



News Release

PSE Submits Application for New Baker River Project Hydropower License

BELLEVUE, Wash.--(BUSINESS WIRE)--May 12, 2004--Puget Sound Energy (the utility subsidiary of Puget Energy (NYSE:PSD)) recently applied for a new federal operating license for the utility's largest hydropower-generating facility, the Baker River Project.

The 1,055-page application -- more than four years and \$15 million in the making -- spells out the license conditions PSE is proposing to follow for the operation of its project over the next 30 to 50 years.

The Federal Energy Regulatory Commission (FERC) will take public comment on the application and PSE's preliminary draft environmental assessment before issuing a final decision on the license. A commission decision is not expected until 2006, when the 175-megawatt Baker River Project's current operating license expires. PSE submitted its license application April 30 to meet a FERC-imposed application deadline.

Meanwhile, PSE and a variety of governmental entities, Indian tribes, environmental groups, and other parties hope to reach a binding license agreement sometime this summer to submit for FERC review and, ultimately, incorporation into the project license. Under a FERC-authorized "alternative licensing process," these parties have been working since early 2000 to forge a collaborative settlement on how the project will operate in coming years. Tentative agreements have been reached in many areas, and the parties continue to meet regularly to resolve the remaining issues.

The goal of FERC's alternative licensing process is for interested parties to resolve potential differences, in advance, and avoid the costly legal fights that often arise under the traditional process once a proposed license undergoes regulatory review.

"We have an opportunity to prove that there don't have to be winners and losers in the re-licensing of hydropower projects," said Eric Markell, PSE's senior vice president of energy resources. "We can show that reasonable people, despite differing interests and objectives, can sit down together and find common ground for the common good."

PSE and the other participants in the alternative re-licensing process have initiated 76 major studies, ranging from an analysis of fish-habitat conditions in the Skagit River basin to an assessment of the project area's recreational needs to a cost-benefit analysis of the hydropower project itself. All told, the five technical committees working on a negotiated license agreement have held more than 360 separate meetings over the past four years. In addition, PSE and Skagit County have met numerous times in recent months to address the county's desire for additional flood storage from the project to protect against potential flood damage in the future.

While more discussion and negotiation on a settlement agreement is needed, Markell said he hopes the latest draft of a settlement plan will provide the basis for a final agreement that all parties can endorse.

Key proposals contained in the license application PSE has filed include:

-- A PSE investment of more than \$131 million to enhance fish habitat within the Baker River watershed and further boost its salmon stocks. Among other things, the utility is proposing to improve upstream and downstream fish passage around the project's two hydropower dams; to more than triple the utility's propagation of sockeye salmon with the construction of a hatchery and additional spawning beach; and to moderate the outflow of water through the project's power turbines by installing a new, smaller generator at Lower Baker Dam.

-- An expansion of PSE programs to improve habitat for wildlife, birds, and threatened plants within and around the project boundary. Included in PSE's proposed effort is the acquisition and management of undeveloped lands to provide habitat for elk, grizzly bears, mountain goats, bald eagles, osprey, and other wildlife.

-- The development of new recreational facilities in and around the project area, including hiking trails and campgrounds on U.S. Forest Service lands, and new boat access on Lake Shannon. PSE's proposal for recreational and aesthetic resources also targets money for the maintenance and upgrade of existing campgrounds, trails, and other facilities around Baker Lake and Lake Shannon -- the project's two reservoirs.

-- A continuation of the 74,000 acre-feet of vacant storage space currently provided behind the project's Upper Baker Dam during winter months for flood control.

Markell said the utility's efforts to improve sockeye salmon runs in the Baker River have produced dramatic results in recent years. Six of the 10 largest Baker sockeye returns on record have occurred in the past decade. In 2003, the river saw its largest return of adult sockeye in history -- more than six times the historic average. Nevertheless, Markell added, PSE is committed to helping increase the river's fish stocks even more.

The proposed \$165.5 million in PSE costs associated with obtaining a new federal license would significantly raise the Baker River Project's power-production costs: from about \$18 per megawatt hour today to about \$37 per megawatt hour. While substantially higher, the latter cost is still below the projected price of wholesale-market electricity over the next 20 years, Markell noted.

The Baker River Project, which provides a clean, renewable source of electricity to PSE's customers, is located in the North Cascades Mountains about 100 miles northeast of Seattle. More information on the project re-licensing process can be found on PSE's Web site (under "hydro licensing") at www.pse.com.

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