

# 3<sup>rd</sup> Quarter Report



## TO SHAREHOLDERS

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FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002

### **PRESIDENT'S MESSAGE**

Dear Shareholder:

Nine months ago, we began implementing a strategy for restoring Puget Energy's financial health and building long-term growth. Turning around the under-recovery of power costs that began last year required many difficult decisions. The most difficult one was setting the common stock dividend at a level that is sustainable over the long term. With that challenging period behind us, along with successful rate settlements for our utility, we are now well on our way to produce better results.

In the third quarter, Puget Energy increased earnings by 28 percent to 7 cents a share from 5 cents in the comparable period one year ago. Notable achievements, such as successful electric- and natural gas-rate settlements, lower net power costs and efficient methods of operating our Puget Sound Energy utility, coupled with continued strong performance of InfrastruX Group, our unregulated subsidiary, contributed to the solid results.

With our utility well positioned for growth, Puget Energy increased its full year 2002 per share earnings target by 5 cents to the range of \$1.20 to \$1.25 per share. For 2003, we are on track to meet our ongoing earnings target of \$1.75 to \$1.90.

Clearly, we are getting results from our efforts to build new and stronger relationships with our customers and regulators, continued efficient performance by our employees and a revitalized workplace culture that reflects our utility's tagline, *The Energy To Do Great Things*.

While other utilities continue to struggle with the after-effects of the energy crisis, Puget Sound Energy is continuing to deliver reliable power and natural gas to a growing customer base. We are placing a high priority on keeping pace with growth and demand by planning for our long-term energy-supply requirements.

InfrastruX Group, our unregulated utility infrastructure services subsidiary, continues to deliver on its plan, contributing 4 cents a share for the third quarter. All of its operating companies are positioned to build long-term value.

Despite Wall Street's cautious approach to the entire energy sector, Puget Energy is strong and positioned for a solid finish to the year. Year to date our stock has returned 4.7 percent in dividends and, while the stock price is about level for the year, it has significantly outperformed the S&P 500 and the Dow Jones Utility Index. We continue to work to further add value to your investment.

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**.

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**Condensed Balance Sheet**

(In thousands)

	At 9/30/02 (Unaudited)	At 12/31/01
<b>Assets</b>		
Net utility plant	\$ 3,897,281	\$ 3,887,981
Other property and investments	382,091	317,249
Current assets	510,098	660,838
Long-term assets	716,680	680,909
<b>Total assets</b>	<b>\$ 5,506,150</b>	<b>\$ 5,546,977</b>
<b>Capitalization</b>		
Common equity	\$ 1,379,201	\$ 1,362,724
Preferred stock	103,162	110,662
Trust preferred	300,000	300,000
Long-term debt	2,162,841	2,127,054
<b>Total capitalization</b>	<b>3,945,204</b>	<b>3,900,440</b>
Minority interest	10,338	---
Current liabilities	589,477	844,808
Long-term liabilities and deferred taxes	961,131	801,729
<b>Total capitalization and liabilities</b>	<b>\$ 5,506,150</b>	<b>\$ 5,546,977</b>

**Condensed Income Statement (Unaudited)**

(In thousands, except per-share amounts)

	3 months ended 9/30 <sup>1</sup>		12 months ended 9/30	
	2002	2001	2002	2001
Operating revenues	\$ 458,476	\$ 478,966	\$ 2,412,277	\$ 3,444,299
Operating expenses (before federal income taxes)	402,921	427,066	2,108,728	2,948,760
Federal income taxes	(1,543)	6,144	38,294	125,911
Operating income	57,098	45,756	265,255	369,628
Other income	230	7,892	7,178	(69)
Interest charges	48,439	46,839	197,129	186,963
Minority interest	377	---	679	---
Net income before cumulative effect of change	8,512	6,809	74,625	182,596
Cumulative effect of accounting change	---	---	---	14,749
Net income	\$ 8,512	\$ 6,809	\$ 74,625	\$ 167,847
Income available to common	\$ 6,572	\$ 4,724	\$ 66,648	\$ 159,289
Common shares outstanding - basic	87,618	86,571	87,254	86,170
Common shares outstanding - diluted	87,975	86,995	87,597	86,575
Basic and diluted earnings per common share before cumulative effect of accounting change	\$ 0.07	\$ 0.06	\$ 0.76	\$ 2.02
Cumulative effect of accounting change	---	---	-	(0.17)
Basic and diluted earnings per common share	0.07	\$ 0.06	\$ 0.76	\$ 1.85
Diluted earnings per common share before cumulative effect of accounting change	\$ 0.07	\$ 0.05	\$ 0.76	\$ 2.01
Cumulative effect of accounting change	---	---	-	(0.17)
Diluted earnings per common share	\$ 0.07	\$ 0.05	\$ 0.76	\$ 1.84

**Customers served - Puget Sound Energy data<sup>2</sup>**

(Average for the period)

Electricity	951,551	935,481	945,015	927,729
Gas	614,796	599,633	609,803	594,363

**Weather (heating degree days)**

Actual	235	280	5,024	5,085
Normal	279	279	4,908	4,908

**Common stock dividends<sup>3</sup>**

Common Stock dividend per share	\$ 0.25	\$ 0.46	\$ 1.42	\$ 1.84
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<sup>1</sup> Partial-year results may not accurately predict full-year performance, as earnings are significantly affected by weather.<sup>2</sup> Puget Sound Energy is the electric and natural gas utility of Puget Energy.<sup>3</sup> 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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