

2nd Quarter Report



TO SHAREHOLDERS

FOR THE THREE MONTHS ENDED JUNE 30, 2002

PRESIDENT'S MESSAGE

Dear Shareholder:

We're performing on the plan we began in March with improved progress since our *1st Quarter Report to Shareholders*. The successful conclusion of the electric-rate settlement, which was approved by the Washington Utilities and Transportation Commission in June, and the expected late-summer settlement of our natural gas-rate case, put the company on track to deliver stable earnings for our Puget Sound Energy utility. Additionally, our non-regulated InfrastruX Group subsidiary continues to perform on target.

Puget Energy achieved earnings of 34 cents per share for the second quarter, compared with 20 cents per share in the second quarter of 2001. We exceeded analysts' expectations of 20-to-23 cents per share, primarily due to improved energy margins and other one-time items, which, coupled with our employees' continued and diligent focus on managing utility costs, contributed to second-quarter results.

In the second quarter, a \$25-million interim increase in electric revenues allowed our utility to recoup increased power-supply costs, bolstering the company's financial integrity. For the long term, the July 1 implementation of the comprehensive electric-rate settlement gives Puget Sound Energy customers a reasonable 4.6 percent price increase and establishes a power cost adjustment mechanism that associates rates to increases or decreases in power costs.

InfrastruX Group, which provides construction and maintenance services primarily to natural gas and electric utilities, contributed 3 cents per share to Puget Energy's second-quarter earnings.

For the 12 months ended June 30, 2002 Puget Energy had earnings of 74 cents per share compared with \$1.99 for the comparable period in 2001. Twelve-month results include a nine-month under-recovery of power costs and the interim electric-rate increase in second quarter 2002 for Puget Sound Energy.

During the past quarter, InfrastruX Group completed its 10th acquisition, bringing our two-year-old non-regulated subsidiary's combined annualized revenues to more than \$320 million.

We have a talented management team and hard-working employees keenly focused on delivering outstanding customer service while managing costs. Our accomplishments so far this year give me increased confidence in our ability to meet our growth and earnings targets of \$1.15 to \$1.20 per share for 2002, and \$1.75 to \$1.90 per share in 2003.

I now have completed six months with Puget Energy. I believe we are on the road to financial stability. Your Board and I are committed to quality service to our customers and improved returns to our shareholders. I continue to worry about the growing distrust and skepticism about 'Corporate America.' Be assured that our integrity, ethics and governance are more than just words to me.

Sincerely,

Stephen P. Reynolds
President and Chief Executive Officer

Certain statements contained in this news release are "forward-looking statements" within the meaning of the federal securities laws. Although Puget Energy and Puget Sound Energy believe that the expectations reflected in such statements are reasonable, there can be no assurance that the expected results will be achieved. For additional information concerning certain assumptions, risks, and uncertainties involved in the forward-looking statements contained herein, please refer to Puget Energy's reports on file with the SEC.

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 6/30/02 (Unaudited)		At 12/31/01	
Assets				
Net Utility plant	\$	3,885,824	\$	3,887,981
Other property and investments		370,301		317,249
Current assets		510,567		660,838
Long-term assets		711,414		680,909
Total assets	\$	5,481,106	\$	5,546,977
Capitalization				
Common equity	\$	1,387,298	\$	1,362,724
Preferred stock		103,162		110,662
Trust preferred		300,000		300,000
Long-term debt		2,197,457		2,127,054
Total capitalization		3,987,917		3,900,440
Minority interest		9,947		---
Current liabilities		630,031		844,808
Long-term liabilities and deferred taxes		853,211		801,729
Total capitalization and liabilities	\$	5,481,106	\$	5,546,977

Condensed Income Statement (Unaudited)

(In thousands, except per-share amounts)

	3 months ended 6/30 ¹		12 months ended 6/30	
	2002	2001	2002	2001
Operating Revenues	\$ 554,987	\$ 935,419	\$ 2,631,041	\$ 4,310,930
Operating expenses (before federal income taxes)	465,320	857,492	2,331,911	3,800,594
Federal income taxes	12,834	11,856	45,215	128,857
Operating income	76,833	66,071	253,915	381,479
Other income	3,441	1,568	14,840	(2,697)
Interest charges	48,682	48,174	195,530	184,000
Minority interest	223	---	302	---
Net income before cumulative effect of change	31,369	19,465	72,923	194,782
Cumulative effect of accounting charge	---	---	---	14,749
Net income	\$ 31,369	\$ 19,465	\$ 72,923	\$ 180,033
Income available to common	\$ 29,429	\$ 17,380	\$ 64,801	\$ 171,330
Common shares outstanding - basic	87,448	86,303	87,013	85,903
Common shares outstanding - diluted	87,646	86,576	87,203	86,176
Basic earnings per common share				
before cumulative effect of accounting charge	\$ 0.34	\$ 0.20	\$ 0.74	\$ 2.16
Cumulative effect of accounting charge	---	---	-	(0.17)
Basic earnings per common share	\$ 0.34	\$ 0.20	\$ 0.74	\$ 1.99

Customers served - Puget Sound Energy data²

(Average for the period)

Electricity	948,623	930,577	940,933	923,622
Gas	613,264	598,026	605,989	590,030

Weather (heating degree days)

Actual	994	1,034	5,069	5,074
Normal	925	925	4,908	4,908

Common stock dividends³

Common Stock dividend per share	\$ 0.25	\$ 0.46	\$ 1.63	\$ 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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