

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket No. U-072375

**Puget Holdings LLC and Puget Sound Energy, Inc.
Joint Application for an Order Authorizing Proposed Transaction**

BENCH REQUEST NO. 022

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Re: Exhibit No. 081(EMM-11)

If there are any clarifications or corrections regarding the commitments detailed in Exhibit No. 081(EMM-11), please provide and supplement as necessary.

Response:

In the testimony of Eric Markell on August 25, 2008, Chairman Sidran identified potential inconsistencies between commitment 45 ("Commitment 45") and the chart provided in Exhibit No. 81 (EMM-11) (the "Chart"), relating to the audit committee requirements under the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley").

In acknowledgement of the potential inconsistency between Commitment 45 and the Chart, this Response intends to clarify the relationship between §301 of Sarbanes-Oxley and the New York Stock Exchange (the "NYSE") listing standards and Puget Energy, Inc.'s ("Puget Energy") and Puget Sound Energy, Inc.'s ("PSE") post-closing compliance with the Sarbanes-Oxley requirements.

With respect to §301 of Sarbanes-Oxley, the Chart refers to the post-closing commitments under the NYSE requirements. This cross-reference was included because, as discussed in more detail below, the requirements set forth in §301 of Sarbanes-Oxley were implemented through §303A.06 and §303A.07 of the NYSE listing standards.

Post-closing, Puget Energy and Puget Sound Energy will continue to comply with the provisions of Sarbanes-Oxley to the extent detailed in the Chart. With respect to the audit committee independence requirements in §301 of Sarbanes-Oxley (implemented through §303A.06 and §303A.07 of the NYSE requirements), as noted in the NYSE portion of the Chart, the Puget Energy and Puget Sound Energy audit committees will not be comprised entirely of independent directors (as would otherwise be required of a NYSE listed company). Puget Energy and Puget Sound Energy will, however, remain

in compliance with the other requirements of §301 of Sarbanes-Oxley and §303A.06 and §303A.07 of the NYSE listing standards.

Section 301 of Sarbanes-Oxley amended §10A of the Securities Exchange Act of 1934, as amended, and directed the Securities and Exchange Commission ("SEC") to promulgate a rule that national securities exchanges, such as the NYSE, must prohibit the listing of an issuer's securities if the issuer does not have an audit committee that:

- (1) is responsible for the appointment, compensation and oversight of the auditor;
- (2) is comprised of members of the Board of Directors, who are otherwise independent;
- (3) has established procedures for the receipt, retention and treatment of complaints and the confidential, anonymous submission by employees regarding accounting or auditing concerns; and
- (4) has the authority to engage advisors and compensate such advisors.

As a result of this SEC rule (Rule 10A-3 under the Exchange Act), the NYSE implemented §303A.06 and §303A.07, which requires issuers to establish an audit committee, comprised of independent directors (including the independence requirements mandated by the SEC in implementing §301 of Sarbanes-Oxley), with a written charter that provides for the roles and responsibilities as intended by §301 of Sarbanes-Oxley.

Therefore, §303A.06 and §303A.07 of the NYSE listing standards relating to audit committee independence and responsibilities incorporates the requirements as set forth in §301 of Sarbanes-Oxley, which is the reason the cross-reference was included in the Chart.

To clarify the commitments relating to Sarbanes-Oxley, the Joint Applicants have revised the Chart to more clearly specify the relationship between the §301 Sarbanes-Oxley requirements and the related §303A.06 and §303A.07 NYSE listing requirements. The revisions are marked in the Chart attached as Attachment A to the Joint Applicants' Response to Bench Request No. 22. In addition, to reconcile the inconsistency between Commitment 45, which states that Puget Energy and Puget Sound Energy will commit to following all the listed provisions of Sarbanes-Oxley (including §301 relating to audit committee independence) and the Chart, which indicates that the audit committees will not be composed of entirely independent directors, the Joint Applicants propose to revise Commitment 45 as follows (proposed revisions are marked to show):

Joint Applicants commit to the following post-closing commitments with respect to the Sarbanes-Oxley Act for both PSE and Puget Energy to the extent indicated in Exhibit No. (EMM-11) under the column heading 'Post-Closing Commitment':

Other than the inconsistency identified by Chairman Sidran, the Joint Applicants do not believe there are any other inconsistencies among Commitment 45 (or any other commitment), the post-closing NYSE commitments listed in the Chart and the Sarbanes-Oxley commitments listed in the Chart.

Independence for purposes of this response and the Chart shall solely mean independence in accordance with the applicable NYSE and Sarbanes-Oxley standards. With respect to the issue of what constitutes an independent director for purposes of NYSE standards, please see Attachment B to the Joint Applicants' Response to Bench Request No. 22, which is an excerpt from the NYSE Listed Company Manual 303A.00 Corporate Governance Standards, 303A.02 Independence Tests. With respect to the additional independence requirements for audit committee members per §303A.06 of the NYSE listing standards (which refers to SEC Rule 10A-3), please see Attachment C to the Joint Applicants' Response to Bench Request No. 22, which is an excerpt from Rule 10A-3(b)(1).

**ATTACHMENT A TO
JOINT APPLICANTS' RESPONSE TO
BENCH REQUEST NO. 22**

**Proposed Commitments Relating to
Puget Energy's and PSE's Post-Closing Governance and Disclosure Requirements**

New York Stock Exchange Corporate Governance Standards			
Rule	Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
NYSE §203.01	<p><u>Annual Report Availability</u>: If required to file annual report with SEC, issuer must:</p> <ul style="list-style-type: none"> • Simultaneously make such report available to shareholders on or through the company's website. • Indicate that a hard copy of the report can be requested free of charge. • Issue a press release regarding the annual report. 	<ul style="list-style-type: none"> • Website Posting of 10-K: Not required. • Requesting Copy of 10-K: Not required. • Press Release re: 10-K: Not required. 	<ul style="list-style-type: none"> • Puget Energy/PSE will continue to file an annual report on Form 10-K with the SEC. • Puget Energy/PSE will continue to make such report available on or through the company's website and indicate that a hard copy of the report can be requested free of charge. • Puget Energy/PSE will issue a press release regarding the availability of the annual report on the company's website.
NYSE §203.02	<p><u>Interim Financial Statements</u>:</p> <ul style="list-style-type: none"> • If required to file interim financial statements, company must issue an earnings release. 	<ul style="list-style-type: none"> • Earnings Release: Not required. 	<ul style="list-style-type: none"> • Puget Energy/PSE will not issue quarterly earnings releases. • But, Puget Energy/PSE will continue to file quarterly reports on Form 10-Q, which will include interim financial statements, with the SEC.
NYSE §303A.01	<p><u>Independent Directors</u>:</p> <ul style="list-style-type: none"> • Must have a majority of independent directors on the Board of Directors. • Must disclose independent directors in the proxy statement and the standard of independence it adopts in the proxy statement or if not proxy statement, in the 10-K 	<ul style="list-style-type: none"> • Majority of Independent Directors: Not required. • Independence Standards: Not required. • Disclosure of Standards: Not required. 	<ul style="list-style-type: none"> • Puget Energy/PSE's Board will include at least two (2) independent directors (based on NYSE's independence standards) and one (1) director who is unaffiliated with the Macquarie Consortium. • Puget Energy/PSE will disclose independent and unaffiliated directors in its Form 10-K.
NYSE §303A.03	<p><u>Executive Sessions</u>:</p> <ul style="list-style-type: none"> • Non-management directors must meet regularly in executive sessions without 	<ul style="list-style-type: none"> • Executive Sessions: Not required. • Disclosure re: presiding director or procedure to select presiding director: Not 	<ul style="list-style-type: none"> • Non-management Puget Energy/PSE directors will continue to meet regularly in executive sessions without

New York Stock Exchange Corporate Governance Standards

Rule	Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
	<p>management.</p> <ul style="list-style-type: none"> • Non-management director must preside over each executive session. • If one director chosen to preside over all executives sessions, must disclose name in proxy statement or if no proxy statement, in the 10-K. If no specific director selected, disclose procedure on selecting the presiding director at each session. 	<p>required.</p>	<p>management.</p> <ul style="list-style-type: none"> • Non-management director will continue to preside over each executive session. • One director will be chosen to preside over all executive sessions and the name of that director will be disclosed in the Form 10-K.
NYSE §303A.03	<p><u>Communication with Presiding Director / Non-Management Directors:</u></p> <ul style="list-style-type: none"> • Disclose method to communicate in proxy statement, or if no proxy statement, in the 10-K. 	<ul style="list-style-type: none"> • Disclose Communication Method: Not required. 	<ul style="list-style-type: none"> • Puget Energy/PSE will continue to disclose in its Form 10-K a means by which non-management and/or independent directors may be contacted.
NYSE §303A.04	<p><u>Nominating/Governance Committee:</u></p> <ul style="list-style-type: none"> • Listed companies must have a nominating/corporate governance committee composed of independent directors. • Must have a written charter. 	<ul style="list-style-type: none"> • Nominating Committee: Not required. 	<ul style="list-style-type: none"> • Puget Energy/PSE will maintain a nominating/governance committee, however, it will not be composed entirely of independent directors <u>under NYSE standards.</u> • The Committee will have a written charter that is substantially the same as the existing charter, except for changes necessary to conform to the post-closing governance structure.
NYSE §303A.05	<p><u>Compensation Committee:</u></p> <ul style="list-style-type: none"> • Listed companies must have a compensation committee composed of independent directors. • Must have written charter. 	<ul style="list-style-type: none"> • Compensation Committee: Not required. 	<ul style="list-style-type: none"> • Puget Energy/PSE will maintain a compensation committee, however, it will not be composed entirely of independent directors <u>under NYSE standards.</u> • The Committee will have a written charter that is substantially the same as the existing charter, except for changes necessary to conform to the post-closing

New York Stock Exchange Corporate Governance Standards

Rule	Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
NYSE §303A.06; NYSE §303A.07	<p><u>Audit Committee:</u></p> <ul style="list-style-type: none"> Listed companies must have an audit committee composed of independent directors, including the additional independence standards of §301 of Sarbanes-Oxley (as implemented by Rule 10A-3 under the Exchange Act). Must have a written charter, which includes (among other things) the Sarbanes-Oxley §301 requirements that the audit committee (1) be responsible for the appointment, compensation and oversight of the auditor, (2) adopt procedures to receive/administer complaints regarding accounting and auditing matters, as well as the confidential submission of employee concerns or complaints as to accounting and auditing matters, and (3) have the authority to engage and compensate independent counsel and advisors. 	<ul style="list-style-type: none"> Audit Committee: Not required. 	governance structure. <ul style="list-style-type: none"> Puget Energy/PSE will maintain an audit committee, however, it will not be composed entirely of independent directors under NYSE standards. The Committee will have a written charter that is substantially the same as the existing charter, except for changes necessary to conform to the post-closing governance structure, which charter will include the committee responsibilities as required by §301 of Sarbanes-Oxley (as implemented by Rule 10A-3 under the Exchange Act).
NYSE §303A.07	<p><u>Audit Committee Members:</u></p> <ul style="list-style-type: none"> Audit Committee must have a minimum of 3 members. Each member must be financially literate. One member must have financial management expertise. 	<ul style="list-style-type: none"> Audit Committee Member Requirements: Not required. 	<ul style="list-style-type: none"> Puget Energy/PSE will maintain the eligibility requirements for its audit committee members.
NYSE §303A.07	<p><u>Audit Committee - Impairment of Ability Determination:</u></p> <ul style="list-style-type: none"> If a member serves on more than 3 public company audit committees, company must 	<ul style="list-style-type: none"> Audit Committee Member Requirements: Not required. 	<ul style="list-style-type: none"> Puget Energy/PSE will maintain its existing policy regarding service on multiple public company audit committees: generally, no member of the Committee shall serve on more than three

New York Stock Exchange Corporate Governance Standards

Rule	Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
	determine whether ability is impaired and disclose determination in proxy statement, or if no proxy statement, the 10-K.		audit committees of publicly traded companies at the same time, and any member's service on more than three audit committees of publicly traded companies will be subject to the Board's determination that such simultaneous service will not impair such member's ability to effectively serve on the Committee and Puget Energy/PSE will disclose such determination in the Form 10-K.
NYSE §303A.07	<u>Audit Committee – Internal Audit</u> • Must maintain internal audit function.	• Internal Audit: Not required.	• Puget Energy/PSE will maintain an internal audit function.
NYSE §303A.09	<u>Corporate Governance Guidelines</u> • Must adopt corporate governance guidelines.	• Corporate Governance Guidelines: Not required.	• Puget Energy/PSE will maintain corporate governance guidelines, revised as necessary to reflect the post-closing governance structure.
NYSE §303A.09	<u>Disclosure of Corporate Governance Guidelines and Charters</u> • Must include corporate governance guidelines and charters of its most important committees (including at least the audit, and if applicable, compensation and nominating committees) on its website.	• Website Posting of Governance Guidelines: Not required. • Website Posting of Committee Charters: Not required.	• Puget Energy/PSE will include the revised corporate governance guidelines and charters of its most important committees on its website.
NYSE §303A.10	<u>Code of Business Conduct and Ethics</u> • Must adopt a Code of Business Conduct and Ethics for directors, officers and employees.	• Code of Business Conduct and Ethics: Not required.	• Puget Energy/PSE will maintain a Code of Business Conduct and Ethics for its directors, officers and employees.

New York Stock Exchange Corporate Governance Standards			
Rule	Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
NYSE §303A.10	<u>Disclosure of Code of Business Conduct and Ethics</u> <ul style="list-style-type: none"> • Must promptly disclose any waivers. • Post Code of Business Conduct and Ethics on website. 	<ul style="list-style-type: none"> • Disclosure: Not required. 	<ul style="list-style-type: none"> • Puget Energy/PSE will promptly disclose any waivers granted and will post the Code on the company's website.
NYSE §303A.12	<u>Officer Certification:</u> <ul style="list-style-type: none"> • Must certify to NYSE that company is compliant with NYSE corporate governance requirements. 	<ul style="list-style-type: none"> • Certification: Not required. 	<ul style="list-style-type: none"> • Puget Energy and PSE will not submit a certification to the NYSE, since neither will be a NYSE-listed company.

Securities and Exchange Commission Disclosure Requirements

Rule	Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
Exchange Act §13(a)	<p><u>Section 13(a) disclosure requirements:</u></p> <ul style="list-style-type: none"> • Puget Energy has outstanding common stock registered pursuant to Section 12(b) of the Exchange Act. • PSE has outstanding preferred stock registered pursuant to Section 12(g) of the Exchange Act. • Under Section 13(a) of the Exchange Act, Section 12 registration requires compliance with the SEC's periodic and current reporting requirements, which include the preparation and filing of an annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. 	<p><u>Puget Energy</u></p> <ul style="list-style-type: none"> • Post-closing, Puget Energy will not have any outstanding securities registered pursuant to Section 12 of the Exchange Act and will therefore not be subject to Section 13(a) disclosure requirements. <p><u>PSE</u></p> <ul style="list-style-type: none"> • PSE preferred stock (registered pursuant to Section 12(g) of the Exchange Act) will continue to be outstanding. So long as registered under Section 12(g), SEC reporting obligations will continue. • Under Rule 12g-4 of the Exchange Act, Section 12(g) registration may be terminated if the preferred stock is held by less than 300 persons. • Preferred stock is currently held by fewer than 100 persons. 	<p>Puget Energy/PSE will continue to comply with the disclosure requirements of Section 13(a) and 15(d) of the Exchange Act to the same extent as it does prior to the merger (i.e., will continue to file SEC reports on Forms 10-K, 10-Q and 8-K), <i>even if it is no longer required to do so by law or indenture contractual covenants.</i></p>
Exchange Act §15(d)	<p><u>Section 15(d) disclosure requirements:</u></p> <ul style="list-style-type: none"> • PSE has outstanding first mortgage bonds, senior notes and other debt securities that were issued pursuant to registration statements filed with the SEC. • Under Section 15(d) of the Exchange Act, an issuer that files a registration statement of the type PSE has filed in connection with the issuance of its first mortgage bonds, senior notes and certain other debt securities is required to file the same SEC reports as are required to be filed in respect of a security that is registered pursuant to Section 12(g) of the Exchange Act – that is, 	<p><u>PSE</u></p> <ul style="list-style-type: none"> • PSE will continue to have outstanding debt securities issued pursuant to registration statements filed with the SEC. Section 15(d) reporting requirements may continue to apply. • Duty to file reports pursuant such Section 15(d) is automatically suspended as to any fiscal year, other than the fiscal year in which the registration became effective, if at the beginning of such fiscal year, the securities of each class to which the registration relates are held of record by less than 300 persons. 	

Securities and Exchange Commission Disclosure Requirements			
Rule	Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
	Forms 10-K, 10-Q and 8-K.	<ul style="list-style-type: none"> Status of possible suspension has not been determined, but would likely apply in the future if PSE does not continue to issue registered debt securities. 	
Indenture Covenants	<p><u>Indenture covenants disclosure requirements:</u></p> <ul style="list-style-type: none"> PSE's debt indenture (including mortgage indentures, senior note indenture and subordinated debt indenture) require PSE to continue to file the reports required by Sections 13(a) and 15(d) of the Exchange Act (i.e. Forms 10-K, 10-Q and 8-K), <i>even if PSE is no longer required to do so under such sections of the Exchange Act.</i> 	<ul style="list-style-type: none"> Until the debt indenture provisions are eliminated (either through retirement of the debt or amendment of the indentures, which would require bondholder approval), PSE's SEC reporting obligations would not be substantially different than the reporting requirements applicable to PSE today. 	

Sarbanes-Oxley Reporting and Governance Obligations ¹				
Sarbanes-Oxley Title	Sarbanes-Oxley Section	Applicable SEC / NYSE Rule and Brief Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
Title II: Auditor Independence	Section 201: Services Outside the Scope of Practice of Auditors	<p><u>Reg. S-X, Rule 2-01(c)(4):</u> Qualifications of Accountants / Non-Audit Services</p> <ul style="list-style-type: none"> Auditor is not considered independent if it performs certain non-audit services for an audit client. 	<ul style="list-style-type: none"> These requirements will continue to apply to PSE so long as it has securities registered under §12(g) or is subject to reporting obligations under §15(d). Puget Energy will not be subject to most of these requirements since it is not an issuer with registered securities under §12 or subject to reporting obligations under §15(d). However, so long as Puget Energy files SEC reports, it must comply with those requirements regarding disclosure (i.e., pre-approval policies). 	<p>Puget Energy/PSE will continue to engage an independent auditor in compliance with these requirements.</p> <p>See SEC commitments above regarding continued filing of SEC reports on Forms 10-K, 10-Q and 8-K.</p>
	Section 202: Preapproval Requirements	<p><u>Reg. S-X, Rule 2-01(c)(7):</u> Qualifications of Accountants / Audit Committee Administration</p> <ul style="list-style-type: none"> Auditor is not considered independent unless audit committee (or full board, if no committee exists) has policies/procedures for approval of services and pre-approves such services <p><u>10-K Form, Item 14:</u> Principal Accountant Fees and Services</p> <ul style="list-style-type: none"> Disclose pre-approval policies and approval of non-audit services by the audit committee, or if none, the full board of directors 		
	Section 203: Audit Partner Rotation	<p><u>Reg. S-X, Rule 2-01(c)(6):</u> Qualifications of Accountants / Partner Rotation</p> <ul style="list-style-type: none"> Auditor is not considered 		

¹ Provisions not relating to governance and reporting obligations, or that are not applicable to Puget Energy or PSE, were excluded (i.e., provision establishing the Public Company Accounting Oversight Board and provisions relating to fines and penalties).

Sarbanes-Oxley Reporting and Governance Obligations ¹				
Sarbanes-Oxley Title	Sarbanes-Oxley Section	Applicable SEC / NYSE Rule and Brief Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
		independent unless certain partner rotation criteria are met.		
	Section 204: Auditor Reports to Audit Committees	<p><u>Reg. S-X, Rule 2-07: Communication with Audit Committees</u></p> <ul style="list-style-type: none"> Each accounting firm that performs an audit for an audit client that is an issuer shall provide a report (with certain disclosures) to the Audit Committee 		
	Section 206: Conflicts of Interest	<p><u>Reg. S-X, Rule 2-01(c)(2): Qualification of Accountants / Employment Relationships</u></p> <ul style="list-style-type: none"> Auditor is not independent if certain employment relationships existed with an audit client 		
Title III: Corporate Responsibility	Section 301: Public Company Audit Committees	<p><u>NYSE §303A.06: Audit Committee</u></p> <p>Listed companies must have an audit committee satisfying Rule 10A-3 under the Exchange Act. Requirements include:</p> <ul style="list-style-type: none"> Committee to consist entirely of independent members Responsible for appointment, compensation and oversight of auditor Adopt procedures to receive / administer complaints re: accounting and auditing matters (and confidential submission of 	<ul style="list-style-type: none"> Since Puget Energy and PSE will no longer have any securities listed on an exchange, neither company will be subject to the rules of the exchange. 	See NYSE §§ <u>303A.06, 303A.07</u> commitments above regarding maintenance of an the audit committees of Puget Energy and PSE.

Sarbanes-Oxley Reporting and Governance Obligations				
Sarbanes-Oxley Title	Sarbanes-Oxley Section	Applicable SEC / NYSE Rule and Brief Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
		<p>complaints by employees)</p> <ul style="list-style-type: none"> Authority to engage independent counsel and advisers 		
	Section 302: Corporate Responsibility for Financial Reports	<p><u>Reg. S-K, Item 601</u>: Exhibits</p> <ul style="list-style-type: none"> Certification of financial statements by Principal Executive Officer and Principal Financial Officer required for periodic and annual reports. 	<ul style="list-style-type: none"> So long as Puget Energy/PSE continue to file SEC reports (on Forms 8-K, 10-Q, 10-K), this requirement will continue to apply post-merger. 	<p>Puget Energy/PSE will continue to provide required certifications in connection with SEC reports.</p> <p>See SEC commitments above regarding continued filing of SEC reports on Forms 10-K, 10-Q and 8-K.</p>
Title IV: Enhanced Financial Disclosures	Section 401: Forms for Periodic and Annual Reports	<p><u>Reg. S-K, Items 10; 303</u>: General; MD&A of Financial Condition and Results of Operations</p> <ul style="list-style-type: none"> Requires disclosure of material correcting adjustments, material off-balance sheet transactions and contractual obligations. Requires registrants to reconcile all publicly disclosed non-GAAP financial measures 	<ul style="list-style-type: none"> So long as Puget Energy/PSE continue to file SEC reports (on Forms 8-K, 10-Q, 10-K), Puget Energy/PSE will still be required to disclose material correcting adjustments, material off-balance sheet transactions and contractual obligations. PSE will be required to reconcile all publicly disclosed non-GAAP financial measures since it will still be a registrant post-closing. Puget Energy may not be a registrant post-closing and therefore, may not be required to reconcile non-GAAP financial measures. 	<p>Puget Energy/PSE will continue to comply with these requirements.</p> <p>See SEC commitments above regarding continued filing of SEC reports on Forms 10-K, 10-Q and 8-K.</p>
	Section 403: Disclosures of Transactions involving Management and Principal	<p><u>Rule 16a-3 of Exchange Act</u>:</p> <ul style="list-style-type: none"> Filing requirements for Section 16 reports Website posting requirements for Section 16 reports 	<ul style="list-style-type: none"> PSE will continue to be subject to these requirements since it will have preferred stock outstanding that was registered pursuant to §12. Puget Energy will not have any securities registered pursuant to §12 	<p>Puget Energy/PSE will comply with these requirements only to the extent required by Rule 16a-3 of the Exchange Act (i.e., only to the extent Puget Energy/PSE have equity securities registered pursuant to §12 of the Exchange Act.</p>

Sarbanes-Oxley Reporting and Governance Obligations ¹				
Sarbanes-Oxley Title	Sarbanes-Oxley Section	Applicable SEC / NYSE Rule and Brief Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
	Stockholders		post-closing and will therefore no longer be subject to these requirements.	
	Section 404: Management Assessment of Internal Controls	<u>Reg. S-K, Item 308</u> : Internal Control over Financial Reporting <ul style="list-style-type: none"> • Provide report of management on internal control over financial reporting • Provide attestation report of auditor 	<ul style="list-style-type: none"> • So long as Puget Energy/PSE continue to file SEC reports (on Forms 8-K, 10-Q, 10-K), Puget Energy/PSE will continue to be subject to these requirements. 	Puget Energy/PSE will continue to comply with these requirements. See SEC commitments above regarding continued filing of SEC reports on Forms 10-K, 10-Q and 8-K.
	Section 406: Code of Ethics for Senior Financial Officers Regulation S-K: §406	<u>Reg. S-K, Item 406</u> : Code of Ethics <ul style="list-style-type: none"> • Disclose whether registrant has adopted a code of ethics that applies to PEO, PFO, PAO or controller • File code of ethics and post same on website, undertaking to provide a written copy upon request 	<ul style="list-style-type: none"> • So long as Puget Energy/PSE continue to file SEC reports (on Forms 8-K, 10-Q, 10-K), Puget Energy/PSE will continue to be subject to these requirements. 	Puget Energy/PSE will continue to comply with these requirements. See SEC commitments above regarding continued filing of SEC reports on Forms 10-K, 10-Q and 8-K.
	Section 407: Disclosure of Audit Committee Financial Expert	<u>Reg. S-K, Item 407</u> : Corporate Governance <ul style="list-style-type: none"> • Disclose whether the audit committee is comprised of at least 1 member who is a financial expert. 	<ul style="list-style-type: none"> • So long as Puget Energy/PSE continue to file SEC reports (on Forms 8-K, 10-Q, 10-K), Puget Energy/PSE will continue to be subject to these requirements. 	Puget Energy/PSE will continue to comply with these requirements. See SEC commitments above regarding continued filing of SEC reports on Forms 10-K, 10-Q and 8-K.
Title IX: White Collar Crime Penalty Enhancements	Section 906: Corporate Responsibility for Financial Reports	<u>Reg. S-K, Item 601</u> : Exhibits <ul style="list-style-type: none"> • Requires certification of financial statements by Principal Executive Officer and Principal Financial Officer. 	<ul style="list-style-type: none"> • So long as Puget Energy/PSE continue to file SEC reports (on Forms 8-K, 10-Q, 10-K), Puget Energy/PSE will continue to be subject to these requirements. 	Puget Energy/PSE will continue to comply with these requirements. See SEC commitments above.

FERC Reporting Obligations			
Rule	Description of Requirement	Post-Closing Requirement	Post-Closing Commitment
18 CFR §141.1(b)(1)(i)	<u>Annual Report (FERC Form 1)</u> <ul style="list-style-type: none"> Each Major electric utility shall prepare and file Form 1 electronically with the FERC pursuant to the General Instructions set out in that form. 	<ul style="list-style-type: none"> PSE will continue to be a Major electric utility and will therefore continue to comply with this requirement. Puget Energy has never been subject to this requirement since it is not a Major electric utility. 	<ul style="list-style-type: none"> PSE will continue to be required to comply with this requirement.
18 CFR §141.400(b)(1)(i)	<u>Quarterly Reports (FERC Form 3)</u> <ul style="list-style-type: none"> Each electric utility must prepare and file Form No. 3-Q with the FERC pursuant to the General Instructions set out in that form. 	<ul style="list-style-type: none"> PSE will continue to be an electric utility and will therefore continue to comply with this requirement. Puget Energy has never been subject to this requirement since it is not an electric utility. 	<ul style="list-style-type: none"> PSE will continue to be required to comply with this requirement.
18 CFR §260.2(b)	<u>Annual Reports (FERC Form 2-A)</u> <ul style="list-style-type: none"> Each Nonmajor interstate natural gas pipeline subject to the jurisdiction of the FERC shall prepare and file Form 2-A electronically with the FERC pursuant to the General Instructions set forth in that form. 	<ul style="list-style-type: none"> PSE owns an interest in the Jackson Prairie Underground Storage Project, which will continue to be a Nonmajor natural gas company and will therefore continue to comply with this requirement. Neither Puget Energy nor PSE has been subject to this requirement because neither is a natural gas company, as that term is defined by Natural Gas Act (15 U.S.C. §§ 717, <i>et seq.</i>). 	<ul style="list-style-type: none"> The Jackson Prairie Underground Storage Project will continue to be required to comply with this requirement.
18 CFR §260.300(b)(1)	<u>Quarterly Reports (FERC Form 3)</u> <ul style="list-style-type: none"> Each natural gas company must prepare and file Form 3-Q with the FERC pursuant to the General Instructions set out in that form. 	<ul style="list-style-type: none"> The Jackson Prairie Underground Storage Project will continue to be a natural gas company and will therefore continue to comply with this requirement. Neither Puget Energy nor PSE has been subject to this requirement because neither is a natural gas company, as that term is defined by Natural Gas Act (15 U.S.C. §§ 717, <i>et seq.</i>). 	<ul style="list-style-type: none"> The Jackson Prairie Underground Storage Project will continue to regarding continued filing of SEC reports on Forms 10-K, 10-Q and 8-K comply with this requirement.

**ATTACHMENT B TO
JOINT APPLICANTS' RESPONSE TO
BENCH REQUEST NO. 22**



Last Modified: 11/03/2004

303A.00 Corporate Governance Standards

303A.02 Independence Tests

In order to tighten the definition of "independent director" for purposes of these standards:

(a) No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). Companies must identify which directors are independent and disclose the basis for that determination.

Commentary: It is not possible to anticipate, or explicitly to provide for, all circumstances that might signal potential conflicts of interest, or that might bear on the materiality of a director's relationship to a listed company (references to "company" would include any parent or subsidiary in a consolidated group with the company). Accordingly, it is best that boards making "independence" determinations broadly consider all relevant facts and circumstances. In particular, when assessing the materiality of a director's relationship with the listed company, the board should consider the issue not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. However, as the concern is independence from management, the Exchange does not view ownership of even a significant amount of stock, by itself, as a bar to an independence finding.

The identity of the independent directors and the basis for a board determination that a relationship is not material must be disclosed in the listed company's annual proxy statement or, if the company does not file an annual proxy statement, in the company's annual report on Form 10-K filed with the SEC. In this regard, a board may adopt and disclose categorical standards to assist it in making determinations of independence and may make a general disclosure if a director meets these standards. Any determination of independence for a director who does not meet these standards must be specifically explained. A company must disclose any standard it adopts. It may then make the general statement that the independent directors meet the standards set by the board without detailing particular aspects of the immaterial relationships between individual directors and the company. In the event that a director with a business or other relationship that does not fit within the disclosed standards is determined to be independent, a board must disclose the basis for its determination in the manner described above. This approach provides investors with an adequate means of assessing the quality of a board's independence and its independence determinations while avoiding excessive disclosure of immaterial relationships.

(b) In addition, a director is not independent if:

(i) The director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive officer,¹ of the listed company.

Commentary: Employment as an interim Chairman or CEO or other executive officer shall not disqualify a director from being considered independent following that employment.

(ii) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).

Commentary: Compensation received by a director for former service as an interim Chairman or CEO or other executive officer need not be considered in determining independence under this test. Compensation received by an immediate family member for service as an employee of the listed company (other than an executive officer) need not be considered in determining independence under this test.

(iii) (A) The director or an immediate family member is a current partner of a firm that is the company's internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the listed company's audit within that time.

(iv) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee.

(v) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

Commentary: In applying the test in Section 303A.02(b)(v), both the payments and the consolidated gross revenues to be measured shall be those reported in the last completed fiscal year. The look-back provision for this test applies solely to the financial relationship between the listed company and the director or immediate family member's current employer; a listed company need not consider former employment of the director or immediate family member.

Contributions to tax exempt organizations shall not be considered "payments" for purposes of Section 303A.02(b)(v), provided however that a listed company shall disclose in its annual proxy statement, or if the listed company does not file an annual proxy statement, in the company's annual report on Form 10-K filed with the SEC, any such contributions made by the listed company to any tax exempt organization in which any independent director serves as an executive officer if, within the preceding three years, contributions in any single fiscal year from the listed company to the organization exceeded the greater of \$1 million, or 2% of such tax exempt organization's consolidated gross revenues. Listed company boards are reminded of their obligations to consider the materiality of any such relationship in accordance with Section 303A.02(a) above.

General Commentary to Section 303A.02(b): An "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home. When applying the look-back provisions in Section 303A.02(b), listed companies need not consider individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated.

In addition, references to the "company" would include any parent or subsidiary in a consolidated group with the company.

¹For purposes of Section 303A, the term "executive officer" has the same meaning specified for the term "officer" in Rule 16a-1(f) under the Securities Exchange Act of 1934.

Transition Rule. Each of the above standards contains a three-year "look-back" provision. In order to facilitate a smooth transition to the new independence standards, the Exchange will phase in the "look-back" provisions by applying only a one-year look-back for the first year after adoption of these new standards. The three-year look-backs provided for in Section 303A.02(b) will begin to apply only from and after November 4, 2004.

As an example, until November 3, 2004, a listed company need look back only one year when testing compensation under Section 303A.02(b)(ii). Beginning November 4, 2004, however, the listed company would need to look back the full three years provided in Section 303A.02(b)(ii).

**ATTACHMENT C TO
JOINT APPLICANTS' RESPONSE TO
BENCH REQUEST NO. 22**

TITLE 17--COMMODITY AND SECURITIES EXCHANGES

CHAPTER II--SECURITIES AND EXCHANGE COMMISSION (CONTINUED)

PART 240 _GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934--Table of Contents

Subpart A _Rules and Regulations Under the Securities Exchange Act of 1934

Sec. 240.10A-3 Listing standards relating to audit committees.

(b) Required standards—

(1) Independence.

(i) Each member of the audit committee must be a member of the board of directors of the listed issuer, and must otherwise be independent; provided that, where a listed issuer is one of two dual holding companies, those companies may designate one audit committee for both companies so long as each member of the audit committee is a member of the board of directors of at least one of such dual holding companies.

(ii) Independence requirements for non-investment company issuers. In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed issuer that is not an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:

(A) Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or

(B) Be an affiliated person of the issuer or any subsidiary thereof.

(iii) Independence requirements for investment company issuers. In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed issuer that is an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:

(A) Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or

(B) Be an "interested person" of the issuer as defined in section 2(a)(19) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(a)(19)).

(iv) Exemptions from the independence requirements.

(A) For an issuer listing securities pursuant to a registration statement under section 12 of the Act (15 U.S.C. 78l), or for an issuer that has a registration statement under the Securities Act of 1933 (15 U.S.C. 77a et seq.) covering an initial public offering of securities to be listed by the issuer, where in each case the listed issuer was not, immediately prior to the effective date of such registration statement, required to file reports with the Commission pursuant to section 13(a) or 15(d) of the Act (15 U.S.C. 78m(a) or 78o(d)):

(1) All but one of the members of the listed issuer's audit committee may be exempt from the independence requirements of paragraph (b)(1)(ii) of this section for 90 days from the date of effectiveness of such registration statement; and

(2) A minority of the members of the listed issuer's audit committee may be exempt from the independence requirements of paragraph (b)(1)(ii) of this section for one year from the date of effectiveness of such registration statement.

(B) An audit committee member that sits on the board of directors of a listed issuer and an affiliate of the listed issuer is exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if the member, except for being a director on each such board of directors, otherwise meets the independence requirements of paragraph (b)(1)(ii) of this section for each such entity, including the receipt of only ordinary-course compensation for serving as a member of the board of directors, audit committee or any other board committee of each such entity.

(C) An employee of a foreign private issuer who is not an executive officer of the foreign private issuer is exempt from the requirements of paragraph (b)(1)(ii) of this section if the employee is elected or named to the board of directors or audit committee of the foreign private issuer pursuant to the issuer's governing law or documents, an employee collective bargaining or similar agreement or other home country legal or listing requirements.

(D) An audit committee member of a foreign private issuer may be exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if that member meets the following requirements:

- (1) The member is an affiliate of the foreign private issuer or a representative of such an affiliate;
- (2) The member has only observer status on, and is not a voting member or the chair of, the audit committee; and
- (3) Neither the member nor the affiliate is an executive officer of the foreign private issuer.

(E) An audit committee member of a foreign private issuer may be exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if that member meets the following requirements:

- (1) The member is a representative or designee of a foreign government or foreign governmental entity that is an affiliate of the foreign private issuer; and
- (2) The member is not an executive officer of the foreign private issuer.

(F) In addition to paragraphs (b)(1)(iv)(A) through (E) of this section, the Commission may exempt from the requirements of paragraphs (b)(1)(ii) or (b)(1)(iii) of this section a particular relationship with respect to audit committee members, as the Commission determines appropriate in light of the circumstances.