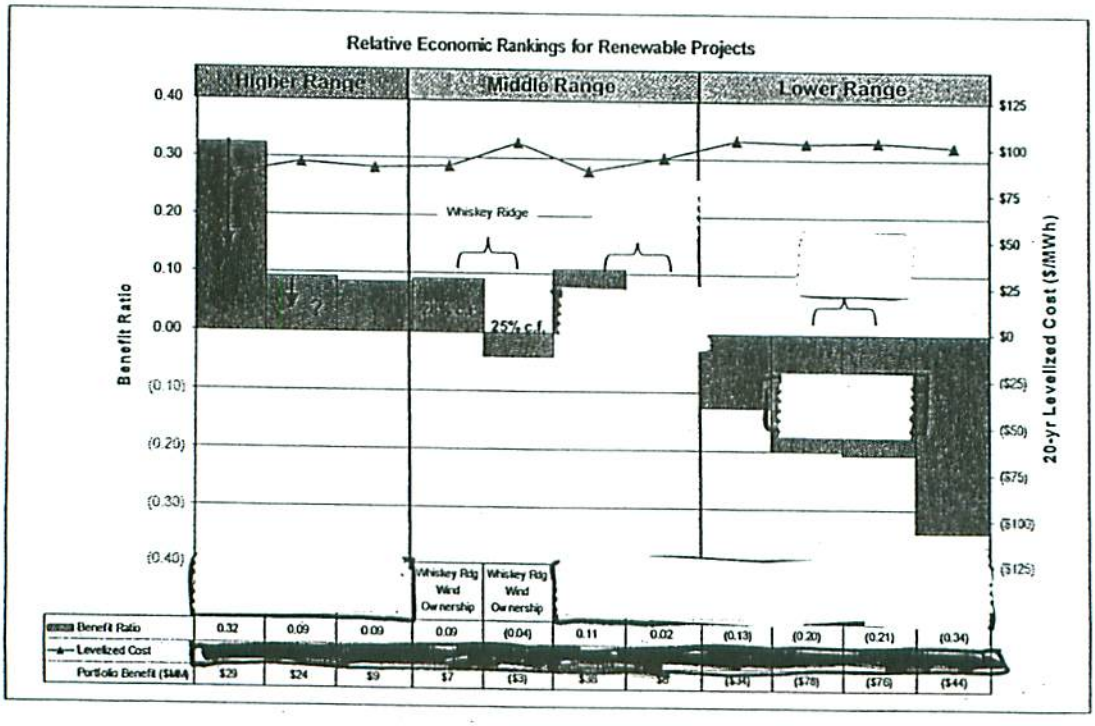


In January 2008, PSE's Energy Management Committee ("EMC") approved the purchase of the development rights of the Wild Horse Expansion. At that time the Project evaluated in the middle range of relative economic rankings of renewable projects as shown in Figure E5-3. Projects were categorized in three ranges: high,

middle and low. The high range consisted of those projects that at the time of the analysis were clearly economical as measured by their portfolio benefit and their benefit ratio. The middle range was reserved for those proposals that were sensitive to various economic attributes, such as capital cost or capacity factor. Projects identified in this range were either break even or slightly better than break even when compared to generic resource costs. Finally, projects in the low range were those that produced a negative portfolio benefit and benefit ratio.

As described in the qualitative evaluation section above, PSE was unable to execute on the three projects that evaluated in the high range: [redacted], and [redacted] due to increased pricing, inability to confirm the geothermal resource and permitting challenges, respectively.

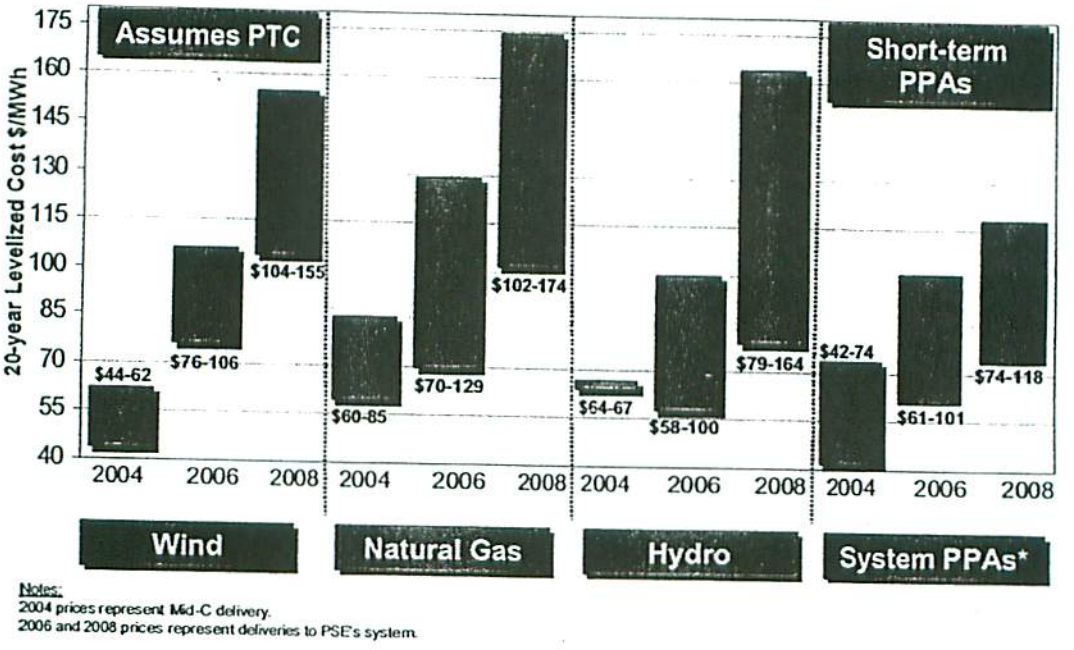
Figure E5-3. Comparative Analysis from January 2008 for acquisition of development rights



Market Observations

PSE is an active participant in regional energy markets. Since 2003, the Company has acquired 379 MW of wind projects, 1,000 MW of natural gas projects (including the recently announced 310 MW Mint Farm Energy Center), and signed 485 MW of power purchase agreements. During the last five years, commodity prices have been increasing at a steady rate driving capital costs and PPA costs higher. Figure E5-4 shows the changes in levelized costs of project bids for the three RFPs that the Company has run since 2004. PSE has observed increased demand for wind projects and tightening supply over the last five years. Turbine prices have more than doubled and lead times are long for turbine supply. There is greater competition for renewables. Wind developers are active and, until the last few weeks, have had access to cheap and plentiful project finance, leading to few ownership opportunities for utilities. Additionally the extension of PTCs has been cyclic, creating boom and bust periods. Overall, the demand for wind projects has been increasing with increasing oil and gas prices and as more initiatives are enacted to combat climate change. However, recently credit markets have come to a halt as a result of bad investments in home mortgages and securities by banks and insurers requiring significant bailouts from the U.S. and European governments. It is unclear what impact the credit crunch and market turmoil will have on the oil and gas markets, steel and construction materials, and foreign exchange rates.

Figure E5-4. 20-Year Levelized Cost (source: PSE RFP proposals)



Notes:
2004 prices represent Mid-C delivery.
2006 and 2008 prices represent deliveries to PSE's system.

*System PPAs are offers that are shorter term in nature and not tied to a specific resource.

Conclusions

The Wild Horse Expansion proposed to be completed in 2009 will provide PSE customers with known benefits. The Project evaluates with similar benefits in 2009 as the Company's expectation of a self build wind plant. Few near-term (2009-2010) renewable energy resources are available to the Company. Longer term (2011 and beyond) resource opportunities have uncertain costs and benefits. Without moving forward today on the purchase of turbines and securing a balance of plant contractor, it would be impossible to secure these 2009 benefits for PSE's customers. Currently, there are no other certain projects available to PSE that take advantage of the 2009 production tax credit extension and the Washington State sales tax exemption. Based on the 2008 financial planning forecasts, the company has the tax appetite for the Wild

Horse Expansion and will not need to seek tax equity financing. The Company is working to execute a 20-year PPA with [redacted] project. While the Company continues to work with Iberdrola on [redacted] has delayed [redacted] to 2010 and has not yet secured turbines. Since the 2008 RFP, the credit markets have collapsed and BPA is indicating it may delay signing large generator interconnect agreements for new wind generation until it obtains more reserve capacity to provide generation imbalance service. Additionally, reports have indicated that tax equity financing for developers of wind is getting more expensive and less available. The Wild Horse Expansion is an important part of the PSE resource acquisition strategy and part of a cleaner energy future.

Exhibit 6
Wind Resource and Energy Assessment

Pages 142–190 of Exhibit No. ___(RG-39HC) are REDACTED as CONFIDENTIAL per WAC 480-07-160

Exhibit 7
Wind Turbine Generators Due Diligence

Pages 192–210 of Exhibit No. ___(RG-39HC) are REDACTED as CONFIDENTIAL per WAC 480-07-160

Exhibit 8
Key Development Activities

A. Environmental and Permitting

EFSEC Site Certification and Environmental Review

On July 2, 2008 an application for amendment of the Wild Horse Site Certification Agreement ("SCA") to the Washington State Energy Facility Site Evaluation Council ("EFSEC") to allow for construction of the Wild Horse Expansion. Specifically, the request was for a 26-turbine project on both the recently acquired expansion land as well as existing Wild Horse project lands.

The original intent was for EFSEC staff to issue a State Environmental Policy Act ("SEPA") Mitigated Determination of Nonsignificance ("MDNS") for the proposed expansion. Environmental review of the Expansion could be largely based upon the existing Environmental Impact Statement ("EIS") on file for the Wild Horse Project. The request included proposed mitigation measures that were intended to apply lessons learned during construction of the Wild Horse Project in 2005-2006. EFSEC has the authority to approve the amendment without approval from the Governor, if it does not substantially alter the SCA. Upon submittal of the application, EFSEC staff determined that approval from the Governor was not necessary.

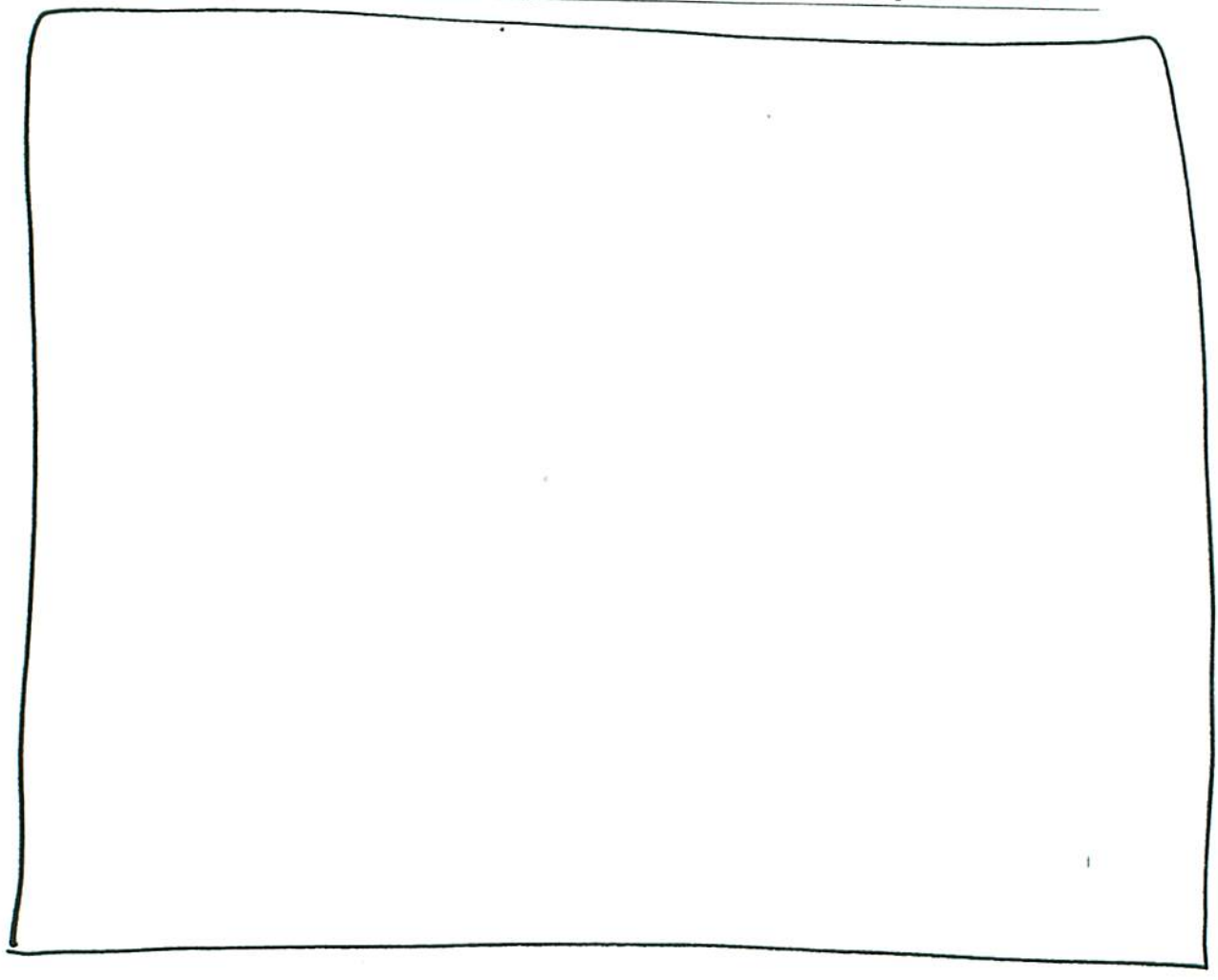
A public hearing was held on August 6, 2008 in Ellensburg. No one spoke against the project but several participants requested additional mitigation measures be put in place. Several letters were also submitted. One of the letters, from a Washington Department of Fish and Wildlife ("WDFW") staff member, voiced serious concerns with the impacts from the eastern-most four turbines ("V" and "W" strings). The writer concluded that a Supplemental Environmental Impact Statement ("SEIS") would be required to evaluate potential "significant adverse impacts to wildlife, wildlife habitat, and recreation

associated with wildlife." Several commentators referred to these turbines as well and suggested a SEIS be prepared.

Other risks associated with these four turbines included the need to negotiate an agreement with WDFW to gain access across state lands, and the presence of a cultural site near the road to the turbines. These turbines also were problematic from a construction and operational standpoint, as they are far removed from the remainder of the Expansion. Therefore, the project team decided to remove these from the proposal. A response to comments received at the hearing was submitted to EFSEC on September 8, 2008. On September 9, additional testimony was presented to EFSEC by [ ] regarding the voluntary conservation easement on the Wild Horse project site and conditions that relate to grazing on the site. A response to this testimony was submitted on September 19, 2008.

operates under the banner of Friends of Wildlife and Wind Power. His Attorney is [ ] e has also recruited members of the local chapter of Audubon and the Field and Stream Club. In addition to letters and testimony to EFSEC, [ ] has written letters to WDFW, the Governor and placed letters in the local newspaper. As discussed above, ostensibly his issues include the voluntary conservation easement on the Wild Horse site, and implementation of mitigation measures for grazing. PSE's strategy for the opposition is as follows:

- As outlined, in the original Energy Management Committee briefing, [ ]



The project team also elected to offer to prepare a SEIS in order to minimize appeal risk. The process does not add significantly to the schedule nor require additional environmental analysis but removes "low hanging fruit" for a judicial appeal.

Kittitas County Development Agreement

In March 2005, by Ordinance No. 2005010, the Kittitas County Board of County Commissioners approved the Wild Horse Wind Power Project Development Agreement between Kittitas County and Wind Ridge Partners, LLC. Puget Sound Energy acquired all assets associated with the Wild Horse Project on September 30, 2005. On October 10, 2008, an amended development agreement was submitted to the Kittitas Board of

County Commissioners to allow for expansion of the Wild Horse Project. The Wild Horse Expansion site is located in Township 18N, Range 21E, an area which has been pre-identified for wind facility siting under the County Code, as amended. Accordingly, PSE is not required to apply for a re-zone or an amendment to the County's zoning map, nor is PSE required to apply for an amendment to the Comprehensive Plan. It is expected that the Commissioners will hold a public hearing and approve the agreement in November 2008.

Final Outcomes and Actions

The likelihood of approval of the Wild Horse Expansion by EFSEC is extremely high. PSE has employed the best EFSEC Counsel available and is in constant communication with EFSEC staff. The project team believes the risk of an appeal is relatively low, as follows:

- The appeal process for the Expansion is directly to Washington State Supreme Court (exactly the same process as for Horizon's Kittitas Valley Project appeal).
- It is an extremely expensive and burdensome process for an appellant. The project team does not believe [ ] has access to the funds necessary to mount such an appeal.
- Strategies implemented by PSE have greatly limited the likelihood of success and limited allies for [ ] (e.g., in the Kittitas Valley Project, the appellants included two relatively well funded opposition groups AND Kittitas County).
- We have elected to prepare a SEIS for the Expansion, which removes the only "low hanging fruit" on an appeal.

Assuming no appeals, final approval of the request is expected in March 2009.

B. Real Estate

The Wild Horse Expansion, as planned, will be constructed upon PSE-owned property previously purchased as part of the original Wild Horse Wind Project and on portions of the approximately 1400 acres purchased by PSE on February 12, 2008. The newly-purchased property abuts and is contiguous to the property acquired for the existing Wild Horse Project.

Access to the Wild Horse Expansion lands will be via roads within the existing Wild Horse Project. New roads will be constructed within the Expansion lands to enable both turbine construction and to meet future operational needs.

Access to the most northeasterly portions of the Expansion lands are complicated by existing topographical challenges. An alternative access route, across Washington Department of Fish and Wildlife owned property, has a lengthy review process and uncertain assurances of a positive outcome. Turbines in this area have been removed from the Project for this and other reasons related to permitting and construction of these turbines.

C. Community and Communications

Community relations and public relations are important components of the overall communications plan to assure the success of PSE's existing Wild Horse Wind Facility operation and planned expansion. The overall communications strategy for the expansion has been to reinforce public awareness of the success of the existing Wild Horse Project during permitting, construction and operation to date, including its

environmental, economic and energy independence benefits for Kittitas County and Washington state. And, to build on that success with an Expansion, using existing environmental permits on an adjacent parcel of land purchased in February 2008.

The communications plan acknowledges and addresses the minor opposition to Wild Horse from the same groups that opposed the Wild Horse Project originally and public opposition to other projects (enXco and Horizon) in the area with less favorable locations.

Wild Horse faces ongoing environmental opposition from groups, including Friends of Wild Life and Wind Power, the Audubon Society, and the Field & Stream Club. This coalition is primarily led by [redacted] environmentalist who is pushing the theme that PSE has failed to live up to its environmental commitments from the original Wild Horse permits. [redacted] is not getting much traction now, but is a skilled advocate for [redacted] cause.

The communication plan also takes into account the ultimate challenge of "when is there too much wind", with a wind project proposed by Invenergy now being developed near Wild Horse, and with the difficulties related to other area projects; troubles which the public may associate with PSE. Opposition to one project can blur into opposition to all. PSE will need to keep defining its brand and success in Ellensburg and vicinity as other opposition to other projects in the area grows.

The communications efforts to tell the PSE story of success and expansion include media relations, advertising, community involvement, speaking engagements at community and civic groups, and public education along with direct, one-to-one outreach

with political leaders and influential citizens. Key messages include the more than $1.5 million in taxes paid and the more than 20 permanent jobs created by the facility.

Media Relations

Media coverage to date in the dominant area newspapers, the Ellensburg Daily Record, North Kittitas County Tribune, Central Washington University Observer, and the Yakima Herald-Republic, has been positive and reinforces the message that Wild Horse is a benefit to the region. In addition, positive coverage has been secured on Yakima-area and Seattle-area television and radio stations, as well as their associated websites. This coverage has stressed the economic benefits of increased local jobs and tax revenue, and the environmental benefits of renewable energy and energy independence.

Speaking Engagements

Community relations work includes sponsoring local events – the Kittitas Tour of Homes and Ellensburg rodeo, speaking engagements to the Rotary and Kiwanis clubs of Ellensburg and Cle Elum, with a message focused on the positive economic impact of Wild Horse, primarily the construction jobs, permanent operations and maintenance jobs, expanded tax base, and increased tourism generated by the wind facility. A community open house was held in April 2008 two weeks after the announcement of the Expansion, and individual informational meetings continue with area elected officials, businesses and civic leaders. Additional open houses for the public will be scheduled at project milestones to outline permitting, construction and operational issues.

Public Education

In addition, the Renewable Energy Center ("REC") and Wild Horse Solar Facility have been a powerful tool in shaping favorable public opinion, with approximately 12,000 visitors since the center opened in April 2008. Although many visitors are from around the United States and the globe, the majority are from Kittitas County and Washington state. PSE has coordinated tours for government officials and school groups. Displays and handouts describing the expansion have been available to the public, along with information on the efforts made to preserve and enhance the area's unique shrub-steppe habitat of cactus and sagebrush. The REC staff, which includes interns, has also been vital in answering questions and describing the positive impact of Wild Horse for Kittitas County.

PSE.com, which is also being utilized for public education, highlights details on the Expansion, Wild Horse's role in providing clean energy, and the utility's leadership in wind energy. The videos "Staying Power", which tells the story of how PSE and wind energy have succeeded in Kittitas County, and "Bright Future", which tells the story of PSE and solar, are also featured online.

D. Preliminary Engineering and Procurement

Balance of Plant Construction

The balance of plant ("BOP") is to be constructed under a prime contract that will include turbine erection as was the case for the Hopkins Ridge and Hopkins II projects. At this time no award of the BOP contract has yet been made due to continuing commercial discussions with RES concerning the potential of jointly developing future wind projects, but there is every expectation that the BOP work will be executed by RES America

Construction, Inc. ("RES"). RES is among the world leaders in wind turbine construction and is a subsidiary of the Sir Robert McAlpine Group, a 130-year old leading engineering and construction firm based in the United Kingdom. RES was the turnkey engineering and construction contractor of PSE's Hopkins Ridge, Wild Horse and Hopkins II projects.

RES America is especially well suited to be the prime contractor, constructing the BOP scope for the Wild Horse Expansion for the following reasons:

1. RES has a track record of completing work within schedule and budget constraints to date on Hopkins Ridge, Wild Horse and Hopkins II projects, (a total of 214 turbines);

2. RES and PSE have worked through engineering issues on these completed projects in a way that has set a template and precedence for how to resolve future issues;

3. RES and PSE have established a cooperative way of working together on site to resolve issues to the benefit of both parties.

4. RES and PSE have worked together with Vestas on all three of the projects listed above. In the Hopkins Ridge and Hopkins II projects the RES BOP role included turbine erection as is contemplated for the Wild Horse Expansion. Based on this past history and experience of working cooperatively together, no problems are foreseen in applying this tried and tested team to the new project.

5. As the original designer of the Wild Horse Substation and the associated underground collection system, RES is uniquely qualified to integrate the

Expansion into the original design, and has already started work on preliminary engineering work under an informal agreement.

The BOP work at the Wild Horse Expansion is in an area that does not contain any exceptional natural features not previously encountered in the earlier project. The gradient of the roads will generally be less than experienced previously; ground conditions, underlying rock, and on site quarrying of aggregates for road building are all expected to be similar to the Wild Horse Project. In order to mitigate for increased levels of disturbance within the original project area, the two new underground circuits for the Expansion will be buried under the existing road through the Pines area. Although this introduces access and logistics issues, it is something that can be planned for and accomplished without undue difficulty.

David Evans & Associates is proceeding with the design of the roads. Geotechnical work for both foundation design and to support underground electrical design is in progress. Site investigation work will take place before the end of October to complete this activity before the arrival of winter weather. RES has completed the initial underground circuit designs and the cables have been sized. RES has also started the design work on the one-line substation drawings and will soon begin the general arrangement drawings.

Before executing the Turbine Supply Agreement ("TSA") with Vestas PSE will have RES review the TSA to ensure that Vestas requirements for roads, crane pads and the electrical and fiber optic interface are well understood and match the requirements of the BOP contract. This method of utilizing RES to ensure there are no gaps between the BOP and TSA contracts has worked well on past projects.

Vestas is supplying the V80 2.0MW VCUS turbines for the Expansion. Although different electrically in terms of the generating unit and the overall MW output of the machine, in all other respects, such as the size and weight of components to be erected, these units are identical to the previous projects.

Earlier this year the main step-up transformer for the Wild Horse Expansion was identified as long-lead equipment that should be ordered early to enable completion of the Expansion in late 2009. PSE analyzed and compared the benefits of installing a unit identical to the two existing transformers at Wild Horse or a smaller transformer. Based on the results, PSE decided to proceed with a third identically sized unit. Authorization was obtained and PSE placed the unit on order with HICO America in August 2008. Likewise, at the end of September 2008, PSE took similar action and ordered a 245kV breaker, which also has a long lead time. Breakers of this design and rating are used elsewhere in the PSE transmission system and, therefore, under a worst-case scenario in which the Expansion did not reach completion, the breaker would be absorbed into inventory.

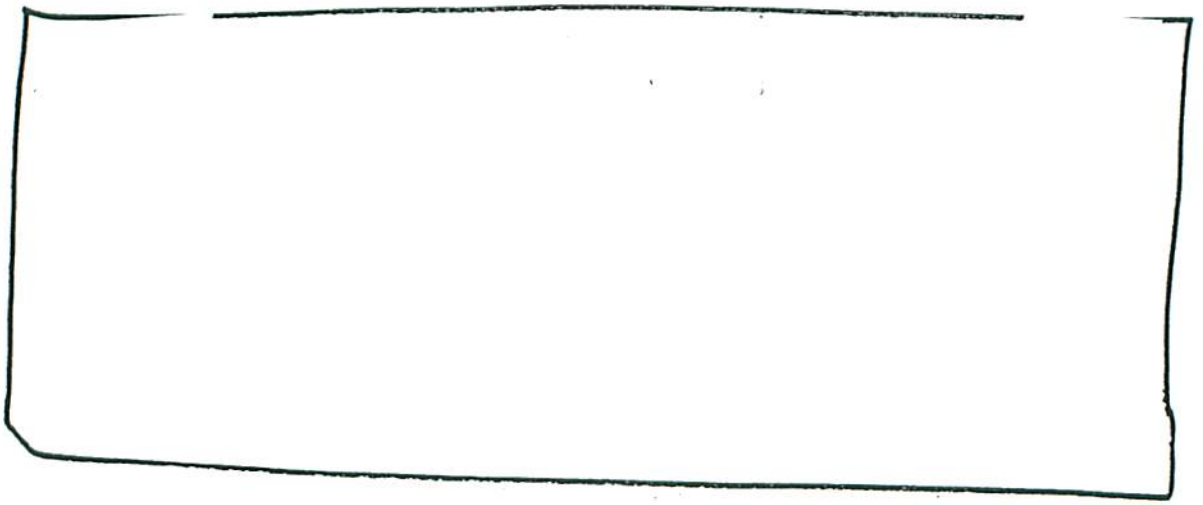
The design of the substation addition will take into account the long-lead delivery dates of this equipment. It will also include ways to energize the new Wild Horse Expansion underground circuits from the existing substation in order to meet the turbine installation dates.

Exhibit 9
Transmission and Integration

Transmission and Interconnection Plan

The 44 megawatt ("MW") Wild Horse Expansion project ("Expansion") interconnects to a new substation adjacent to the existing Wild Horse substation. The new substation utilizes an oversized transformer to step up two wind turbine collector circuits to the 230 kV transmission voltage. The transformer is oversized to accommodate transformer outages or failures in the Wild Horse substation without curtailing wind energy. The existing Wild Horse to Wind Ridge transmission line owned by PSE has sufficient capacity to carry the output of both Wild Horse and the Expansion to Grant Public Utility District's ("GPUD") Wanapum Switchyard. Power is transferred across the Wanapum bus to BPA's Vantage substation on the Mid-Columbia ("Mid-C"), where BPA's high voltage transmission system delivers the power across the Cascades to PSE's system.

Figure 9-1. Wild Horse to Mid-Columbia



PSE Merchant has a 52 MW interconnection request with PSE Transmission that is currently being evaluated through a system impact study. The system impact study is expected to be completed in early November, and the system facilities study will follow.

The duration of the system facilities study is 90 days, allowing sufficient time to complete the Interconnection Agreement before the commercial operation date in Q4 2009. These studies evaluate the ability of the transmission system to handle the additional generation from the Expansion. Initial studies indicate that the existing transmission system and the proposed substation are adequate to accommodate the Expansion.

PSE Merchant has requested 40 MW of network transmission from PSE Transmission, from Wild Horse to BPA's Vantage substation on the Mid-C. This request is expected to be granted pending a 40 MW increase in the Transfer Agreement with GPUD for the Wanapum Switchyard. Table 9-1 below displays PSE's contractual capacity rights for both Wild Horse and the Expansion.

Table 9-1, Contractual capacity in megawatts (MW)

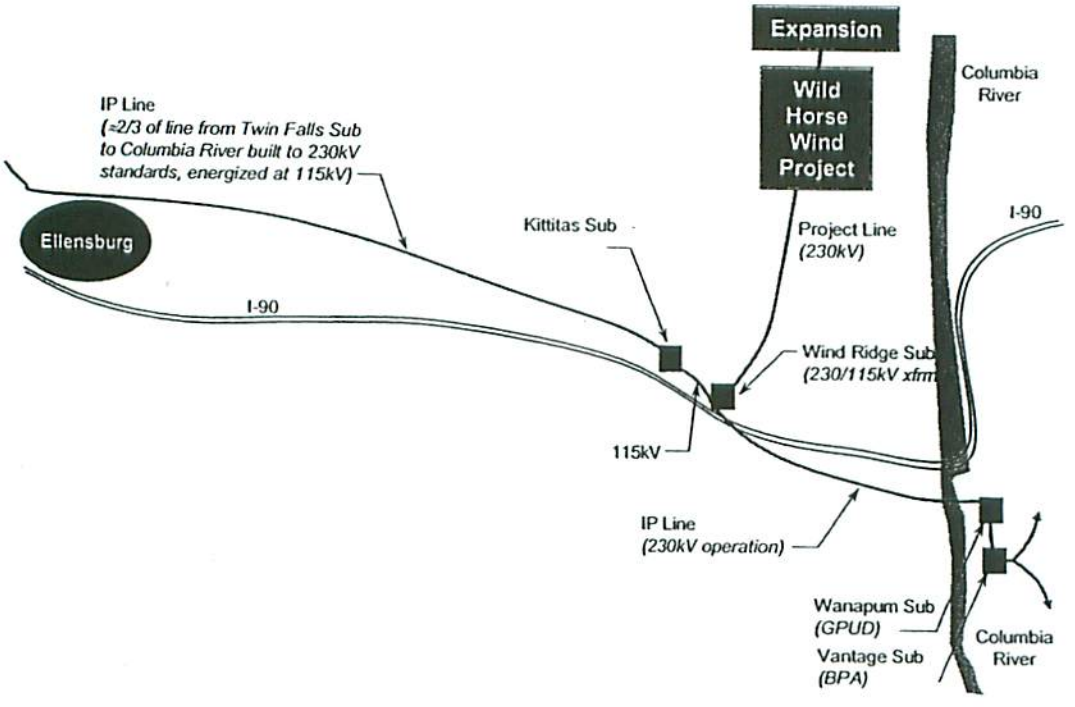
	Wild Horse	Expansion	Total
Generation	229	44	273
PSE Interconnection	240	52	292
PSE Transmission	240	40	280
GPUD Wanapum	240	40	280

Table 9-1 shows that PSE's contractual capacity rights are greater than the combined generation of Wild Horse and the Expansion. This leaves an additional 7 MW for future infill projects. The costs to carry the additional 7 MW capacity rights are minimal.

Wheeling the power across the Cascades from BPA's Vantage Substation to PSE's system utilizes a portion of the Company's existing Mid-C transmission rights. BPA recently granted an additional 115 MW beginning October 1, 2008, increasing PSE's

Mid-C transmission capacity. There is more than sufficient transmission capacity on the Mid-C to deliver the Expansion to PSE's network load.

Figure 9-2. Interconnection and Transmission Plan



Wind Integration

The cost of wind integration for the Wild Horse Expansion project is estimated using a methodology developed by Gólden Energy Services for PSE's initial wind integration study for the original Wild Horse project. This methodology separates wind integration costs into two categories: day-ahead ("DA") and hour-ahead ("HA"). HA costs relate to the within-hour variability of wind and the need for other resources to respond to minute-to-minute changes as well as generation following across the hour. DA costs cover

impacts associated with variations of wind generation output versus the original DA prescheduled hourly amounts. DA costs apply to all wind projects, regardless of the Balancing Authority. For example, the pro forma for Hopkins Ridge would include PSE's internal DA costs in addition to BPA's wind integration of roughly [redacted] MWh.

Calculated costs are based on PSE's use of Mid-C capacity for wind integration. The HA costs used for the Wild Horse Expansion pro forma are [redacted] MWh. The DA costs are [redacted] MWh. These values were calculated in late 2007 using Mid-C index prices.

Exhibit 10
Rates and Accounting Issues

This exhibit addresses the following topics:

- Rate Recovery
- Production Tax Credit Accounting
- Purchase Price Allocation for Book and Tax Purposes
- Additional Purchase Payment Accounting
- Income Statement Effects
- Other Miscellaneous Accounting

Rate Recovery

PSE will seek rate recovery for the Wild Horse Expansion ("Facility") in a filing made in 2009 with the Washington Utilities and Transportation Commission ("WUTC"). The filing will most likely be a General Rate Case ("GRC") filed in the second quarter of 2009. State regulatory approval of the rates is anticipated eleven months thereafter in early 2010. Construction is estimated to be completed with commercial operation ("COD") prior to December 31, 2009. The filing may occur before all construction costs are known with certainty. If allowed and if necessary, cost estimates may be updated during the filing.

Concurrent with the rate filing, PSE may also file an accounting petition with the WUTC to request a cost deferral mechanism. Cost deferral is needed because the existing Power Cost Adjustment ("PCA") mechanism does not allow recovery of fixed costs and limits the recovery of variable costs to the lesser of the actual variable costs or the PCA baseline rate. PSE will request deferral of all PCA defined fixed costs, similar to the approach taken with the acquisition of Goldendale. Fixed costs to be deferred include

the following: fixed production operations and maintenance ("O&M"), depreciation, allowed return on ratebase, and other expenses such as property taxes and insurance. Such an accounting petition would seek permission from the WUTC to defer Facility costs as described above for recovery that would begin when new general rates go into effect.

The General Rate Case would seek prudence determination for the Facility as well as other potential resource acquisitions or contract restructurings.

Production Tax Credit Accounting

The use of the Renewable Production Tax Credit ("PTC") is restricted to offsetting 75% of the Company's current taxes payable but the tax payable can only be reduced to the level of the alternative minimum tax. Any unused PTC will be carried forward up to 20 years. In addition, the tax credits are associated with the tax on the current year's taxable income, which is payable in quarterly installments during the year with any final payments being made in September of the following year. A deferred tax is created based on the timing difference between the recording of the tax credits associated with actual generation of electricity from the wind plant and when the tax credits would be utilized against current taxes payable. Both the current taxes payable account and the account for accumulated deferred income taxes are not reflected in the PCA tracking.

Thus, to properly flow the Wild Horse Expansion PTCs through to the customer, the Company proposal is to use the approved PTC tracker that will pass through to the customer the actual production tax credits in the year that they are generated. This pass through will be adjusted by the carrying costs for the deferred tax account for the PTCs that have been recorded but have not been used to reduce the current year's tax

payable. Because the customer is receiving the benefit of the tax credits currently and the Company does not receive a benefit from the IRS until the tax credits are utilized, the Company is reimbursed its carrying costs for funds through this calculation. As described in the 2005 PCORC hearing on the Hopkins Ridge Project, this results in the customers and the Company being made whole with respect to tax credit timing.

Based upon the financial projections prepared for the 2008 5-year strategic plan, and assuming no extension of the bonus tax depreciation that was allowed as part of the Federal Economic Stimulus Package for 2008, PSE is expected to have the tax credit appetite to use the PTCs generated by the Facility. PSE will not need to employ tax equity financing and form a special-purpose LLC to obtain the benefit of the renewable production tax credits and pass them through to customers.

Developer Production Payment Accounting

As a component of the Project's purchase price, a non-escalating $2.75/MWh production payment will be made to Horizon, the Project developer, for a 20-year term for all power produced. On the existing Wild Horse Wind Project, PSE is accounting for the production payments as expense in the year of the generation. PSE expects to continue this book accounting practice for developer production payments.

For tax accounting purposes, the production payments are capitalized as payments occur, with straight-line depreciation for the variable length period remaining between expenditure and 15 years beyond the commercial operation date.

The deferred tax on the timing difference between book and tax treatment of the production payments could create a situation where cash rates do not match cash costs.

As with tax timing differences on plant investment, the deferred tax on production payment could be subtracted or added to rate base to ensure a match between rates and cost. The Company proposes to include this deferred tax in the rate base portion of the PCA, so both the book expense and deferred tax would be in the fixed portion of the PCA

Income Statement Effects

Provided the WUTC approves accounting and rate treatments proposed with respect to the Facility and as described above, the Company expects to recognize income for financial reporting purposes substantially as described in the Stand-Alone Project Financial Pro Forma (see **Exhibit 4**). Absent WUTC approval for cost deferral, PSE will incur unrecovered costs. The total amount of these costs depends upon both the COD and when rates go into effect and is estimated at approximately $1.15 million per month.

Other Miscellaneous Accounting

Property Accounting. PSE will capitalize its investment in the Facility as an electric utility plant fixed asset and depreciate the capitalized amount at a rate calculated in the Company's current depreciation study for the initial phase of the Wild Horse Wind Project. The current depreciation study was accepted in the General Rate Case settlement in August 2008. PSE plans to "unitize" the capital asset within a year of placing the Facility in-service, segregating its original cost into appropriate retirement units of property categories. PSE's original cost will include Allowance for Funds Used During Construction ("AFDC").

Land Purchase. The property will be capitalized and recovered consistent with applicable accounting and FERC guidelines.

Test Power. Power generated prior to the Commercial Operation Date will be valued at the non-firm hourly index price at the Mid-Columbia trading hub. The benefit from the value of this power will be passed through to customers by reducing the plant investment and thus reducing ratebase for recovery in the General Rate Case.

Renewable Energy Credits. PSE will generate renewable energy credits ("RECs") for each MWh of energy generated from the Wild Horse Expansion. PSE intends to sell approximately 95% of its RECs until the Company needs the RECs to be compliant with RCW 80.80, the law that established the renewable portfolio standard in Washington, or until the Company's internal goal of having 10% renewable energy by 2013 is achieved, whichever comes first. This is consistent with PSE's treatment of RECs from Hopkins Ridge Wind Project and the original Wild Horse Wind Project.

When RECs are sold PSE is placing all revenues from RECs into a deferred liability account on the balance sheet. The Company submitted an accounting petition to the Washington Utilities and Transportation Commission asking for accounting guidance on using the accumulated cash from the RECs for renewable resource research, development and demonstration projects to reduce the cost of future renewable investments or alternatively, for electric conservation programs. The petition remains outstanding while discussions are taking place among the various interested parties, as to the appropriate use of the proceeds. Until a ruling is received, PSE will continue to

defer the net proceeds. There is no timeline for when the Commission must issue its ruling.

Exhibit 11
Project Risk Analysis

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

Pre-Construction Phase

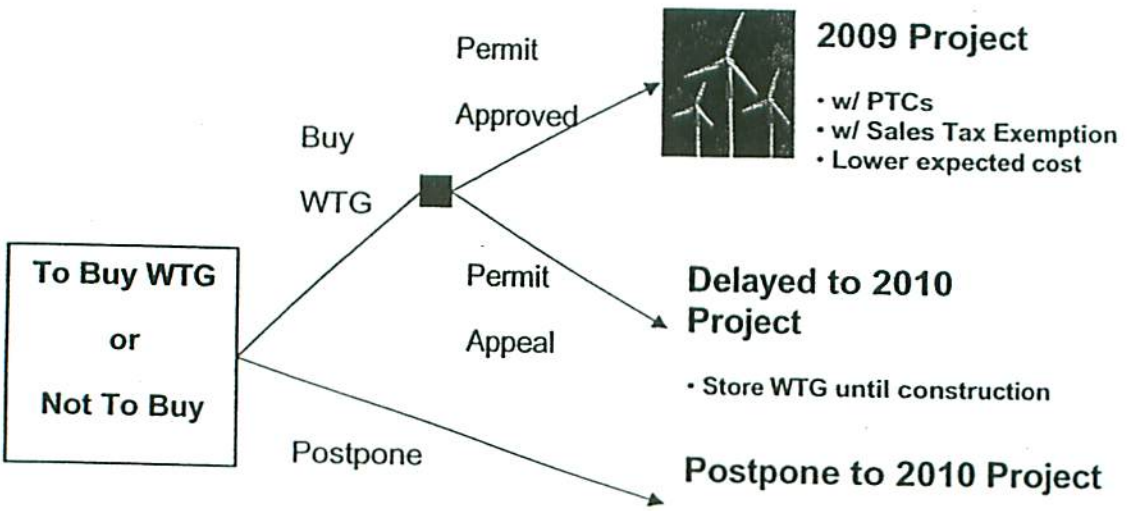
The Pre-Construction Phase covers the period between now and the projected Construction Phase, anticipated to commence second quarter of 2009. The following table describes risks associated with this phase.

AREA	RISKS	MITIGATION
Permitting	Permit is delayed	PSE submitted an application for a Site Certification Agreement ("SCA") Amendment to the Washington State Energy Facility Site Evaluation Counsel ("EFSEC") in July 2008. A decision is expected from EFSEC during the first quarter of 2009. Assuming a favorable ruling, a 30-day appeal window starts. Should an opposed party initiate the expensive appeal legal process through the State Supreme Court, the project Commercial Operation Date ("COD") would be delayed approximately one year. PSE has negotiated a storage contingency with Vestas American in the event that the turbines need to be stored while a permitting appeal is resolved. One year of storage costs are estimated to be approximately
Permitting	Permit is not issued	While the Project area has been pre-identified by Kittitas County for wind facility siting under their zoning code and is a permitted use, there is still minimal risk obtaining necessary permits. Should PSE fail to obtain the necessary permits, the Company has negotiated the ability to either transfer the WTGs to another project development or sell the turbines without incurring a penalty by recovering relevant costs in excess of the manufacturer's retail price. In that event, PSE's investment in the development of this project, up to $7.2 million, would be written off.
Large generator interconnection agreement	Interconnection agreement incomplete	The Project requires an interconnection agreement for interconnection to the PSE system. There is no reason to believe this agreement will not be in place prior to the Notice to Proceed date ("NTP"). Separately, PSE requires an amendment to the Grant County PUD Transfer Agreement for transmitting power over the Wanapum bus to the Mid-Columbia. The Project interconnection agreement is between the Project and PSE Transmission. Grant PUD and PSE are finalizing

AREA	RISKS	MITIGATION
		the Transfer Agreement.
Turbine supply	Unable to reach definitive agreements in acceptable form	Negotiations with Vestas American are in the final stages. However, there is risk the terms and conditions being negotiated will not be acceptable to either Vestas or PSE. Should any situation arise that made reaching a Turbine Supply Agreement ("TSA") impractical, PSE would commence negotiations for a 2010 TSA and postpone the project Commercial Operation Date ("COD") until 2010.
Turbine supply	Turbine market softens after execution	Given the ongoing softening of the U.S. economy, there is some possibility that demand for WTGs will subside and prices will retreat. It is PSE's judgment, however, to decide on the project based on current, verifiable merits as opposed to speculating on future prices. Based on this judgment and the favorable project economics, the decision was made to pursue a 2009 TSA.
Balance of Plant (BOP) Agreement	BOP contractor unable to provide flexibility on Notice to Proceed (NTP)	Upon completion of the TSA, PSE will undergo a competitive bid process to ensure that acceptable contractors are available to meet PSE's required flexibility surrounding a NTP date.
Balance of Plant (BOP) Agreement	Demobilization cost	Given the uncertainty regarding permitting timing and the impact this may have on the NTP date, PSE anticipates a cost associated with demobilization should the Company fail to issue an NTP as anticipated. As highlighted in the subsequent decision analysis, the realizable tax benefits of proceeding with a 2009 project outweigh this risk.

Decision Analysis in the Context of a 2009 Versus 2010 Project

As part of the due diligence process and prudent project development, PSE evaluated the benefits of proceeding with a 2009 construction schedule versus delaying project development until the applicable environmental permits are received and the relevant appeal periods have lapsed. Below is a simplified graphical representation of the decision analysis:



Taking a risk neutral position with regard to a permit appeal (i.e., assuming equal likelihood of each event in this event node), the analysis supported proceeding with a 2009 project schedule. The primary economic variables contributing to this decision were the PTCs and WA State sales tax exemption, both of which would be realized with certainty in 2009.

Construction Phase

This phase commences when a Notice to Proceed ("NTP") is issued to Vestas under the Turbine Supply Agreement ("TSA") and to the Balance of Plant ("BOP") contractor. This milestone marks the beginning of the Construction Phase of the Project. PSE will assume control of the Project at commercial operation.

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

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

AREA	RISKS	MITIGATION
Construction Schedule	Delayed project start or early winter	The original expansion plan contemplated 26 WTGs. The current configuration removes the four most difficult turbines to access and construct. Removal of these WTGs provides some flexibility should schedules move modestly. Additionally, PSE project management will be actively involved with the construction planning and scheduling.
Construction Schedule	WTG supplier fails to deliver in a timely fashion	Vestas Wind Systems A/S, the parent company to Vestas American, began operations almost thirty years ago and has more installed turbines than any other company in the world. Given the company's track record, PSE expects WTGs to be delivered in a timely fashion. In the event of delay, liquidated damage penalties have been negotiated to compensate PSE.
Construction Schedule	Transportation accidents	Vestas American supplies insurance for transit and maintains risk of loss until site delivery.
Construction Schedule	BOP contractor fails to complete construction	Given the tremendous growth of the wind industry and accompanying build out of farms in recent years, PSE anticipates the availability of several qualified contractors to construct the expansion project. As part of the negotiations, PSE will see guarantees in the form of a performance bond and/or letter of credit.
Construction Schedule	Construction accidents	Builder's all-risk insurance with PSE as a named insured

AREA	RISKS	MITIGATION
Construction Schedule	Erection delay	PSE is negotiating with Vestas American, and anticipates negotiating with the BOP contractor, delay liquidated damages sufficient to cover substantially all of the cost of carrying the Project at its fully funded level. Selection of qualified turbine erection contractor, coupled with liquidated damages package provides assurance that the schedule will be met and keeps PSE whole in the event of delays.
Construction Schedule	Tax implications of a delayed COD	In the event of unforeseen conditions or circumstances prohibiting COD by 12/31/09, PSE has the ability to energize individual turbine strings to achieve operational status for IRS purposes. Doing so guarantees PTC benefits for the operational portion of the plant.
Capital Budget	Cost overruns exceeds current budget estimate	Once the TSA is signed, 65% of the project budget will be fixed. To ensure BOP costs do not exceed the budgeted amount, PSE anticipates including contract provisions that put the risk of construction overruns on the contractor.

Operating Phase

WTGs are commissioned in groups according to the strings associated with the collection system feeders. As each WTG is placed into service, the Wind Turbine Substantial Completion milestone is met. When all WTGs have been commissioned, the Project will have met the Project Substantial Completion milestone. Vestas American will be the WTG service and maintenance contractor and also will provide the two-year warranty on the turbines. Certain risks exist during this operating phase and these risks are discussed in the following table.

REDACTED VERSION

AREA	RISKS	MITIGATION
Intellectual Property	Patent challenge to technology embodied in certain components of the V80 2.0 MW turbine	Vestas has recently made modifications to V80 2.0 MW WTG to mitigate risk of challenge from other turbine manufacturer. TSA includes representations from Vestas in favor of PSE relating to ownership of the intellectual property in the V80 turbine and has agreed to indemnify PSE in the event of an infringement action, which includes commitment to repay PSE incremental cost of further equipment modifications, should they be required to avert infringement.
Rate Recovery	Failure to obtain favorable rate treatment from WUTC of PSE's investment in the Project.	Rigorous financial analysis documentation of the energy resource acquisition process soundly supports that the Project is a least cost resource in an environment of high gas prices and few, if any, readily available alternatives.
Project Under-Performance	Poor initial long-term wind projection	Independent energy estimate by an industry expert DNV-GEC. Note: In the event of wind resource projection error, it could take several years to identify such error based on interannual wind variability.
Project Under-Performance	Upwind conditions change	There is no likely development of wind turbines upwind of any significant portion of the project.
Resource Change	Site wind resource change; climate change	Unable to mitigate. However, it is possible climate change could have the effect of making all wind resources more valuable than presently envisioned.
Turbine	Low availability from any cause	PSE has negotiated an availability guarantee of [redacted] for five years of the Service Agreement. Vestas American will pay liquidated damages

AREA	RISKS	MITIGATION
Availability		due to availability below 97%.
Turbine Performance	WTG serial failure	Under the Service Agreement there will be detailed preventative maintenance programs in place. Vestas American is obligated to repair or replace any defective component without cost or expense to the buyer.
Turbine Failure	WTG failures during warranty period	PSE is protected by the two-year mechanical warranty with Vestas American.
Turbine Failure	WTG failures after warranty period	Vestas has secured Det Norske Veritas certification affirming that the Vestas V80 WTG is designed and manufactured for a 20-year life in Class I wind conditions, the harshest wind class. In addition, PSE is negotiating a Service Agreement that would extend coverage an additional three years.
Lightning Strikes	Multiple causes, such as dirty blades, controller performance	Under the Service Agreement there will be detailed preventative maintenance programs in place.

Exhibit 12
Project Schedule

Project Schedule

PSE's preliminary schedule (Attachment 4.1) shows that construction of the Wild Horse Expansion substation and substantial completion of the Wild Horse Expansion project (in service) are achievable by the end of 2009, subject to timely decisions and authorizations to proceed. The EFSEC permit process is depicted with conservative durations, but does not assume a review period by the Governor or an appeal process.

To reduce the long lead time associated with ordering the step-up transformer (approximately 56 weeks) the Company performed early analysis and selected a transformer identical to the existing Wild Horse units. This equipment has been ordered, and delivery is expected in late August 2009. In the event that transformer delivery or commissioning is delayed, other arrangements utilizing the existing Wild Horse Substation transformers and interconnecting 34.5kV bus could be employed to back feed the Wild Horse Expansion turbines and allow commissioning to continue.

The construction phase of the project is scheduled to commence at the beginning of April and be completed by mid-October 2009. This portion of the schedule is timed to avoid construction activity during winter months when high moisture levels, snow melt, etc., can increase the likelihood of recordable discharge events.

Mechanical completion is scheduled for mid-October to ensure that turbine erection operations with heavy equipment are completed prior to the onset of winter weather. This schedule is also designed to take advantage of the production tax credit ("PTC"), by allowing sufficient time for the completion of all follow-on activities to ensure the turbines enter commercial service before the end of 2009.

To achieve these dates the Company must select a balance of plant ("BOP") contractor and release full design on the underground collector system and Wild Horse Expansion substation. At this time, initial design studies are in progress under a limited agreement with RES, the original Wild Horse facilities designer.

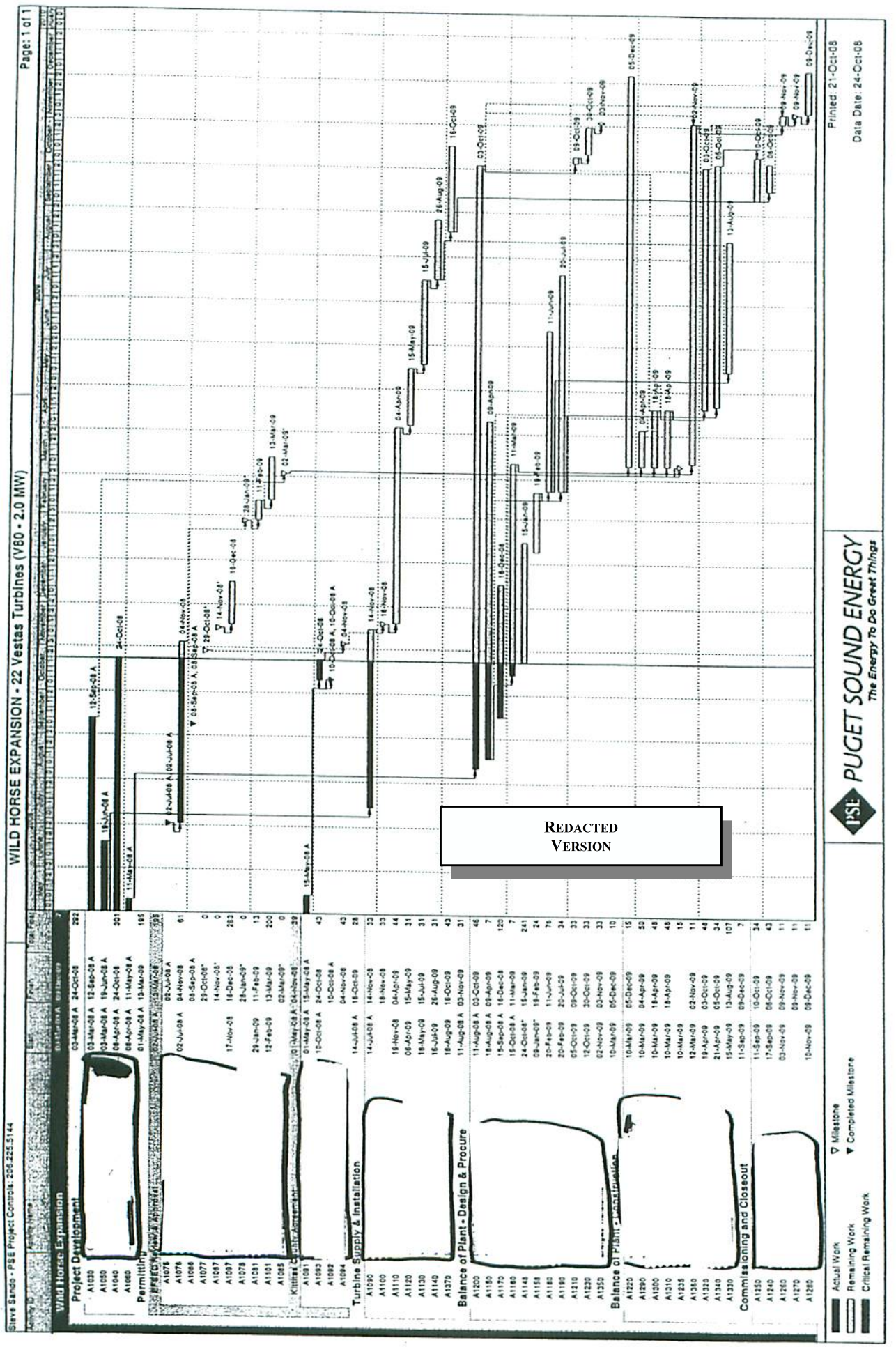

WILD HORSE EXPANSION - 22 Vestas Turbines (V80 - 2.0 MW)
Page: 1 of 1
Steve Sando - PSE Project Controls: 206.225.5144
Wind Horse Expansion
Project Development
Permitting
Turbine Supply & Installation
Balance of Plant - Design & Procure
Balance of Plant - Construction
Commissioning and Closeout
Actual Work
Remaining Work
Critical Remaining Work
Milestone
Completed Milestone
PUGET SOUND ENERGY
The Energy To Do Great Things
Printed: 21-Oct-08
Data Date: 24-Oct-08
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Exhibit 13
Wind Development Strategy Presentation, January 3, 2007

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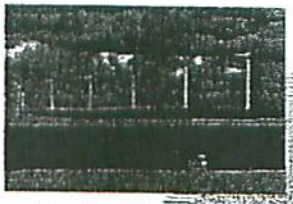
Wind Development Strategy

Resource Acquisition Team
January 03, 2007

Vision

- Be a leader in the acquisition and ownership of renewable energy
- Be flexible and responsive to competitive marketplace, while respecting risk
- Leverage experience to acquire wind projects earlier in development chain

Wild Horse 227MW



Hopkins Ridge 150MW

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2

Goal

Long-term:

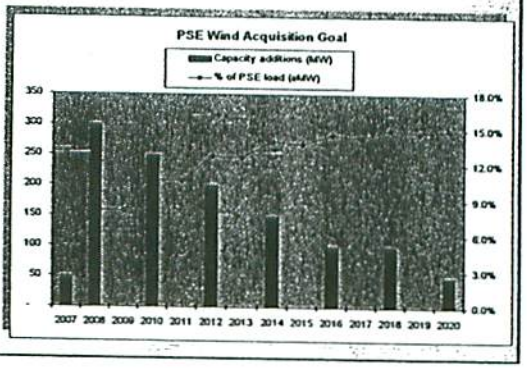
- ≈ 1,150 MW (additional) of renewable energy to meet 15% RPS by 2020
- ≈ 480 MW (additional) of renewable energy to meet 9% RPS by 2016

Short-term:

- Acquire at least 300 MW (capacity) of wind development assets by 2008 through active solicitation of developers

RPS Requirement	
Year	% of Load
2012	3%
2016	9%
2020	15%

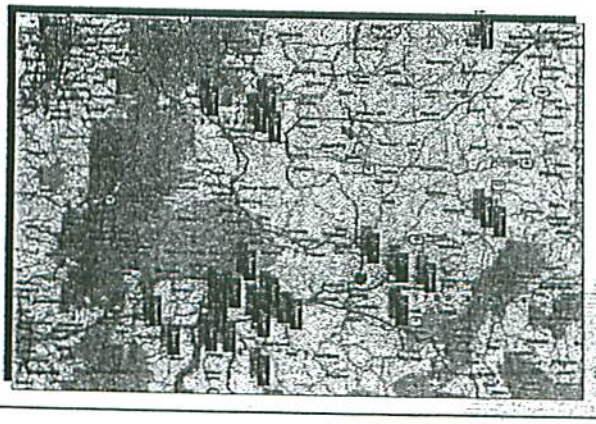
2007 PSE Renewables = 4.2%



3

Objectives

- Identify and maintain active list of potential wind projects
- Evaluate wind projects using in-house expertise and minimal outside resources
- Execute on attractive wind development assets expeditiously



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4

Current Situation

- From 2004 RFP over 13 wind projects were submitted & evaluated
  - PSE has completed two wind projects (380 MW) in the last two years
- 2006 RFP included nine wind project proposals + four outside the RFP
  - Increasingly fewer good wind sites
  - Some proposals attractive but not fully mature
  - Over half the proposals had not secured turbines
  - Several proposals were retracted and sold to other counterparties
  - Results likely to yield one 50 MW PPA
- Increasing market pressure on region from California utilities and other NW utilities, e.g. SMUD, EWEB, PacifiCorp
- Washington State RPS passed in November 2006

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5

Alternatives

Options	PRO	CON
Status quo *e.g. acquire projects thru 2008 RFP process*	+ Avoid risk + Projects mature	- Increased competition - Price risk - Loss of PTC? - Delay
Evaluate proposals as they are submitted in between RFPs	+ Keep pulse of market + Compare against RFP	- Incomplete survey of projects - Increased competition - Price risk - Delay
Actively solicit mature project proposals *i.e. ready to execute and construct, WTGs secured, permits secured*	+ Communicates to market + Maintains momentum + First mover advantage	- Increased competition - Price risk - Delay
Proactively seek and acquire earlier stage wind development assets *i.e. opportunistly acquire development rights; then acquire turbines and construction services directly*	+ Secure assets for future + Maintains momentum + First mover advantage + Proactively select projects + Cost deferral if necessary	- Developer risk - Potential regulatory recovery issues

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Recommendation

Proactively acquire earlier stage wind development assets

- Maintain momentum in wind acquisitions and increase renewable portfolio
- Keep commercial focus by responding to current marketplace
- Use experience and judgment to capitalize on opportunities ahead of competitors
- Provide abbreviated path forward for high quality projects that have not achieved full maturity

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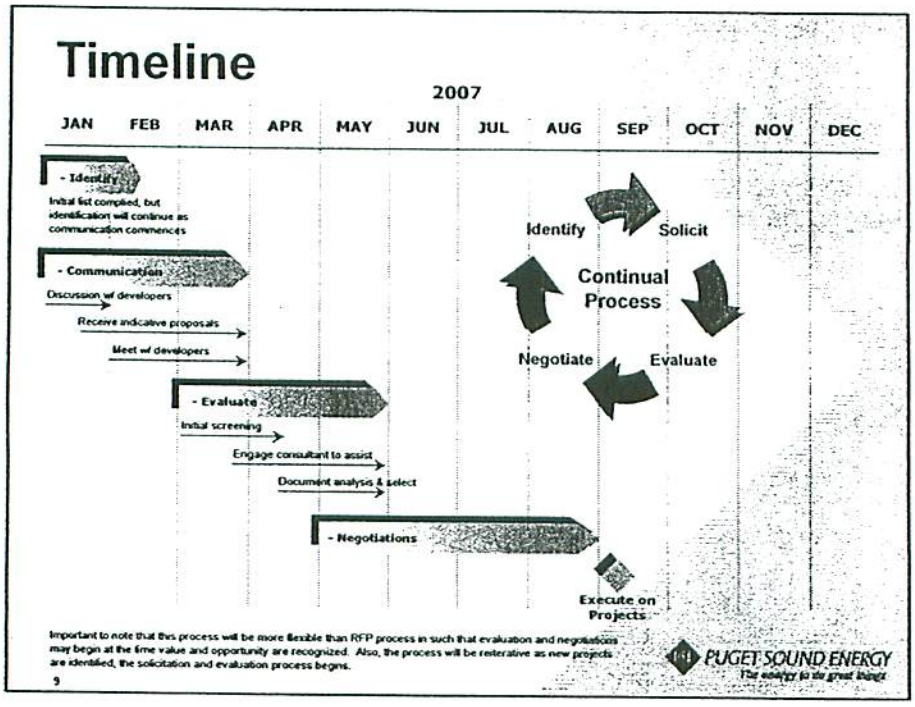
Strategy Plan

1. Identify:
   - source potential wind development projects in WA & OR
   - create list of developers/projects which to solicit
2. Communicate:
   - discuss purchase of development rights with developers
   - solicit indicative proposals
   - meet with developers to discuss proposals & commercial considerations
3. Evaluate:
   - Land rights & control
   - Wind resource assessment (assistance from Global Energy Concepts)
   - Transmission solutions
   - Permitting and environmental risks
   - Economic evaluation
4. Negotiate:
   - begin commercial negotiations with developers that pass initial evaluation

8


Timeline
2007
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
- Identify
Initial list compiled, but identification will continue as communication commences
- Communication
Discussion w/ developers
Receive indicative proposals
Meet w/ developers
- Evaluate
Initial screening
Engage consultant to assist
Document analysis & select
- Negotiations
Execute on Projects
Identify
Solicit
Continual Process
Negotiate
Evaluate
Important to note that this process will be more flexible than RFP process in such that evaluation and negotiations may begin at the time value and opportunity are recognized. Also, the process will be reiterative as new projects are identified, the solicitation and evaluation process begins.
9
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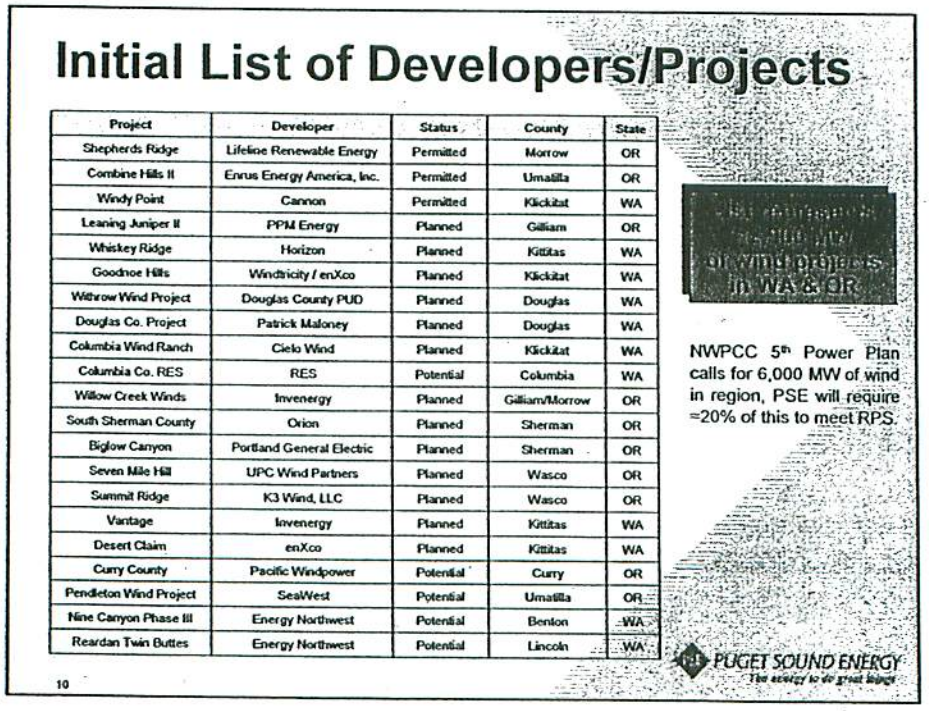
Initial List of Developers/Projects
Project | Developer | Status | County | State
Shepherds Ridge | Lifeline Renewable Energy | Permitted | Morrow | OR
Combine Hills II | Enrus Energy America, Inc. | Permitted | Umatilla | OR
Windy Point | Cannon | Permitted | Klickitat | WA
Leaning Juniper II | PPM Energy | Planned | Gilliam | OR
Whiskey Ridge | Horizon | Planned | Kittitas | WA
Goodnoe Hills | Windtricity / enXco | Planned | Klickitat | WA
Withrow Wind Project | Douglas County PUD | Planned | Douglas | WA
Douglas Co. Project | Patrick Maloney | Planned | Douglas | WA
Columbia Wind Ranch | Cielo Wind | Planned | Klickitat | WA
Columbia Co. RES | RES | Potential | Columbia | WA
Willow Creek Winds | Invenergy | Planned | Gilliam/Morrow | OR
South Sherman County | Orion | Planned | Sherman | OR
Biglow Canyon | Portland General Electric | Planned | Sherman | OR
Seven Mile Hill | UPC Wind Partners | Planned | Wasco | OR
Summit Ridge | K3 Wind, LLC | Planned | Wasco | OR
Vantage | Invenergy | Planned | Kittitas | WA
Desert Claim | enXco | Planned | Kittitas | WA
Curry County | Pacific Windpower | Potential | Curry | OR
Pendleton Wind Project | SeaWest | Potential | Umatilla | OR
Nine Canyon Phase III | Energy Northwest | Potential | Benton | WA
Reardan Twin Buttes | Energy Northwest | Potential | Lincoln | WA
or wind projects in WA & OR
NWPCC 5th Power Plan calls for 6,000 MW of wind in region, PSE will require ≈20% of this to meet RPS.
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Exhibit 14
EMC Presentation, January 31, 2008

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Whiskey Ridge Power Partners, LLC
Acquisition of Development Assets

Energy Management Committee Meeting
January 31, 2008

Recommendation to the EMC

1. Approval to enter into Asset Purchase Agreement ("APA") with Whiskey Ridge Power Partners, LLC ("WRPP") to acquire the development rights for a wind generation facility.

2. Approval to enter into Real Estate Purchase and Sale Agreement with American Minerals and Land Corporation ("AMLC") to acquire 1,400 acres of real property.

3. Approval of $7.25 million development budget to complete development activities up to construction notice to proceed ("NTP").

   (In future, EMC request for approval of turbine deposit and supply agreement and "all-in" construction budget.)

Project Description

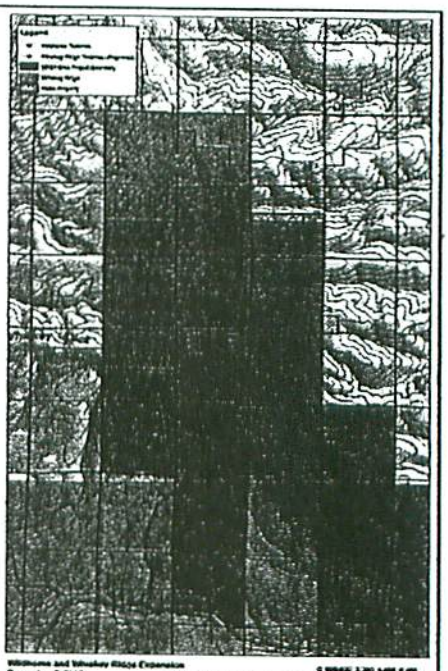
Developer:
- Whiskey Ridge Power Partners, LLC
  a Horizon Wind Energy, LLC project
  Energias de Portugal, S.A. ("EDP") parent

Location:
- Kittitas County, WA
- Adjacent to Wild Horse Wind Project

Land control:
- 1,400 acres; private land; 1 landowner
- WDFW land access easement required
- Shrub steppe habitat

Nameplate Capacity:
- 39.6 MW
- 22 Vestas V80 1.8 MW (assumed)
- 25 - 28% net capacity factor

Transmission interconnection:
- Wild Horse 230kV Substation



3 Energy Management Comm

Asset Purchase Agreement

- Purchase price:
  - [redacted]
  - [redacted] per MWh production royalty for 20 years
- Project development assets (see appendix):
  - Two meteorological towers and equipment
  - Wind data and analysis
  - Transmission interconnection studies and agreements
  - Real property agreements
  - Environmental studies/surveys
- Caurus Power royalty agreement
  - [redacted] of gross revenues for 30 years (based on [redacted] MWh + [redacted] escalation)
- Outstanding items:
  - Delivery of Phase I environmental site assessment (expected Feb 1)
  - Delivery of title policy

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4 Energy Management Committee // January 31, 2008

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Real Estate Purchase & Issues

- [redacted] purchase price
- Option expires February 16, 2008
- ALTA survey review complete
- Awaiting title policy
- Access easement required from WA Dept of Fish & Wildlife ("WDFW") to use 1.5 miles of existing road for 4 turbines
  - Requires state and federal approvals – excess of 1 year
- Surface Use Agreement conveys oil, gas, mineral rights to a limited partnership
  - Coordination provisions include 500' setback requirement from turbines
- Closest seasonal cabin ≈4200 ft from turbine

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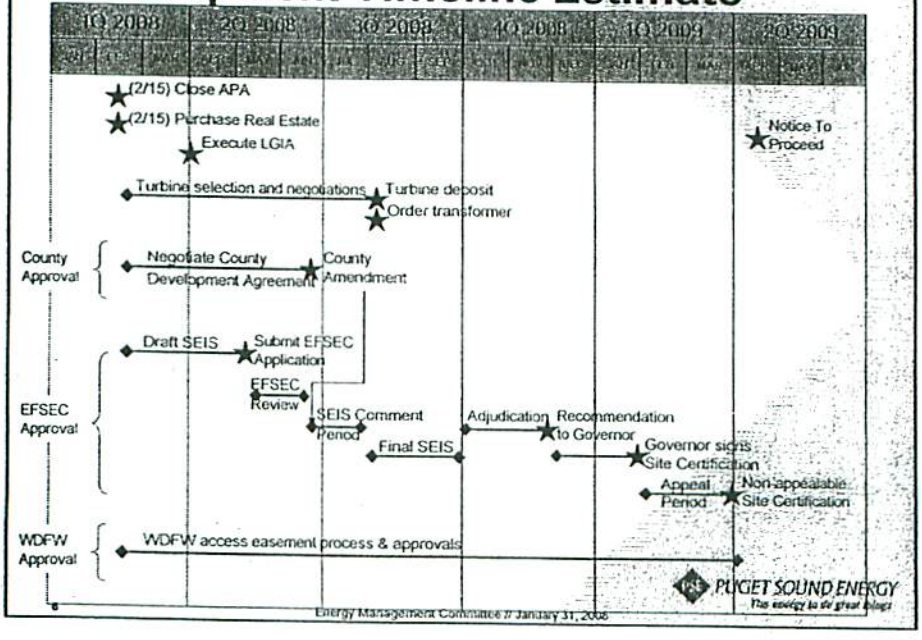
5 Energy Management Committee // January 31, 2008

Development Timeline Estimate



PUGET SOUND ENERGY

6 Energy Management Committee // January 31, 2008

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Development Activities & Budget Estimate

- APA & Real Estate Purchase: [redacted]
- PSE Development Costs: [redacted]

DESCRIPTION	[redacted]
DEVELOPMENT RIGHTS	
REAL ESTATE	
LEGAL	
METEOROLOGY	
ENVIRONMENTAL / PERMITTING	
COMMUNITY RELATIONS / COMMUNICATIONS	
TRANSMISSION INTERCONNECTION	
PRELIMINARY ENGINEERING	
PSE LABOR & EXPENSE - DEVELOPMENT	
CONTINGENCY	
TOTAL DEVELOPMENT BUDGET	7,245

Definitive Agreements
- Execute Interconnection Agreement
- Negotiate turbine supply agreement
- Negotiate EPC agreement

Environmental/Permitting
- Complete environmental studies
- Negotiate county development agreement
- Obtain EFSEC amendment to Wild Horse SCA

Real Estate
- Perfect all real estate rights
- Obtain WDFW access easement rights

Communications / Community
- Deploy communications plan
- Meet with stakeholders

Technical Issues
- Preliminary engineering work
- Complete wind resource analysis
- Selection of turbine manufacturer

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7 Energy Management Committee // January 31, 2008

Project Risks and Mitigation

AREA	RISKS	MITIGATION
Permitting	Project not permittable	Low barrier costs to entry at this early phase; can salvage land value
Real Estate	Inability to gain WDFW access	Reduce size of project by 4 turbines
Wind Resource	Reduced capacity factor	Reviewed by two wind analysts; lowest capacity factor included in economics
Development Budget	Development budget exceeds current estimated	Conservative budget estimate; budget will continue to be refined; updates to EMC as appropriate
Economic Viability	Project no longer economic	PSE preparing an accounting petition for cost recovery

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The energy to do great things

8 Energy Management Committee // January 31, 2008

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VERSION

Key Findings / Benefits

- Project ownership opportunity
- Savings on developer premium
- Synergies with Wild Horse
- PSE controls development and construction
- PSE project development team & experience

Value add:
- Typical Fee $272 per kW
  (source: Thorndike Landing)
- Whiskey Ridge [redacted] per kW
  Assumed fee is $1 million
  + Horizon royalty
  + Caurus royalty

Development Progress

- Regular EMC briefings on development progress and new findings
- Future EMC Approval Requests

	Expected Date
• Turbine supply agreement and procurement of project step-up transformer	2Q 2008
• Construction budget (project pro forma), Engineering, Procurement and Construction ("EPC") and Notice to Proceed ("NTP")	1Q 2009

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Appendix

Whiskey Ridge Power Partners, LLC
Acquisition of Development Assets

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Project Development Team

PSE

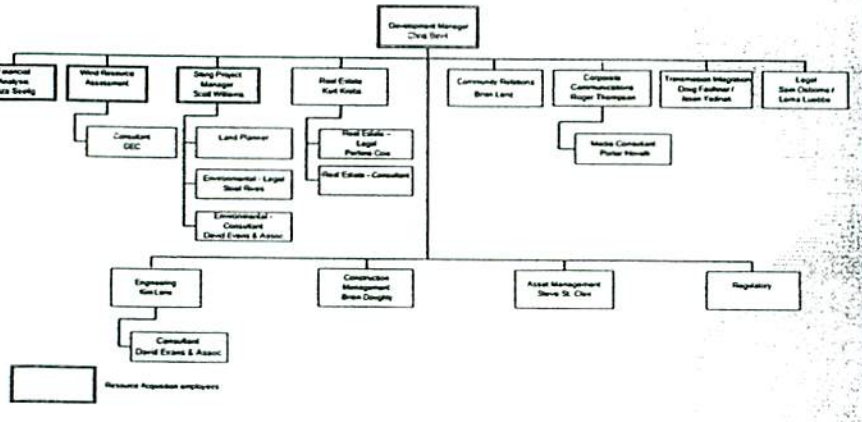
Aliza Seelig	– Financial Analysis
Scott Williams	– Siting Project Manager
Kurt Krebs	– Real Estate
Brian Lenz	– Community Relations
Roger Thompson	– Corporate Communications
Doug Faulkner	– Transmission Integration
Sam Osborne	– Legal (Commercial)
Lorna Luebbe	– Legal (Environmental)
Kim Lane	– Engineering/Technical
Brian Doughty	– Construction Management
Steve St. Clair	– Asset Management

External

Dewey & LeBoeuf	– Legal (Commercial)
Stoel Rives	– Legal (Environmental)
Perkins Coie	– Legal (Real Estate)
David Evans & Assoc.	– Environmental Consultant
David Evans & Assoc.	– Engineering Consultant
Global Energy Concepts	– Wind Consultant
Porter Novelli	– Media Consultant

PUGET SOUND ENERGY

Project Development Organization



PUGET SOUND ENERGY

Total "all-in" Capital Budget

	$000's	$/kW
TOTAL DEVELOPMENT BUDGET	7,245	$183 per kW based on 40 MW
CONSTRUCTION BUDGET		
WIND TURBINE SUPPLY		
ENGINEERING, PROCUREMENT & CONSTRUCTION ("EPC")		
PROJECT SUBSTATION		
INSURANCE & BUILDERS ALL RISK		
START-UP		
PROPERTY TAX		
SALES & USE TAX		
PSE PROJECT MANAGEMENT		
CONTINGENCY (10%)		
AFUDC		
TOTAL CONSTRUCTION BUDGET	85,041	2,148
TOTAL "ALL-IN" CAPITAL COSTS	92,307	2,331

Notes:
early turbine deposit may be required
scope of work unknown
early procurement may be required
O&M mobilization & test power revenues
sales taxes for non-generating assets: roads, etc.
Inlc's CM, Owner's Engineer, Environmental Review, PR, Corporate, etc.
10% Contingency
Inlc's AFUDC from development costs

PUGET SOUND ENERGY

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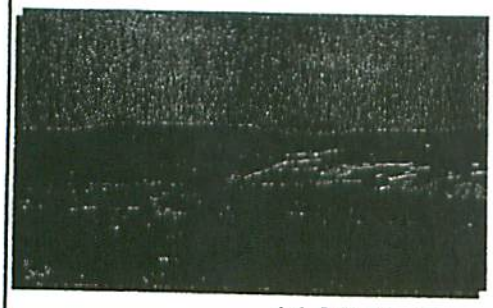
Exhibit 15
EMC Presentation, October 8, 2008



Wild Horse Expansion
44 MW Renewable Energy Project
Energy Management Committee Meeting

October

PUGET SOUND ENERGY
The Energy To Do Great Things

Roger Garratt, Director - Resource Acquisition
Chris Bevil, Sr. Project Manager

Recommendation to the EMC

Recommendation to seek approval from the Board of Directors for the Wild Horse Expansion project:

1. Approval to enter into a Wind Turbine Supply Agreement ("TSA") and a Service and Maintenance Agreement ("SA") with Vestas-American Wind Technology, Inc. for the acquisition and servicing of 22 - V80 2.0 MW wind turbines;

2. Authority to negotiate and to execute a suitable Balance of Plant ("BOP") agreement with a construction contractor to construct the Wild Horse expansion; and

3. Approval of a capital budget not to exceed $100,255,000 (inclusive of TSA and BOP costs) to complete all necessary project agreements and construction activities.

Project Description and Status Summary

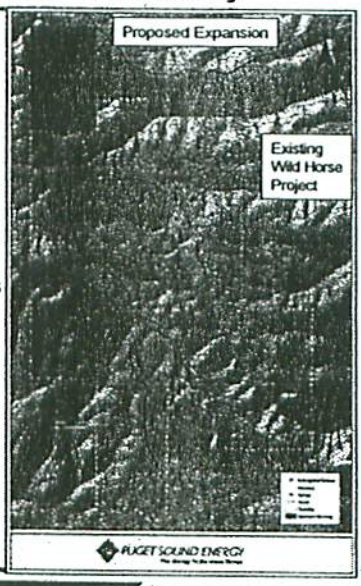
Project Description:

- *Size:* 44 MW; 22 - Vestas V80 2.0 MW
- *Energy:* 89,400 MWh per year; 23.2% n.c.f.*
- *Site:* 1,280 acres of PSE fee-owned land
- *Interconnection:* Wild Horse 230kV Substation

Development Status:

- Negotiating Vestas turbine supply for 2009 deliveries
  - Execution of definitive agreements expected November 2008 ($13 million down payment)
- Selection of BOP contractor is commencing
- Final permit approval expected March 2009
- Targeted commercial operation date (COD) is December 2009
- Estimate of "all-in" capital cost is $2,443/kW compared to generic wind at $2,700/kW

*DNV-GEC Wind Resource & Energy Assessment Report October 7, 2008



Summary of Findings and Benefits

FINDINGS	BENEFITS
✓ Renewable generation ownership	⇨ Long-term wind resource value; PPA adds imputed debt and credit risk
✓ Captures 2009 Production Tax Credit (PTC) extension	⇨ $22,800,000 benefit to customer ($21/MWh in 1st yr)
✓ Takes advantage of sales tax exemption	⇨ $4,800,000 savings to customer
✓ Most viable opportunity for near-term renewable energy project	⇨ Secures energy needs and contributes to renewable portfolio requirement
✓ Synergies with Wild Horse operations and Vestas	⇨ Cost savings on infrastructure and personnel
✓ Expansion of existing project	⇨ Enjoys local community support
✓ PSE controls development and construction	⇨ Saves developer premium and maintains flexibility

* Numerical answers presented in 2009 dollars

Project Agreements

- Turbine Supply Agreement ("TSA") – Vestas
  - [redacted] Euro content at 1.35 FX)
  - 20% down payment due at signing
  - One year storage option that maintains full 2-year warranty
- Service and Maintenance Agreement ("SA") – Vestas
  - [redacted] per turbine per year [redacted] annually)
  - 5-year term
  - Availability guarantee
- Balance of Plant ("BOP") Agreement – To Be Determined
  - [redacted] budget estimate (includes turbine erection)
  - Pre-selected bidder solicitation
  - Request for "Open Book / Fixed Price" process
- Transmission / Interconnection
  - Large Generator Interconnection Agreement ("LGIA") with PSE-Transmission
  - Transfer Agreement amendment with Grant County PUD

Capital Budget & Economics

	$000's	$/kW	% of Total
TOTAL DEVELOPMENT BUDGET	7,245	165	6.7%
CONSTRUCTION BUDGET			
Wind Turbine Supply	[redacted]		
BOP Construction			
Project Substation			
Insurance			
Start-Up Costs			
Property Tax			
Sales & Use Tax			
PSE Project Management			
Contingency			
AFUDC			
TOTAL CONSTRUCTION BUDGET	100,255	2,279	93.3%
TOTAL ALL-IN CAPITAL COSTS	107,500	2,443	100%

Portfolio Screening Model (PSM) v.11.3 (updated 10/6/08)	"Current Trends"	"Green World"
Levelized Cost ($/MWh)	[redacted]	
Portfolio Benefit ($000's)	$1,824	$4,047

*=60% Euro content (1.35 FX)

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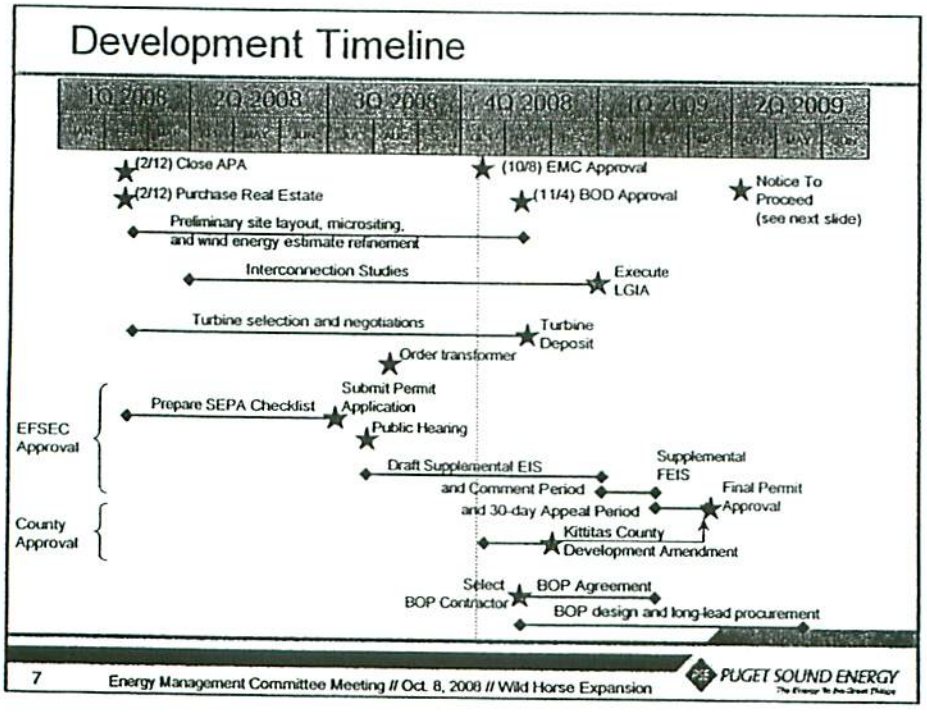
Development Timeline
1Q 2008
2Q 2008
3Q 2008
4Q 2008
1Q 2009
2Q 2009
(2/12) Close APA
(2/12) Purchase Real Estate
(10/8) EMC Approval
(11/4) BOD Approval
Notice To Proceed (see next slide)
Preliminary site layout, micrositing, and wind energy estimate refinement
Interconnection Studies
Execute LGIA
Turbine selection and negotiations
Turbine Deposit
Order transformer
EFSEC Approval
Prepare SEPA Checklist
Submit Permit Application
Public Hearing
Draft Supplemental EIS and Comment Period and 30-day Appeal Period
Supplemental FEIS
Final Permit Approval
County Approval
Kittitas County Development Amendment
Select BOP Contractor
BOP Agreement
BOP design and long-lead procurement
7
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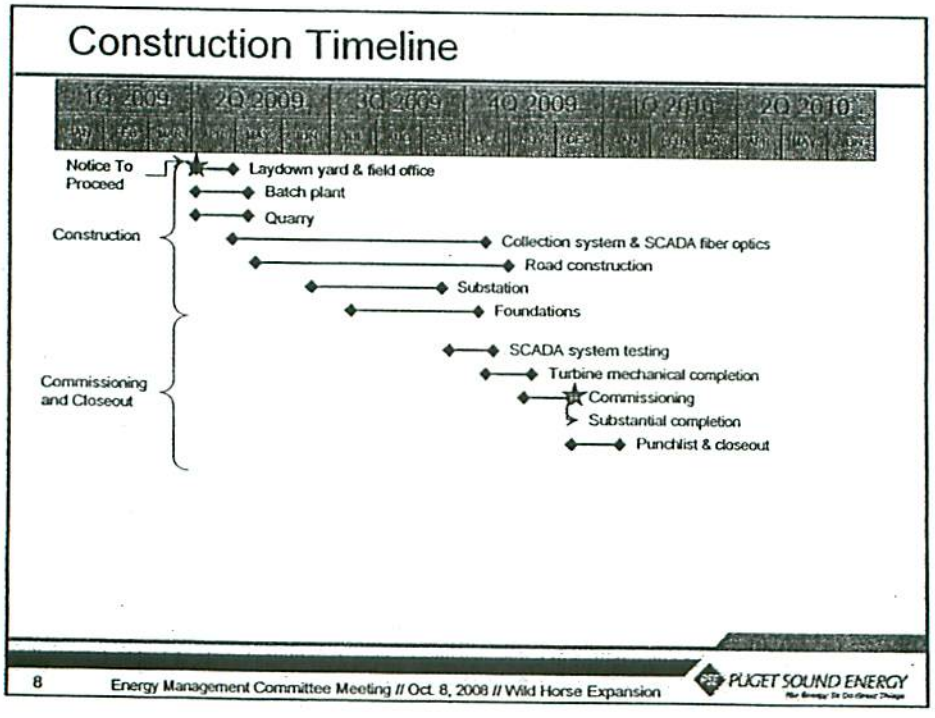
Construction Timeline
1Q 2009
2Q 2009
3Q 2009
4Q 2009
1Q 2010
2Q 2010
Notice To Proceed
Laydown yard & field office
Batch plant
Quarry
Construction
Collection system & SCADA fiber optics
Road construction
Substation
Foundations
SCADA system testing
Turbine mechanical completion
Commissioning and Closeout
Commissioning
Substantial completion
Punchlist & closeout
8
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PUGET SOUND ENERGY

Decision Tree Analysis

Decision Tree Considerations:

2009 Project: Purchase Turbines Now

- Known opportunity to capture:
  - PTC value
  - Washington Sales Tax Exemption
- More cost certainty
- Most viable renewable project in near term
- Momentum with renewables visible to customers and stakeholders

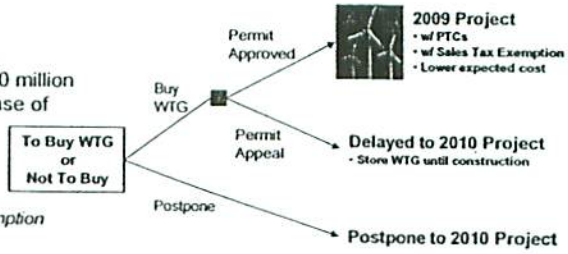
2010 Project: Defer Purchase of Turbines

- Wait to see if economic turmoil creates potential for opportunistic acquisitions of turbines
- Flexibility to address potential capital budget concerns
- Cost could be more favorable or unfavorable

Decision Tree Conclusion:

Buy turbines for 2009 project ≈$20 million better than postponing the purchase of turbines.

Analysis considers uncertainty:
- Permitting
- Extension of PTC and sales tax exemption



Project Risks and Mitigation

AREA	RISKS	MITIGATION
Permitting	• Permit is delayed • Permit is not issued	• Option to store turbines • Sell turbines / use on other site
Turbine supply	• Unable to reach definitive agreements in acceptable form • Turbine market softens after execution • Turbine operations	• Negotiate 2010 turbine supply and postpone COD to 2010 • 2009 supply locked in and project economics favorable • 2-year warranty and 5-year service agreement
Balance of Plant (BOP) Agreement	• BOP contractor unable to provide flexibility on Notice to Proceed (NTP)	• Competitive bid process will outline NTP risks • Costs to demobilize minimum
Construction Schedule	• Delay start / early winter pushing COD into 2010	• Commissioning for tax purposes as turbines are completed • Project Management involvement with construction planning
Capital Budget	• Budget exceeds current estimate	• Over 65% of budget are known costs; competitive bid process for BOP
Market / Credit Turmoil	• Inability to finance	• ?

Market Context

Past Trends

- Turbine price escalation and long lead times for turbine supply
- Diminished ownership opportunities from Request for Proposal (RFP)
- Competition for renewables
- Cyclical Production Tax Credit (PTC) extensions
- Active developers with cheap and plentiful project finance
- Higher demand for wind due to increasing oil and gas prices

Monday September 15, 2008

- Credit crunch and market turmoil
- Oil and gas price drop?
- Steel / construction materials price drop?
- Secondary markets for turbines?
- Opportunistic acquisitions?
- Recession?
  - Foreign exchange rate?
  - Customer demand?

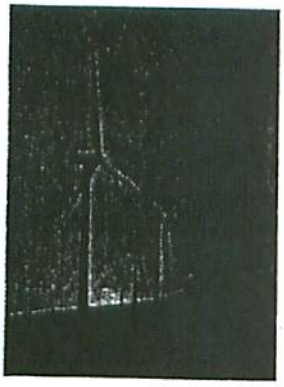
Summary and Next Steps

Summary

- Best opportunity for 2009 renewable project
- Quantifiable savings to customers
- Efficiencies with Wild Horse operations

Immediate Next Steps

1. Request for Proposals for Balance of Plant (BOP) construction
2. Complete memorandum to the Board of Directors
3. Seek approval from Board of Directors on November 4, 2008
4. Execute Turbine Supply Agreement and Service Agreement in November 2008



Appendix
Wild Horse Expansion

PUGET SOUND ENERGY
The Energy To Do Great Things

Regulatory, Accounting and Treasury

Rate Treatment and Cost Recovery

- Include in next rate filing. Anticipate a general rate case filing in April 2009
- Deferred accounting petition may be filed concurrent with Commercial Operation in late 2009
  - Accounting petition to request 1) deferral of all fixed costs, 2) deferral of variable cost in excess of power cost in rates, and 3) credit for avoided power purchases that were assumed in current rates
  - Absent deferral, unrecovered costs are estimated to be $2.2 MM if deferral is 3 months, December 2009 through February 2010.
- Estimated rate impact: 0.5% increase from 2008 GRC Rebuttal

Accounting

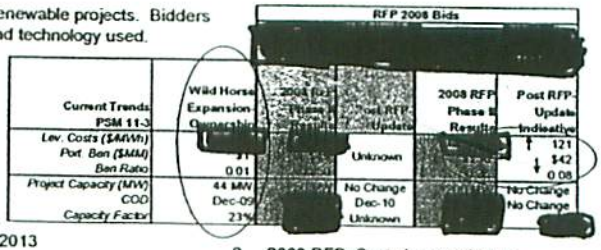
- **Renewable Energy Credit (REC) Accounting**. Proforma forecast assumes sale of 95% of RECs generated will result in decrease in variable power costs. Currently REC sales revenues are placed into a deferred liability account.
- **Production Tax Credit** (PTC) Tracker mechanism used to flow benefits back to customers

Treasury

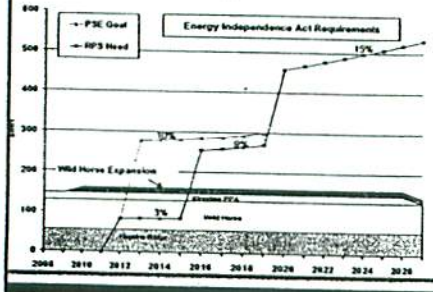
- Capital expenditures in 2008 and 2009 will be funded through the 2008 and anticipated 2009 budget and financing plans.

Comparative Analysis

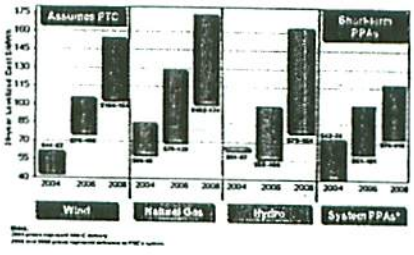
1. No other certain renewable projects. Bidders updating prices and technology used.



3. Over 400 MW of renewables needed to meet 10% goal in 2013



2. 2008 RFP: Costs keep going up



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Permit Risk

The likelihood of approval of the Expansion by EFSEC is extremely high.

- PSE has employed the best EFSEC Counsel available and is in good communication with EFSEC staff.

PSE continues to believe the risk of an appeal is relatively low, as follows:

- A appeal of the Expansion is directly to State Supreme Court (the same process as for the Kittitas Valley appeal).
- It is an extremely expensive and burdensome process for an appellant.
- Strategies implemented by PSE have greatly limited the likelihood of success and limited allies for an appellant.
- PSE elected to prepare a supplemental EIS for the Expansion, which removes the only "low hanging fruit" on an appeal.

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State and Local Permitting Timeline

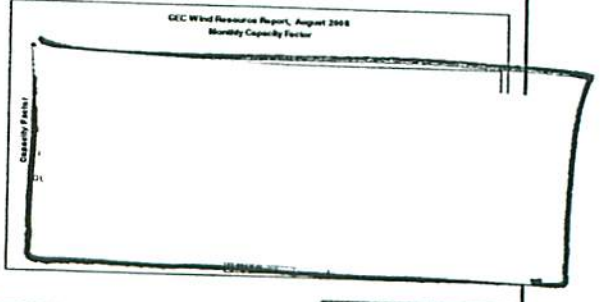
07-02-08	Submitted application for EFSEC Site Certification Agreement Amendment.
08-06-08	EFSEC Public Hearing: No one opposed the project but several parties, including WDFW, suggested additional mitigation measures related to the four eastern most turbines.
09-08-08	PSE agrees to modify the project plan to remove the four eastern turbines, thereby removing risk associated with the disputed location, avoiding a cultural site and eliminating the need for a WDFW access agreement.
09-29-08	PSE proposes preparation of Supplemental EIS (SEIS) to EFSEC Staff.
09-30-08	Engaged environmental consultant to prepare SEIS.
10-10-08	Kittitas County Development Agreement Amendment Request to allow for expansion of the project. Expansion site is within the area designated by the County for wind farms.
11-07-08	Fish & Wildlife Commission expected to give final approval of Conservation Easement.
11-30-08	Kittitas County Commissioners expected to approve the Development Agreement.
01-10-09	SEIS is completed and EFSEC requests comments on the SEIS.
02-10-09	Expected Issuance of Supplemental Final EIS and approval of the permit by EFSEC.
03-10-09	End of 30-day appeal period.*

**Based on Kittitas Valley Wind project appeal process it is expected that the timeline for appeal would be approximately one year.*

Wind Energy Production Estimate

- Different turbine type
  - V80 1.8 phased out
  - V90 2.0 unsuitable
  - V80 2.0 has different power curve
- Turbine micrositing and refinement of energy estimates
  - "V" & "W" strings most productive turbines
- Final report bankable

	EMC Approved [illegible]	EMC October 2008
WTG	[illegible]	V80
Turbine Rating	[illegible]	2.0 MW
MW	[illegible]	44
Wind Energy Analyst	[illegible]	GEC
Net Capacity Factor (n.c.f.)	[illegible]	23.2%
Annual Net Energy (MWh)	[illegible]	89,400



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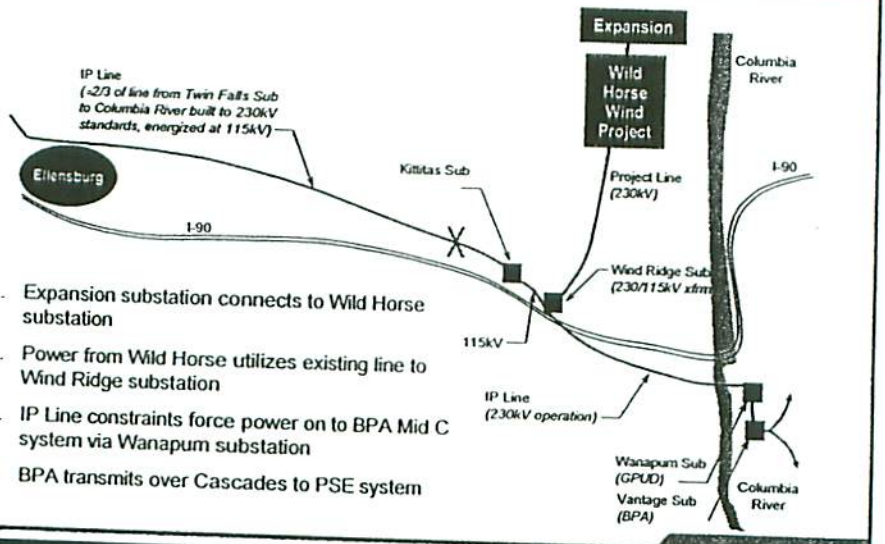
Interconnection and Transmission



1. Expansion substation connects to Wild Horse substation
2. Power from Wild Horse utilizes existing line to Wind Ridge substation
3. IP Line constraints force power on to BPA Mid C system via Wanapum substation
4. BPA transmits over Cascades to PSE system