

**PUGET ENERGY, INC.**  
**Audit Committee Charter**

**PUGET SOUND ENERGY, INC.**  
**Audit Committee Charter**

***Purpose and Authority:***

The Audit Committee (the "Committee") shall assist the Board in oversight of (1) the integrity of the Company's financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the Company's internal and independent auditors. In addition, the Committee shall have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent auditor. The Committee shall also have all authority necessary to fulfill the duties and responsibilities assigned to the Committee in this Charter or otherwise assigned to it by the Board.

***Limitation of Audit Committee's Role***

It is not the responsibility of the Committee to plan or conduct audits or to verify whether the Company's financial statements are complete and accurate or in accordance with generally accepted accounting principles.

***Advisors and Delegation***

As the Committee deems appropriate, it may retain independent counsel, accounting and other professionals to assist the Committee without seeking Board approval with respect to the selection, fees, expenses or terms of engagement of any such advisors.

The Committee, when appropriate, may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Committee.

***Composition:***

***Independence***

The Committee shall be composed of three or more directors, as determined by the Board, each of whom shall meet the independence requirements in the Company's Corporate Governance Guidelines.

***Financial Literacy/Expertise***

The Board shall determine in its business judgment whether Committee members are financially literate and whether any Committee member meets the definition of "financial expert" or similar term under regulations applicable to the Company from time to time,

and shall take appropriate action in accordance with such regulations.

#### *Service on Other Public Company Audit Committees*

Generally, no member of the Committee shall serve on more than three audit committees of publicly traded companies (including the Audit Committees of Puget Energy, Inc. and Puget Sound Energy, Inc.) at the same time; provided, however, that service on audit committees of substantially owned subsidiaries shall not count so long as the member serves on the audit committee of the parent company of such subsidiary. 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 Company's Audit Committee and the disclosure of such determination in the Company's annual proxy statement.

#### *Appointment and Removal of Members*

The members of the Committee shall be appointed by the Board on the recommendation of the Governance and Public Affairs Committee. The Board may remove any member from the Committee at any time with or without cause.

#### ***Duties and Responsibilities:***

The Committee shall have the following duties and responsibilities, in addition to any duties and responsibilities assigned to the Committee from time to time by the Board.

#### *Engagement of Independent Auditor*

- Select and retain the independent auditor; determine and approve compensation of the independent auditor; resolve disagreements between management and the independent auditor; oversee and evaluate the independent auditor and, where appropriate, replace the independent auditor, with the understanding that the independent auditor shall report directly to the Committee and shall be ultimately accountable to the Committee and to the Board.
- Pre-approve the retention of the independent auditor for all audit and such permissible non-audit services as the independent auditor is permitted to provide the Company and the fees for such services. Pre-approval of non-audit services may not be delegated to management, but may be delegated to one or more members of the Committee so long as that member or members report their decision to the Committee at all regularly scheduled meetings. Ensure that the Committee's approval of any non-audit services is publicly disclosed pursuant to applicable laws, rules and regulations.

#### *Evaluate Independent Auditor's Qualifications, Performance and Independence*

- At least annually, evaluate the independent auditor's qualifications, performance and independence, including that of the lead partner.

- To the extent required by applicable laws, rules or regulations, at least annually, obtain and review a report by the independent auditor describing the firm’s internal quality control procedures; any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, relating to one or more audits carried out by the firm and any steps taken to deal with any such issues; and (in order to assess the auditor's independence) all relationships between the independent auditor and the Company. Consider, from time to time, whether a rotation of the independent auditing firm would be in the best interests of the Company and its shareholders.
- Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards (“SAS”) No. 61, *Communications with Audit Committee*, SAS No. 89, *Audit Adjustments*, and SAS No. 90, *Audit Committee Communications*, all as amended from time to time, together with any independence matters as may be required for public disclosure or otherwise under applicable laws, rules and regulations.
- Ensure that the independent auditor’s lead partner and reviewing partner are replaced periodically to the extent required by applicable laws, rules or regulations.
- Present the Committee's conclusions regarding the performance, qualifications and independence of the independent auditor to the full Board.

*Review Financial Statements and Financial Disclosure*

- Meet with management and the independent auditor to review and discuss the annual audited financial statements and quarterly financial statements, including the Company’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”
- Review with the independent auditor any audit problems or difficulties and management’s response, including significant disagreements with management, adjustments noted by the independent auditor but not taken by management, communications between the audit team and the national office on issues of concern, and any management or internal control letters issued or proposed to be issued regarding internal controls over financial reporting. Review the internal audit function and proposed audit plans for the coming year, including intended level of support for and coordination with the external audit process.
- If so determined by the Committee, recommend to the Board that the audited financial statements be included in the Company's annual report on Form 10-K.
- Discuss earnings press releases, as well as the financial information and earnings guidance provided to analysts and rating agencies. This may be done generally and does not require the Committee to discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.

### *Periodic Assessment of Accounting Practices and Policies and Risk and Risk Management*

- Obtain and review timely reports from the independent auditor regarding (1) all critical accounting policies to be used, (2) all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternatives, and the treatment preferred by the independent auditor, and (3) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
- Review with management and the independent auditor the effect of new regulatory and accounting initiatives, as well as off-balance sheet structures on the financial statements of the Company.
- Review changes in promulgated accounting and auditing standards that may materially affect the Company's financial reporting practices.
- Discuss policies with respect to risk assessment and risk management, including the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- Review any reports by management regarding the effectiveness of, or any deficiencies in, the design or operation of internal control over financial reporting and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting. Review any report issued by the Company's independent auditor regarding management's assessment of the Company's internal control over financial reporting.

### *Internal Audit Review*

- Review the responsibilities, functions and performance of the Company's internal audit department, including internal audit plans, budget, and the scope and results of internal audits.

### *Proxy Statement Report of Audit Committee*

- Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

### *Hiring Policies*

- Set clear hiring policies for the Company's hiring of employees or former employees of the independent auditor who were engaged on the Company's account, and ensure that such policies comply with any regulations applicable to the Company from time to time.

### *Business Conduct and Ethics*

- In conjunction with the Corporate Governance and Public Affairs Committee, develop and monitor compliance with a code of ethics for senior financial officers pursuant to and to the extent required by regulations applicable to the Company from time to time.
- In conjunction with the Corporate Governance and Public Affairs Committee, develop and monitor compliance with a code of business conduct and ethics applicable to the Company's directors, officers and employees, pursuant to and to the extent required by regulations applicable to the Company from time to time.
- Establish, after consultation with the Corporate Governance and Public Affairs Committee, procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters.
- Establish, after consultation with the Corporate Governance and Public Affairs Committee, procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

### *Reports to Board*

- Report regularly to the Board any issues that arise with respect to the quality and integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements and the performance and independence of the internal and independent auditors.
- Provide minutes of Committee meetings to the Board and report to the Board on any significant matters arising from the Committee's work.

### *Executive Sessions*

- Meet periodically in separate executive sessions with management, internal audit and the independent auditor to discuss matters that the Committee or the other groups believe warrant Committee attention.

### ***Meetings:***

The Committee shall establish a meeting calendar annually. The Committee may hold such other meetings as are necessary or appropriate in order for the Committee to fulfill its responsibilities. In the absence of a member designated by the Board to serve as chair, the members of the Committee may appoint from among their number a person to preside at their meetings. When appropriate, the Puget Energy, Inc. Committee and the Puget Sound Energy, Inc. Committee shall meet separately.

***Evaluation:***

The Committee shall review and reassess this Charter at least annually and, if appropriate, propose changes to the Board.

The Committee shall obtain or perform an annual evaluation of the Committee's performance and make applicable recommendations for improvement.