

PUGET ENERGY, INC.
Compensation and Leadership Development Committee Charter

PUGET SOUND ENERGY, INC.
Compensation and Leadership Development Committee Charter

Purpose and Authority:

The purpose of the Compensation and Leadership Development Committee (the "Committee") is to discharge the responsibilities of the Board relating to compensation and benefits of the Company's officers and other employees. The Committee shall have overall responsibility for establishing, amending and administering compensation and nonequity benefit plans, policies and programs for officers and other employees of the Company. The Committee shall also oversee long-range planning for executive development and succession.

The Committee shall have the responsibility and authority to review and approve corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluate the Chief Executive Officer's performance in light of those goals and objectives and set the Chief Executive Officer's compensation based on this evaluation.

The Committee shall have the sole authority to engage or terminate any outside consultant that is retained to assist the Committee in the evaluation of the Chief Executive Officer or senior executive officer compensation, including the sole authority to approve fees and other retention terms. 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.

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 or retention terms for any such advisers.

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

Composition:

Independence

The Committee shall be composed of three or more directors, as determined by the Board, each of whom shall (a) meet the independence requirements set forth in the Company's Corporate Governance Guidelines, (b) be a "non-employee director" within

the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, and (c) be an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code.

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.

Compensation Philosophy and Goals

- Develop and monitor an executive compensation philosophy which will include the following key points to ensure a linkage between executive operational performance and executive compensation:
 - Place a significant portion of each executive's total pay at risk to motivate executives to achieve company and individual performance goals
 - Be aligned with operating goals that support continued emphasis on low cost, safe and reliable service to customers
 - Tie the long-term incentive component of CEO and executive compensation to Company performance and increasing value to shareholders
- Establish and annually review and approve policies regarding executive compensation programs and practices.

Executive Compensation

- Review the Chief Executive Officer's recommendations and approve annual compensation for the Company's other executive officers and other highly compensated employees of the Company and its subsidiaries.
- Establish and administer annual and long-term incentive compensation plans for key executives.
- Recommend to the Board for its approval and, where appropriate, submission to the Company's shareholders, incentive compensation plans and equity-based plans.
- Recommend to the Board for its approval changes to executive compensation policies and programs.

- Review and approve all special executive employment, compensation and retirement arrangements.

Leadership Development

- Ensure a framework, process and policies are in place for CEO and executive management succession including standards for assessment of the individual's development activities and progress.
- Periodically review CEO and executive management development and succession plans.

Stock Ownership Guidelines

- Annually review executive stock ownership and monitor progress toward meeting ownership guidelines.

Nonequity Benefit Plans (Including, Without Limitation, all Tax-Qualified Plans and all Nonequity Executive Plans)

- Oversee the administrative committees for the nonequity plans (including, without limitation, the Executive Plans Committee, Retirement Plan Committee, Investment Plan Committee and Welfare Plans Committee) subject to periodic notification to the Board.
- Periodically review plan administration, participation and legislative and regulatory compliance of nonequity benefit plans.
- Fulfill ERISA fiduciary and non-fiduciary functions by periodically monitoring fiduciary functions that have been delegated to the administrative committees for the nonequity benefit plans.
- Appoint and remove the members to the administrative committees for the nonequity benefit plans.
- Appoint any trustee(s), and authorize the execution of any trust agreement(s), for the nonequity benefit plans.
- Adopt amendments to the nonequity benefit plans.
- Approve the termination, merger or consolidation of, between or involving any nonequity benefit plan(s).
- Extend any nonequity benefit plan or plans to employee of affiliates or subsidiaries.

- Exercise any other authority as may reside with the Board with respect to the nonequity benefit plans.

Nonexecutive Incentive Plans

- Review management's recommendations for other nonexecutive corporate incentive plans and annually review plan goals and results.

Reports

- Provide minutes of Committee meetings to the Board and report to the Board on any significant matters arising from the Committee's work, including awards for top executives and special executive employment, compensation and retirement arrangements, and such other matters contemplated by the Company's Corporate Governance Guidelines.
- Prepare the report on executive compensation required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.
- Make an annual report to the Board on CEO and executive management succession planning.

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.