

1st Quarter Report



TO SHAREHOLDERS

FOR THE THREE MONTHS ENDED MARCH 31, 2002

PRESIDENT'S MESSAGE

Dear Shareholder:

I've just completed my first quarter as president and chief executive officer of Puget Energy. As you may know, it was an eventful three months, in many ways a watershed period for the company. As expected, first-quarter earnings in 2002 — 28 cents per diluted share (slightly better than Wall Street's expectations) — were well below 2001's first-quarter earnings of 81 cents per diluted share. The decline stemmed in large part from the under-recovery of net power costs by our utility subsidiary, Puget Sound Energy, in the wake of last year's energy crisis. The drop in income was one of the reasons, as I indicated in a letter to you last month, that the Board of Directors made the difficult but necessary decision to lower your stock dividend to \$1.00 per share per year (25 cents per share per quarter), beginning with the May 15th dividend payment date. This was a painful decision for the Board. We recognize the financial consequence it has for all Puget Energy shareholders, including the majority of employees with the company.

The good news, as my March letter noted, is that we've already begun to implement a strategy for restoring Puget Energy's financial integrity and building solid, long-term growth. We made it through the energy crisis far better than most utilities across the West. By almost any standard, Puget Energy is one of the best energy companies in the entire industry. We're now moving forward with a plan to put the crisis behind us and begin providing greater value for you, the shareholders, and for our customers.

In January, we strengthened our already aggressive cost-control efforts by freezing management salaries and limiting certain expenditures. Then, following a realignment of our senior management structure, we reached a milestone agreement with state regulators on PSE's proposed change in rates. The settlement is providing PSE with short-term rate relief. Moreover, it recommends significant long-term relief: a rate-adjustment mechanism that ties rates to changes in power costs, thereby preventing an under-recovery of costs in the future; an increase to 11 percent in PSE's return on equity; a beneficial capital structure and a financial incentive to pay down debt and increase corporate equity; and long-term increases in both electric and natural-gas rates.

During the past quarter, we also completed the transfer of PSE's non-emergency construction and maintenance work to outside contractors. We expect this conversion, the first of its kind in the industry, to produce sizable cost savings. In addition, Puget Energy endorsed a plan to accelerate the growth of our unregulated utility-construction business, InfrastruX Group. I should note that first-quarter revenues for InfrastruX were almost double the same quarter's revenue in 2001.

Despite the predictably low earnings we saw in the first three months of 2002, I'm very optimistic about where our company is headed. We've weathered last year's storm, and I'm confident sunny days are on the horizon. Earnings in 2003 are projected to be back in the \$1.75 to \$1.90 per share range we're more accustomed to. Please know that our highest priority is to pursue stable growth initiatives that provide you a competitive return on your investment.

Sincerely,

Stephen P. Reynolds
President & Chief Executive Officer

PLEASE NOTE

Mellon Investor Services LLC, is Puget Energy's Securities Processing Agent, handling all securities transfer transactions, Dividend Reinvestment Plan administration and dividend payments. For your convenience, use the toll-free number, **1-800-997-8438**.

Condensed Balance Sheet

(In thousands)

	At 3/31/02 (Unaudited)	At 12/31/01
Assets		
Net Utility plant	\$ 3,885,765	\$ 3,887,981
Other property and investments	352,755	317,249
Current assets	602,349	660,838
Long-term assets	690,201	680,909
Total assets	\$ 5,531,070	\$ 5,546,977
Capitalization		
Common equity	\$ 1,378,797	\$ 1,362,724
Preferred stock	103,162	110,662
Trust preferred	300,000	300,000
Long-term debt	2,185,928	2,127,054
Total capitalization	3,967,887	3,900,440
Minority interest	8,716	---
Current liabilities	734,879	844,808
Long-term liabilities and deferred taxes	819,588	801,729
Total capitalization and liabilities	\$ 5,531,070	\$ 5,546,977

Condensed Income Statement (Unaudited)

(In thousands, except per-share amounts)

	3 months ended 3/31 ¹		12 months ended 3/31	
	2002	2001	2002	2001
Operating Revenues	\$ 757,345	\$ 1,119,864	\$ 3,011,472	\$ 3,914,313
Operating expenses (before federal income taxes)	660,284	935,063	2,724,083	3,405,273
Federal income taxes	20,490	54,260	44,236	130,513
Operating income	76,571	130,541	243,153	378,527
Other income	384	1,941	12,968	2,612
Interest charges	50,398	45,435	195,023	178,453
Minority interest	79	---	79	---
Net income before cumulative effect of change	26,478	87,047	61,019	202,686
Cumulative effect of accounting charge	---	14,749	---	14,749
Net income	\$ 26,478	\$ 72,298	\$ 61,019	\$ 187,937
Income available to common	\$ 24,466	\$ 70,141	\$ 52,752	\$ 179,088
Common shares outstanding - basic	87,175	86,036	86,729	85,654
Common shares outstanding - diluted	87,408	86,417	86,958	86,018
Basic earnings per common share				
before cumulative effect of accounting charge	\$ 0.28	\$ 0.99	\$ 0.61	\$ 2.26
Cumulative effect of accounting charge	---	(0.17)	-	(0.17)
Basic earnings per common share	\$ 0.28	\$ 0.82	\$ 0.61	\$ 2.09
Diluted earnings per common share				
before cumulative effect of accounting charge	\$ 0.28	\$ 0.98	\$ 0.61	\$ 2.25
Cumulative effect of accounting charge	---	(0.17)	-	(0.17)
Diluted earnings per common share	\$ 0.28	\$ 0.81	\$ 0.61	\$ 2.08

Customers served - Puget Sound Energy data²

(Average for the period)

Electricity	943,445	926,036	936,330	919,850
Gas	608,862	593,590	602,046	585,653

Weather (heating degree days)

Actual	2,095	1,979	5,109	4,950
Normal	1,975	1,975	4,908	4,908

Common stock dividends³

Common Stock dividend per share	\$ 0.46	\$ 0.46	\$ 1.84	\$ 1.84
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¹ Partial-year results may not accurately predict full-year performance, as earnings are significantly affected by weather.

² Puget Sound Energy is the electric and natural gas utility of Puget Energy.

³ Puget Energy's common stock dividend per share will be \$0.25 per quarter, or \$1.00 annually, beginning May 15, 2002.



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