

PUGET ENERGY, INC.
PUGET SOUND ENERGY, INC.

Corporate Governance Guidelines

1. General Role of the Board of Directors

The primary role of the Board is to oversee the business affairs and management of the Company, including appointing and overseeing senior management, for the benefit of its shareholders and other constituencies. The Company's management is responsible for conducting the day-to-day operations of the Company pursuant to appropriate delegation of authority and oversight by the Board. The Board recognizes that being a good corporate citizen, taking a broad view of the interests of the region, and maintaining positive relationships with the various stakeholders in the communities in which we serve will ultimately contribute to the success of the business.

The Board is committed to fulfilling its fiduciary duties applying the highest standards of integrity and ethical conduct. Under the Washington Business Corporation Act, directors are required to discharge their duties according to the following basic standards: (i) in good faith; (ii) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and (iii) in a manner the director reasonably believes to be in the best interests of the corporation. Traditionally, these duties have been described as the duty of loyalty and the duty of care:

(a) The *duty of loyalty* requires that directors act in good faith and in what they believe to be in the best interests of the corporation. Specifically, directors must refrain from self-dealing, that is making a decision that benefits them at the expense of the corporation; and

(b) The *duty of care* requires directors to be well informed, act appropriately and exercise a standard of care equal to that of an ordinary prudent person under similar circumstances.

Specific Board responsibilities include:

- Approving a corporate mission statement;
- Selecting, evaluating, compensating, and—if necessary—replacing the CEO, other senior executives, and directors;
- Ensuring management succession;
- Reviewing and approving management's strategic and business plans, and monitoring performance against the plans;
- Reviewing and approving material transactions not in the ordinary course of business;

- Exercising reasonable oversight of the Company's activities to ensure they are conducted in accordance with legal and ethical requirements, such as the Sarbanes-Oxley Act of 2002 and the Federal Sentencing Guidelines, and further ensuring that the Company's Corporate Ethics and Compliance Program, which was designed to detect and deter criminal conduct, is being appropriately implemented; and
- Ensuring its own effectiveness.

2. Board Membership

(a) Size. In accordance with the Restated Articles of Incorporation and the Bylaws of Puget Energy, Inc., the number of directors of Puget Energy shall be not less than nine (9) or more than fifteen (15). The Governance and Public Affairs Committee will annually consider size of the Board when it considers candidates and nominees for the Board.

(b) Chair of the Board; Lead Independent Director. The Board does not have a policy as to whether the Chair of the Board should be a non-management director or a member of management. Instead, the Board chooses its Chair in the manner that is in the best interests of the Company in light of the applicable circumstances. In the event a member of the Company's management joins the Board, such director generally would not be eligible to become Chair until the full Board has had the opportunity to observe such director's participation in and respect for the Board's corporate governance process for a period of time to be determined by the Board. When the Chair is a member of the Company's management, the Board must choose a Lead Independent Director from among its non-management directors.

The role of the Chair of the Board is to coordinate the activities of the Board. The general responsibilities are set forth in the Company's Bylaws. The Chair shall be elected by the Board for a one-year term. The election will be held at the Board meeting closest in time to the annual shareholders' meeting. The Board shall evaluate rotation of the Board Chair at least once every five (5) years.

The Chair, or the Lead Director on those occasions when the Chair is a member of the Company's management, will be responsible for the specific duties set forth in these Corporate Governance Guidelines as well as those set forth in the Company's Bylaws, those required under law or those assigned from time to time by the Board.

The Chair and the Lead Director when the Chair is a member of the Company's management, in addition to any other obligations required by law, shall:

- (i) Stay regularly informed on the strategy of the Company and its evolution.
- (ii) Stay regularly informed about critical issues and performance of the Company.

- (iii) Work with the chair of the Governance and Public Affairs Committee on Board composition, structure, performance and any additional governance matters.
- (iv) Work with the chair of the Compensation and Leadership Development Committee on CEO performance reviews, compensation and succession planning.
- (v) Approve meeting schedules to assure that there is sufficient time for discussion of all agenda items.
- (vi) Work with directors to set the agenda for Board meetings.
- (vii) Know the senior leadership of the Company and be a point of contact for their concerns, where such concerns cannot be adequately expressed through the CEO.
- (viii) Be available to consult with the CEO about concerns of the Board of Directors.
- (ix) Serve as a point of contact for shareholder concerns.

In addition, on those occasions when the Chair is a member of the Company's management, the Lead Director shall also be required to preside at executive sessions of the Board or any meetings of the Board or shareholders where the Chair is not present.

(c) Number of Independent Directors. A substantial majority of the Board should be independent as determined under the New York Stock Exchange rules and regulations, with at least a majority of directors deemed independent at any given time. Generally, no more than two (2) employees of the Company should concurrently sit on the Board.

(d) Independence: Defining Independence for this Board. The independence standards listed below are based on current New York Stock Exchange corporate governance listing standards. The Board shall also apply any additional independence standards adopted by the NYSE or the SEC after these guidelines are adopted. For purposes of this section 2(d), references to "the Company" include any parent or subsidiary in a consolidated group with the Company.

An independent director is a director who has been affirmatively determined by the Board to have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company).

A director will automatically be disqualified from being deemed independent if in the last three years:

- The director was an employee, or has an immediate family member who was an executive officer, of the Company. Employment as an interim Chair or CEO or other executive officer will not automatically disqualify a director from being considered independent following that employment.
- The director received, or has an immediate family member who received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the 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). Compensation received by a director for former service as an interim Chair or CEO or other executive officer need not be considered in determining independence under this test.
- (A) The director is, or has an immediate family member who 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 was, or has an immediate family member who was, within the last three years (but is no longer) a partner or employee of such firm and personally worked on the Company's audit within that time.
- The director or an immediate family member of the director is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on the compensation committee (or the Board if no compensation committee) of that other company.
- The director is a current executive officer or employee, or has an immediate family member who is a current executive officer, of another company that made payments to or received payments from the Company 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. Contributions to charitable organizations are not considered "payments" for purposes of this independence disqualifier; however, the Company will disclose in its annual proxy statement any contributions made by the Company to any charitable organization in which a director serves as an executive officer if, within the previous three years, contributions in any single fiscal year exceeded the greater of \$1 million or 2% of such charitable organization's consolidated gross revenues.

An "immediate family member" includes a director'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 director's home. When applying the three-year look-back referenced above, individuals who are no

longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated, need not be considered.

For purposes of determining director independence for audit committee purposes, the following additional requirements apply:

- A director cannot receive, directly or indirectly, any consulting or advisory fees or any other compensation other than director's fees from the Company or any of its subsidiaries; and
- A director cannot be an "affiliated person" of the Company or any of its subsidiaries (as such term is defined under applicable federal securities laws and regulations) except as specifically permitted under such laws and regulations or official interpretations thereof.

In addition, in making its independence determinations, the Board should consider any director affiliation, relationship or transaction brought to the attention of the Governance and Public Affairs Committee pursuant to section 2(e) of these Corporate Governance Guidelines.

In making independence determinations, the following relationship will not be considered to be a material relationship unless the described payments would automatically disqualify the director from being independent under NYSE's corporate governance standards: if a director or an immediate family member of a director, or a company for which a director or an immediate family member of a director, makes payments to Puget Sound Energy, Inc. for power or natural gas provided by Puget Sound Energy at rates fixed in conformity with law or governmental authority. In addition, the following relationships also are not material when making independence determinations: If a director is a director, employee or executive officer of another company that makes payments to or receives payments from Puget Energy, Puget Sound Energy, or any of their affiliates, for property or services in an amount which is less than the greater of \$1 million or one percent of such other company's consolidated gross revenues, determined for the most recent fiscal year. These categorical standards will not apply, however, to the extent that the Company would be required to disclose an arrangement as a related party transaction pursuant to Item 404 of Regulation S-K.

The Board will periodically review the independence of each of the Company's directors pursuant to the provisions of this section 2(d).

(e) *Independence: Avoiding Conflicts.* Each director should immediately advise the Chair of the Board and the Chair of the Governance and Public Affairs Committee of any proposed or current affiliation, relationship or transaction with any entity (including non-profits or governmental agencies) or individual that may create a potential conflict of interest or be inconsistent with Company policies or values. The Governance and Public Affairs Committee must determine if such affiliation is cause for

the Board to suggest that the director take appropriate action to avoid the conflict. Each director must be alert to his or her responsibilities to other organizations which could, if fulfilled, cause a director to no longer be considered independent.

If a director has a personal interest in any matter before the Board or a Committee, the director must disclose the interest to the full Board or Committee, as the case may be, and excuse himself or herself from participation in any discussion or action relating to the matter, as appropriate.

(f) Director Qualifications. Director nominees should generally possess, among other things, those qualifications set forth in the Governance and Public Affairs Committee Charter Exhibit A–Director Recruiting and Selection Criteria.

(g) Director Selection. The Governance and Public Affairs Committee is responsible for recommending to the Board director candidates for nomination and election. The Governance and Public Affairs Committee annually reviews with the Board the applicable skills and characteristics required of Board nominees in the context of current Board composition and Company circumstances. In making its recommendations to the Board, the Governance and Public Affairs Committee considers, among other things, the qualifications of individual director candidates in light of the above-mentioned factors. The Governance and Public Affairs Committee will consider potential director candidates recommended by shareholders or other individuals in the manner set forth in the Governance and Public Affairs Committee Charter Exhibit A–Director Recruiting and Selection Criteria.

The Board nominates director candidates to the shareholders for election and fills any Board vacancies that occur between shareholder elections pursuant to the Company's Bylaws. The invitation to be nominated or join the Board is made by the Chair of the Board and/or the Chair of the Governance and Public Affairs Committee as representative(s) of the Board.

(h) Election of Directors. In an uncontested election of directors (number of nominees is equal to number of open positions) any nominee who receives a greater number of votes "withheld" from or voted "against" his or her election than votes "for" his or her election, shall tender his or her resignation to the Board within five business days from the certification of the shareholder vote by the inspector of elections.

The Governance and Public Affairs Committee shall consider the resignation offer and recommend to the Board whether to accept it. In considering whether to accept or reject the tendered resignation, the Committee will consider all factors deemed relevant by the member of the Committee including, without limitation, the reasons by shareholders "withheld" votes for election from the director, the length of service and qualifications of the director whose resignation has been tendered and the director's contributions to the Company.

The independent members of the Board will take action on the Committee's recommendation with ninety (90) days following the submission of the director's resignation. In considering the Committee's recommendation, the Board will consider

the factors considered by the Committee and such additional information and factors the Board believes to be appropriate. The Company will disclose the Board's decision and provide a full explanation of its process and the factors it considered within four business days of its decision in a filing with the Securities and Exchange Commission. If the Board is unable to reach a decision on a timely basis, it will promptly disclose the reasons therefor. The Board may also elect to delay acceptance of a resignation for a specified period to provide it with an opportunity to address the underlying shareholder concerns, to recruit a new director, or for any other reason it believes appropriate.

To the extent that one or more directors' resignations are accepted by the Board, the Committee will recommend to the Board whether to fill such vacancy or vacancies or to reduce the size of the Board. If the Board does not accept one or more such resignations, it may elect to address the specific stated reasons why shareholders "withheld" votes for election from the directors at issue or take such other actions that the Board deems appropriate and in the best interests of the Company and its shareholders.

Any director who tenders his or her resignation as set forth above shall not participate in the Committee recommendation or Board action relating to the resignation. If a majority of Committee members tender their resignations, then the remaining independent directors will consider such resignations and recommend action to the disinterested members of the Board.

(i) Director Changing Employment Status. Directors are expected to tender their resignations if they experience a substantial change in principal employment responsibility that was not anticipated by the Committee at the time of the director's nomination or election to the Board. The Board does not believe that such a director must necessarily leave the Board. Upon receipt of a resignation offered under these circumstances, the Governance and Public Affairs Committee will review the director's change in employment responsibilities to evaluate whether the director's continued service is appropriate and will make a recommendation accordingly to the full Board. The Board will then make a determination whether to accept or decline the director's tendered resignation.

(j) Other Boards and Committees. Without specific approval from the Board, no director may serve on more than five (5) public company boards and no member of the Company's Audit Committee may serve on more than three (3) public company audit committees or their equivalents. Service on the boards of Puget Energy, Inc. and Puget Sound Energy, Inc. shall be deemed to count as service on one (1) board for purposes of calculating a director's total board service. In calculating service on a public company board or audit committee, service on a board or audit committee of a substantially owned subsidiary will not be counted in the calculation so long as the director also serves on the board or audit committee of the subsidiary's parent.

Directors must advise and consult with the Chair of the Governance and Public Affairs Committee and the Chair of the Board prior to accepting an invitation to serve on any public company boards that the director did not serve on prior to joining the Board

or standing for election to a public office that the director did not hold prior to joining the Board.

(k) Terms. The Board comprises three (3) classes of directors, with approximately one-third of the directors assigned to each class. The members of each class are elected for three (3) year terms. The Board does not believe in limiting the number of terms a director may serve. However, the Governance and Public Affairs Committee will review, taking tenure into account, each director prior to recommending a director for renomination.

(l) Retirement. Directors are expected to tender their resignation prior to the annual shareholders' meeting following their 72nd birthday, with such resignation effective upon the conclusion of the annual shareholders' meeting. Directors may stand for reelection even though the Company's retirement policy would prevent them from completing a full three (3) year term.

3. Board Meetings and Other Communications

(a) Frequency of Board Meetings. The Board generally has at least six (6) regularly scheduled meetings per year and holds several special meetings and retreats as necessary. In addition, each committee holds regularly scheduled meetings and special meetings as necessary. It is the responsibility of each director to attend both scheduled and special meetings, except if unusual circumstances make attendance impractical.

(b) Non-Management Executive Sessions. Non-management directors meet in executive session on a regular basis, generally at each scheduled Board meeting. The Chair of the Board, if a non-management director, presides over the executive sessions. However, if the Chair is an employee of the Company, then the Lead Independent Director will preside. If the group of non-management directors includes any non-independent directors, then the independent directors will meet in executive session at least once a year.

(c) Access to Management and Employees and Outside Advisors. For the purpose of obtaining information, directors have complete access to the management and employees of the Company. Any particular contact a director wishes to initiate with management or other employees will generally be arranged through the Chief Executive Officer, Corporate Secretary, General Counsel, Chair of the Board or Lead Independent Director, if appointed, or appropriate committee chair. Under unusual circumstances, management or employee contact may be made directly by the director. A director should ensure that any such contact is not unnecessarily disruptive to the affairs of the Company and should, unless inappropriate due to the particular circumstances, copy the Chair or the Chief Executive Officer on any written communications or brief the Chair or the Chief Executive Officer on any material oral communications the director has with a member of management or other employee.

Requests for corporate action, as opposed to information, should generally be made only to the Chief Executive Officer.

The Board has complete access to the assistance of outside advisors of its choosing, including counsel, with respect to any issues relating to Board functions. No approval is required from management for engagement of outside advisors, although management should be informed with respect to any such engagement, as appropriate.

(d) Meeting Agendas. The Chair of the Board (or, if appointed, the Lead Independent Director) in consultation with the Chief Executive Officer (and with appropriate input from the Chairs of the Audit, Compensation and Leadership Development and Governance and Public Affairs Committees) is responsible for establishing the agenda for each Board meeting. Directors are encouraged to suggest, as appropriate, the inclusion of additional items on the agendas. At any Board meeting, the directors may raise matters for discussion that are not on the meeting's formal agenda.

In addition, the Chair of the Board (or, if appointed, the Lead Independent Director) in consultation with the Chief Executive Officer (and with appropriate input from the Chairs of the Audit, Compensation and Leadership Development, and Governance and Public Affairs Committees) is responsible for preparing an annual agenda. This annual agenda should set forth a general agenda of items to be considered by the Board at each of its scheduled meetings for the forthcoming year. General items to be covered usually include:

- Chief Executive Officer and Board evaluations;
- Management succession planning;
- Review of long-term strategic and business plans, including budgetary assessments;
- Review of regulatory affairs and accounting, financial and legal compliance controls and processes; and
- Assessment and action on corporate governance matters, including annual director nominations and committee membership appointments.

Upon completion of a draft of the annual agenda, it should be provided to each of the directors for review. Directors should feel free to suggest inclusion of additional items on the annual agenda before it is finalized.

(e) Board Materials. Each director should receive materials important to understanding the agenda items, as well as the presentations, discussions and issues to be covered at each Board meeting in writing and sufficiently in advance of the meeting to permit appropriate review and preparation, unless distribution of such materials prior to the applicable meeting might compromise confidential information. The Chair of the Board in consultation with the Chief Executive Officer and other applicable senior management is responsible for providing such materials to each director. Directors are responsible for adequately reviewing these materials and otherwise preparing for each Committee meeting.

(f) Information Regarding Significant Subsidiaries. The Board should regularly receive reports regarding material developments affecting the Company's significant subsidiaries. The Chief Executive Officer, with the assistance of subsidiary management, is responsible for regularly reporting material information to the Board relating to these subsidiaries.

(g) Board Communications to Outside Parties. The Chief Executive Officer, as well as other applicable senior management, is responsible for speaking for the Company, including establishing effective communications with each of the Company's constituencies. The Chair of the Board (or, if appointed, the Lead Independent Director) is the spokesperson for the Board. On occasion, however, individual directors may meet or otherwise communicate with various constituencies regarding the Company after consultation with senior management or the Chair of the Board.

(h) Attendance at Annual Meeting. To facilitate and promote communication among directors and shareholders of the Company, directors are encouraged and normally expected to attend the Company's regularly scheduled annual meeting of shareholders.

4. Board Committees

(a) Number and Types of Committees. The Company must have at all times a standing audit committee, compensation committee, and nominating/governance committee. All members of these three (3) standing Committees must be independent. The responsibilities and duties of each of these Committees must be outlined in their respective Committee charters. The Board may form or disband other Committees as it deems necessary.

(b) Appointment of Committee Members. The Governance and Public Affairs Committee will annually recommend to the Board appointment of Board members to Committees after consulting with the Chair of the Board (or, if appointed, the Lead Independent Director). After reviewing the Governance and Public Affairs Committee's recommendations, the Board is responsible for the appointment of members to the Committees on an annual basis. In addition, the Board is responsible for either appointing Committee Chairs or leaving such appointments to the members of the respective Committees.

(c) Rotation of Committee Members. When the Governance and Public Affairs Committee annually reviews Committee appointments, it must consider whether the rotation of Committee Chairs and members is appropriate with a view towards balancing the benefits derived from the continuity of Committee membership with the benefits derived from bringing diversity of experience and viewpoints in the form of new member appointments to the Committees. The Governance and Public Affairs Committee shall evaluate rotation of each committee chair at least once every five (5) years.

(d) Frequency and Length of Committee Meetings. Each Committee meets as frequently and for such length of time as may be required to carry out its assigned

duties and responsibilities or as otherwise required by its charter. An annual schedule for regular meetings for each standing Committee is submitted and approved by the Board in advance. In addition, the Committee may hold special meetings, as appropriate. It is the responsibility of each Committee member to attend both scheduled and special Committee meetings, except if unusual circumstances make attendance impracticable.

(e) Committee Meeting Agendas. The Chair of each Committee, in consultation with the Chair of the Board (or, if appointed, the Lead Independent Director) and the Chief Executive Officer or other applicable senior management, is responsible for establishing the agenda for each Committee meeting. Committee members are encouraged to suggest, as appropriate, the inclusion of additional items on the agendas. Committee members may raise at any Committee meeting matters for discussion that are not on the meeting's formal agenda.

In addition, the Chair of each Committee, in consultation with the Chair of the Board (or, if appointed, the Lead Independent Director) and the Chief Executive Officer or other applicable senior management, is responsible for preparing an annual agenda. This annual agenda should set forth a general agenda of items to be considered by the Committee at each of its scheduled meetings for the forthcoming year. Upon completion of a draft of the annual agenda, it should be provided to each of the Committee members for review. Committee members should feel free to suggest inclusion of additional items on the annual agenda before it is finalized.

(f) Committee Materials. Each Committee member should receive materials important to understanding the agenda items, as well as the presentations, discussions and issues, to be covered at each Committee meeting, in writing and sufficiently in advance of the meeting to permit appropriate review and preparation, unless distribution of such materials prior to the applicable meeting might compromise confidential information. The Chair of each Committee, in consultation with the Chief Executive Officer and other applicable senior management, is responsible for providing such materials to each Committee member. Committee members are responsible for adequately reviewing these materials and otherwise preparing for each Committee meeting.

(g) Director Access to Committee Meetings. In order to promote transparency, all directors are provided notice of and the agendas to all committee meetings. Any director may attend any committee meeting, whether or not a member of that particular committee.

(h) Access to Outside Advisors. Each Committee has complete access to the assistance of outside advisors of its choosing, including counsel, with respect to any issues relating to Committee functions. No approval is required from the full Board or management for engagement of outside advisors, although the Board should be consulted and management should be informed with respect to any such engagement, as appropriate.

(i) Committee Reports. Each Committee Chair reports on the Committee meetings to the extent appropriate to the full Board. All directors are furnished copies of each Committee's minutes as and when appropriate.

5. Board Compensation

(a) Director Compensation. Generally, the Board believes that the level of director compensation should be based on time spent carrying out Board and Committee responsibilities and be competitive with comparable companies. In addition, the Board believes that a significant portion of director compensation should align director interests with the long-term interests of shareholders.

Directors are compensated (i) by quarterly retainer payments and (ii) for each Board or Committee meeting attended. In addition, the Chair of the Board and the Chair of each of the Audit, Compensation and Leadership Development, and Governance and Public Affairs Committees, as well as each member of the Audit Committee, are paid additional quarterly retainers. At least 50% of quarterly retainer payments are made in common stock of the Company, and directors may elect to receive a higher portion of their quarterly retainer payments in common stock. Receipt of shares may be deferred under the Company benefit plans.

Directors who also serve as employees of the Company do not receive compensation for their service on the Board or any Committees.

(b) Director Compensation Review Practices. The Governance and Public Affairs Committee is responsible for annually reviewing the Company's director compensation practices in relation to comparable companies. Any changes to be made to director compensation practices must be recommended by the Governance and Public Affairs Committee for approval by the full Board.

(c) Director Stock Ownership Guidelines. The Board believes that directors should have a financial stake in the Company. The Board has adopted stock ownership guidelines for directors generally requiring a director to hold a minimum of Company equity valued at two times (2x) the annual Board member retainer. The guidelines call for the Company to pay the quarterly Board retainer in the form of Puget Energy, Inc. Common stock until a director owns shares equal in value to the ownership target.

(d) Director Orientation and Continuing Education. New directors are required to attend a Company orientation program, which should be conducted within one (1) month of the meeting at which the director is elected. The orientation program includes: (i) informative materials and presentations by appropriate officers to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, the codes of business conduct and ethics and the Corporate Governance Guidelines; and (ii) meetings with senior management and the Company's internal and independent auditors. The orientation program also includes visits to Company headquarters and, to the extent practical, some of the Company's significant facilities. All directors are invited to attend the orientation program.

In addition, the Board is periodically provided with presentations by outside advisors regarding current issues and trends, including accounting and legal, affecting the Company's business affairs and industry. Directors are reimbursed reasonable costs associated with participation in educational programs relating to their service on the Board and the Committees.

Directors also routinely receive materials from the Company relating to its business affairs and industry, such as financial reports, press releases and analyst reports. Directors are responsible for reviewing these materials and generally staying current with the Company's business affairs and industry.

6. Board and Management Evaluation and Succession Planning

(a) Annual Board Evaluation. The full Board annually conducts an evaluation to assess whether the Board and its Committees are functioning effectively. The Governance and Public Affairs Committee is responsible for coordinating with the Chair of the Board (or, if appointed, Lead Independent Director) and the Chief Executive Officer to establish the evaluation criteria and implement the process for any such evaluation. The evaluation should focus on the contributions of the Board and its Committees as a whole and on any areas where the Board or management believes the Board and its Committees could make larger contributions. The full Board is responsible for discussing the results of the evaluation. Any director may make suggestions on Board or Committee practices and communicate them to the Chair of the Board or the Chair of the Governance and Public Affairs Committee.

(b) Annual Committee Evaluation. Each Committee annually conducts an evaluation to assess whether it is functioning effectively. The Governance and Public Affairs Committee is responsible for separately coordinating with each Committee Chair to establish the evaluation criteria and implement the process for any such evaluation. Each Committee is responsible for discussing the results of its evaluation. Any Committee member may make suggestions on Committee practices and communicate them to the applicable Committee Chair or the Chair of the Governance and Public Affairs Committee.

(c) Management Assessment and Succession Planning. The Board is responsible for succession planning for the Chief Executive Officer position as well as for other senior management positions. To assist the Board in this planning, the Compensation and Leadership Development Committee provides the Board with an evaluation of the current senior management and the leadership potential of senior management and other appropriate employees. The Chief Executive Officer should continually make available to the Board and the Compensation and Leadership Development Committee recommendations for potential successors to the Chief Executive Officer position and also for certain other senior management positions.

In addition, the Chief Executive Officer, in consultation with and with the assistance of the Chair of the Board (or, if appointed, Lead Independent Director) and the Chair of the Compensation and Leadership Development Committee, should make available a short-term succession plan which delineates temporary delegations of

authority to certain officers of the Company in the event all or a portion of senior management unexpectedly becomes unable to perform their duties. The short-term succession plan would be in effect only until the Board has the opportunity to consider the situation and take appropriate action.

7. Annual Review of Corporate Governance Guidelines

The Governance and Public Affairs Committee annually reviews these Corporate Governance Guidelines and recommends appropriate revisions to the Board for consideration.

In implementing these Corporate Governance Guidelines, the Board of each of Puget Energy, Inc. and Puget Sound Energy, Inc. should be cognizant of the relationship between Puget Energy, Inc. and Puget Sound Energy, Inc.

Reference in these Corporate Governance Guidelines to "the Company" shall mean to Puget Energy, Inc. and its respective subsidiaries or Puget Sound Energy, Inc. and its respective subsidiaries as applicable.