Exhibit No. ___(DCP-3)
Dockets UE-072300/
UG-072301/UG-080064
Witness: David C. Parcell

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.	DOCKET UE-072300 DOCKET UG-072301 *(Consolidated)* DOCKET UG-080064

EXHIBIT TO TESTIMONY OF

DAVID C. PARCELL

ON BEHALF OF

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Moody's and Standard and Poor's Recent Descriptions of PSE
and
Announcements to Proposed Acquisition of PSE by Macquarie Infrastructure Partners Consortium

MAY 30, 2008

Moody's Investors Service

Global Credit Research
Credit Opinion
17 MAY 2007

Credit Opinion: Puget Sound Energy, Inc.

Puget Sound Energy, Inc.

Bellevue, Washington, United States

Ratings

Category	Moody's Rating
Outlook	Positive
Issuer Rating	Baa3
First Mortgage Bonds	Baa2
Senior Secured	Baa2
Sr Unsec Bank Credit Facility	Baa3
Bkd Sr Unsec Shelf	(P)Baa3
Preferred Stock	Ba2
Commercial Paper	P-2
Parent: Puget Energy, Inc.	
Outlook	Positive
Issuer Rating	Ba1
Washington Natural Gas Company	
Outlook	Positive
First Mortgage Bonds	Baa2
Bkd Sr Sec MTN	Baa2
Bkd Preferred Stock	Ba2
Puget Sound Energy Capital Trust I	
Outlook	Positive
Bkd Preferred Stock	Ba1

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William L. Hess/New York	

Key Indicators

Puget Sound Energy, Inc.

	LTM 1Q 07	2006	2005	2004
(CFO Pre-W/C + Interest) / Interest Expense [1]	3.5x	3.5x	3.0x	3.6x
(CFO Pre-W/C) / Debt [1]	15.5%	14.1%	13.6%	17.9%
(CFO Pre-W/C - Dividends) / Debt [1]	12.4%	10.9%	10.3%	14.6%
Debt / Book Capitalization	53.6%	54.5%	49.7%	52.4%
ROE (NPATBUI / Avg. Equity) [2]	8.0%	7.9%	7.6%	7.6%
Dividends as a % of NPATBUI [2]	66.1%	68.0%	65.7%	73.8%

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items [2] NPATBUI is Net Profit After-tax Befor Unusual Items

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

Puget Sound Energy, Inc. (PSE) is Washington State's oldest and largest regulated utility and provides electric and natural gas services to a territory covering 6,000 square miles, primarily in the Puget Sound region of western Washington. Puget Energy, Inc. is the parent holding company of PSE and is based in Bellevue, Washington. At December 31, 2006, PSE had 1,039,400 electric customers and 713,000 natural gas customers, reflecting above-average annualized customer growth rates of approximately 2.1% for electric and 2.8% for natural gas over the same period a year ago. The company's electric and natural gas customer bases are well diversified, with the largest proportion of sales coming from the more stable residential and commercial customer segments.

The retail rates that PSE charges its customers are subject to the jurisdiction of the Washington Utilities and Transportation Commission (WUTC or Washington Commission). Certain other wholesale and interstate activities are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC).

Recent Events

Moody's changed the rating outlook for PSE and its parent, Puget Energy, effective May 16, 2007. The outlook change for PSE reflects Moody's view that there is potential for PSE to sustain its recent financial performance, particularly if the utility continues to efficiently manage its resource planning strategy while adding significantly to utility rate base, to conservatively address the external financing that will be necessary to fund a large portion of its higher than historical average capital program over the next several years, and to receive reasonably supportive decisions in pending and future rate proceedings at the WUTC related to its ever-growing rate base and persistently higher than historical average natural gas costs.

The change in Puget Energy's rating outlook takes into account the fact that PSE is Puget Energy's sole source of earnings and cash flow since the sale of InfrastruX, a construction services business, which was the last remaining non-regulated subsidiary of Puget Energy. As a result, PSE substantially drives the credit rating and outlook of its parent.

Rating Rationale

PSE's ratings take into account our collective assessment of several key rating factors, including the company's business, regulatory, and supply risk profiles, as well as key financial metrics, and liquidity. Each of these factors is elaborated on below, but in general we note that the business risk profile is low, with all of its assets, earnings, and cash flow associated with regulated electric and natural gas operations in the state of Washington, and the regulatory risk profile has improved on an overall basis, in part due to the increasingly collaborative process associated with rate case proceedings in the past few years. The utility's energy supply profile has become less risky following recent steps to reduce dependence on purchased power by adding owned regulated generating assets (i.e. wind powered electric generating plants), improvement in regional hydro conditions after a prolonged drought period that has now ended and as a result of the company's hedging program. Key financial metrics such as cash flow from operations (exclusive of working capital changes) coverage of interest and debt, as well as adjusted debt to adjusted total capitalization have benefited from regulatory support for investments in utility infrastructure and the parent company's demonstrated willingness and ability to issue significant amounts of common equity and then invest the proceeds into PSE to fund capital investments and reduce the percentage of debt in the capital structure that peaked near 65% during the western power crisis several years ago. Collectively, we believe each of these factors is consistent with the Baa rating category and are thus consistent with the Baa2 rating for PSE's senior secured debt and its Baa3 Issuer Rating.

Relatively Low Business Risk Profile Characterized By Back-To-Basics Strategy Focused On Utility Operations

According to Moody's Global Rating Methodology for Regulated Electric Utilities (the Rating Methodology), we highlight that companies with a large majority of investments in relatively stable and predictable regulated or less competitive businesses that conduct those operations in supportive regulatory environments can withstand somewhat weaker credit metrics and still support ratings at comparable levels of those for companies that have stronger credit metrics and a larger percentage of investments in more risky unregulated or competitive businesses. Using the Rating Methodology, Moody's maintains an Issuer Rating of Baa3 for PSE and a senior secured debt rating of Baa2.

Puget Energy's back-to-basics strategy took yet another positive step forward when management monetized the parent's 90.9% interest in InfrastruX, a non-regulated utility construction service company, by selling it to an affiliate of Tenaska Power Fund, L.P. (Tenaska) for $275 million on May 7, 2006. In recent periods, PSE comprised over 95% of Puget Energy's consolidated revenues, over 90% of its consolidated funds from operations, and over 90% of the parent company's consolidated assets. Following the sale of InfrastruX, PSE now accounts for all of the earnings, assets and cash flow of Puget Energy, further contributing to the organization's overall low business risk profile. Puget Energy used the after-tax net proceeds of $95.9 million received from the sale of InfrastruX to support PSE through an equity contribution of $60 million and a loan of $26.5 million. The decision to exit the business is the result of the company's desire to invest in its core utility business, which includes plans to acquire or construct electric generating resources and to further develop its energy delivery infrastructure.

Continued Focus On Collaborative Regulatory Relationships And Desire To Maintain Risk-Mitigating Cost Recovery Mechanisms

Among the most significant risks that PSE faces are hydro-electric generation variability and the wholesale market prices of natural gas and power. PSE benefits from the increasingly collaborative regulatory environment in Washington that has been allowing more reasonable rate increases and providing risk-mitigating cost-recovery mechanisms in some of its more recent regulatory orders for PSE. Frequently the decisions in PSE's power cost only rate cases (PCORC) have been in the form of settlements rather than litigated decisions, which is further indication of a collaborative process. In recent years, the WUTC has also established customized rate adjustment mechanisms that allow the company to recover variations in electricity, gas supply, and gas transportation costs.

Power Cost Adjustment (PCA) Mechanism Guided By A Graduated Scale

The utility company's commodity price risk is partially mitigated by the power cost adjustment (PCA) mechanism, which provides for the sharing between the company and customers of incremental costs or savings that fall outside the agreed upon normalized level of power costs established in a general electric rate case. The PCA mechanism apportions increases or decreases in power costs, on a calendar year basis, on a graduated scale between PSE and its customers in the following manner: 100% to the company for the first +/- $20 million in power cost variability; 50/50 between the company and its customers for the next incremental $20 million; and 10/90 between the company and its customers for the next $80 million; with the company keeping 5% of any amounts beyond that. There is no cumulative cap. The baseline from which the PCA mechanism functions was reset again on January 1, 2007, as part of the decision in PSE's general electric rate case filed in February 2006 and concluded in January 2007. In the rate case decision, we note that PSE was denied in its request for further changes to the annual PCA sharing bands and a depreciation tracker. The requested changes were aimed at creating a better match between costs and rates and addressing regulatory lag associated with utility-related capital expenditures.

Purchased Power Remains A Factor...

PSE's generation portfolio contains a sizable amount of purchased power, the largest portion of which is from low cost contracts with municipalities owning resources on the Columbia River. In 2006, 27.8% of PSE's electric supply was generated from company-controlled resources, while 39% came from firm purchase contracts, and 33.2% from non-firm purchases. With over 33% of its generation coming from the short-term wholesale market, PSE is exposed to price volatility in the energy market and is vulnerable to high energy prices. Total purchased power for the year ended December 31, 2006, increased by 904,560 MWh or 5.4% compared to the same period in 2005. Going forward, PSE will continue to focus on making itself less dependent on purchased power through utility investments in generation assets.

...As Does Purchased Gas

PSE and other utilities in the state periodically request that the Washington Commission consider purchased-gas adjustments (PGA) to reflect price changes in the wholesale market. The PGA mechanism allows PSE to recover expected gas costs from customers and to defer, as a receivable or liability, any gas costs that exceed or fall short of this expected gas cost amount in PGA mechanism rates, including accrued interest. The utilities are not allowed to earn a profit on these gas commodity costs.

On August 29, 2006, PSE filed a request with state regulators to pass through to customers the increased costs that the utility is paying to acquire natural gas supplies. The PGA request increased natural gas bills by approximately 10% across all groups of customers and was effective October 1, 2006. The PGA mechanism receivable balance at December 31, 2006 and December 31, 2005 was $39.8 million and $67.3 million, respectively. PSE is authorized by the Washington Commission to accrue carrying costs on PGA receivable balances. A receivable balance in the PGA mechanism reflects a current under recovery of market gas cost through rates. Moody's notes that the WUTC has been very supportive of past rate increases requested through the PGA mechanism.

Power Cost Only Rate Case (PCORC) Provides Some Rate Relief

The power cost only rate case (PCORC) process is an accelerated rate proceeding where only power costs and new resources are reviewed. A PCORC allows PSE to revise electric rates after an expedited 5-month review of the company's power costs, instead of filing a traditional general rate case, which entails a comprehensive 11-month review of all utility costs, including labor, taxes, etc. PSE's power costs have been increasing primarily because of resource additions and the rising wholesale cost of natural gas, which in turn have pushed up PSE's costs both to purchase electricity and to generate it. In an environment of escalating fuel and purchased power costs and significant capital spending to add generation resources, timely and adequate regulatory outcomes in current and future general rate case and PCORC proceedings will be critical to PSE's future financial performance.

On June 28, 2006, the Washington Commission approved a 5.9%, or $45.3 million power cost rate increase through the PCORC process. The amount of this increase in rates covers the period July 1, 2006, through December 31, 2006. As a result, PSE reduced its then pending request for an electric general tariff increase from $140.9 million to $42.9 million, or 2.5%, on an annualized basis. The WUTC support for PSE in its latest PCORC is a further indication of the improvement in regulatory relations that has developed between PSE and the WUTC over the last several years.

December 2006 Storm Restoration Cost Recovery

PSE will file for recovery of $92 million in storm damage expenses incurred during the ice storm of mid-December, 2006, in the next general rate case. PSE is allowed to defer power outage restoration costs when the event results in a 2.5 standard deviation increase in the rolling 5-year average outage duration in minutes per customer; the 2006 threshold was 4.97 minutes per customer. Previously, PSE could defer costs only when more than 25% of customers were without power.

January 2007 - Final Order for February 2006 General Rate Case

A general electric rate reduction of $22.8 million (1.3% average rate reduction) was reflected in updated power cost projections. The January 2007 final order for the general rate case filed in February 2006 also included a general gas rate increase of $29.5 million (2.8% average rate increase). Approved rates were based on an allowed return on equity (ROE) of 10.4% (was 10.3%) and a 44% assumed common equity in the capital structure (was 43%). Other approved items included: a full recovery of new investments; preservation of the PCA mechanism; recoverability of the cost of a credit facility for hedging through the PCA & PGA mechanisms; an electric energy efficiency incentive; and a $2.00 increase in the minimum gas monthly service charge. Items that were not approved in the 2006 general rate case included: a depreciation tracker; major revisions to the PCA mechanism; and a gas decoupling mechanism. Among the resultant effects of the general rate case was a 15 basis point higher weighted cost of equity and an increase in the rate base to $4.2 billion, as well as recovery of depreciation costs associated with wind generation plants over a 25-year depreciable life, and the recovery of infrastructure improvements and new resource investments.

Although PSE did not receive approval for all that it sought in the February 2006 filing, we view the overall outcome as generally supportive to PSE's credit profile. As we emphasize in the Rating Methodology, the extent to which regulators afford utilities adequate recovery of costs of service and establish a fair rate of return on utility investments while providing a reasonable opportunity to earn that fair return are heavily weighted factors in our rating assessment.

Significant Capital Expenditures Planned Over The Next Several Years To Be Met With Cash Plus External Financing

PSE has recently stepped up its capital expenditures significantly to develop and acquire new generation and to improve its system reliability. We note that PSE's capital expenditures were approximately $570 million in 2005 and $834 million in 2006, including energy efficiency expenditures, a one-time $89 million payment for the Chelan contract payment and $317 million for the construction of the Wild Horse wind energy project. PSE intends to invest about $2.125 billion of capital in its energy delivery and energy resource functions between 2007 and 2009, per its 2006 10-K filing. These annual amounts, which remain subject to periodic review and change based on economic, regulatory, and other factors, are significantly in excess of more normal historical levels, which were in the $250 million to $300 million range.

Least Cost Plan (LCP):

PSE's long-term electric least cost plan (LCP) that was filed on May 2, 2005 with the Washington Commission forecasts that the utility will need to secure more than 1,500 average-MW of additional energy supply by 2015 to meet its customers' growing power demands and replace electricity supplies lost to expiring purchased power contracts. While the initial outlay for the acquisition and construction of new generation facilities will be considerable, PSE expects company-owned generation to result in savings for its customers going forward. Furthermore, we believe that if PSE continues to be successful in gathering supportive regulatory treatment of such investments, that will give the utility a larger regulated rate base on which it can earn higher earnings and generate more robust cash flows.

Utility Pursuing Up To 1,100 MW of Long-term Power Supply:

Currently, PSE has approximately 4,200 MW of long-term power generating capacity to meet current customer demands. The company projected its MW shortfall over the next four years to be as follows: 283 MW in 2007; 305 MW in 2008; 360 MW in 2009; 457 MW in 2010. PSE expects to address its future energy supply shortfall through a combination of new long-term power contracts and the purchase or construction of new generating resources. To that end, the utility is pursuing the acquisition of up to approximately 1,100 MW of long-term power supply from seven outside sources. These seven sources include a large wind farm under development in north-central Oregon, a geothermal facility planned in southern Idaho, three existing natural-gas-fired power plants in Washington, and two purchased-power agreements not tied to specific generating plants.

PSE entered into an agreement on October 17, 2006, to purchase the 147 MW Whitehorn dual-fuel power generation facilities after PSE's lease term expires in February 2009. From the fourth quarter of 2006, the lease will be treated as a capital lease over its remaining lease period.

On February 21, 2007, PSE completed its $120 million purchase under a bankruptcy proceeding of Calpine's modern, 277 MW gas-fired combined-cycle Goldendale Energy Center power plant in south-central Washington. This acquisition will help cover a portion of the 1,500 MW shortfall in new power supply required by 2015. PSE filed a PCORC in March to seek rate base treatment for this investment.

Growing Wind Generation Capacity:

The Hopkins Ridge and the Wild Horse wind-powered electric generating projects were included as part of PSE's energy resource portfolio in its LCP. The plan supports a strategy of diverse resource acquisitions including resources fueled by natural gas and coal, renewable resources and shared resources. The 150 MW Hopkins Ridge wind project facility came into service in the fourth quarter of 2005 and provides approximately 150 MW of capacity or 52 average MW. PSE completed construction of and put into commercial operation the $380 million Wild Horse wind project during the fourth quarter of 2006. The Wild Horse wind project is designed to provide approximately 229 MW of capacity or 73 average MW.

Maintaining Access To Hydro-electric Generation Sources:

Hydro-electric sources have tended to keep PSE's power prices low, but PSE's hydro-electric production and related power costs were negatively impacted by below-normal precipitation and reduced snow pack in the Pacific Northwest region over a six-year period until 2006, which placed a significant amount of stress on those resources and created a challenging environment for the successful management of the company's supply portfolio. Water conditions in 2007 for the Pacific Northwest region continue to be above-normal for precipitation and snow pack is expected to result in the run-off above Grand Coulee Reservoir to be 104% of normal which is close to 2006 levels of 106%. Moreover, PSE has contracted to purchase about a quarter of the output from the Rocky Reach and Rock Island hydro-electric generating facilities located on the mid-Columbia River owned by Chelan County PUD (Chelan), under a non-refundable capacity reservation payment of $89 million made on April 26, 2006. The WUTC has already approved recovery of these costs in rates. Any return of future drought conditions in the northwest would likely decrease the availability of the utility's hydro-electric generation resources and negatively affect its cash flows.

Financial Analysis

Key Financial Metrics:

On average over the past three years (2004-2006), PSE's consolidated cash flow from operations (exclusive of working capital changes) has covered its interest and debt by about 3.4x and 15.3%, respectively. These average metrics for the past three fiscal years are well within the range we would consider acceptable given the current Baa3 Issuer Rating, as outlined in the Moody's Rating Methodology. Our ratings for PSE assume that the utility will be able to at least sustain these metrics at comparable levels unless there is a shift by the WUTC towards less supportive treatment in future regulatory proceedings, be they PCORC, PGA, or general rate decisions. As we noted above, timely and adequate recovery of costs of service and fair rates of return are heavily weighted factors in our rating determination for utility companies and any parent holding companies with a substantial investment in regulated utilities, as is the case for Puget Energy.

Adjusting for one-time expenditures that are recoverable in rates, PSE's adjusted cash flow from operations (exclusive of working capital changes) is about $480 million in 2006, instead of the $333 million absent the one-time adjustments. Based on this adjusted figure, PSE's ratio of adjusted cash flow from operations (exclusive of working capital changes) to total adjusted debt improves to approximately 14.3% from the unadjusted ratio of 9.9% for 2006; this compares favorably to the 13.6% recorded in 2005. Likewise, PSE's interest coverage ratio adjusted for one-time expenditures improves to 3.5x from an unadjusted 2.7x; this compares favorably to the 3.0x recorded in 2005 and is in line with the 3.6x of 2004.

The one-time expenditures are recoverable in rates. Deferred storm recovery costs will be addressed in the next general rate case (GRC). The tax payments for the indirect service costs deduction are being recovered in the new rates that took effect on January 1, 2007. Cash settlements on hedges are recovered through the PCA and PGA mechanisms.

Assuming the WUTC continues to grant supportive treatment for planned investments in regulated assets, we believe that PSE's annual cash flow from operations (exclusive of working capital changes) could improve materially over the three-year period spanning 2007 to 2009. In our view, this could yield an adjusted cash flow from operations (exclusive of working capital changes) to interest coverage ratio in the mid to high 3x level over the next three years. Over the same time period, PSE's ratio of adjusted cash flow from operations (exclusive of working capital changes) to average total debt could move into the high teens on a percentage basis.

Although PSE has achieved the required common equity levels in its utility capital structure ahead of the schedule agreed to in a prior general rate case, which in turn bolstered the consolidated common equity ratio, management's willingness to de-lever further will be influenced in part by the approved equity level upon which the WUTC allows PSE to earn a return. PSE has a $4.2 billion rate base and a 10.4% allowed return on equity and a 44% allowed equity capitalization (unadjusted). Including Moody's standard adjustments, the adjusted debt to adjusted capitalization ratio for PSE was about 54.3% (including deferred income taxes as part of total capitalization) as of December 31, 2006. If deferred income taxes are excluded from total capitalization, in line with the regulatory basis for calculation of utility capitalization ratios, then the adjusted debt to adjusted capitalization ratio for PSE was about 61.7% at December 31, 2006.

Based on PSE's goal to become a more vertically integrated utility, it is expected that further debt issuances will be utilized within one to two years to fund acquisition or construction of new generating resources. With PSE's significant planned utility-related capital expenditures over the next few years, some of which will need to be externally financed, we believe that any further issuances of debt would need to be offset by additional common equity or equity-like issuances in order to enable PSE to achieve its targeted capitalization ratios. Our view stems in part from what we believe will be PSE's strong desire to establish the common equity component of its capital structure at a level consistent with the 44% allowed equity capitalization level upon which the WUTC allows it to earn a return.

Liquidity

In considering liquidity for PSE, given the significance of PSE's utility operations relative to Puget Energy's consolidated business activities, management has worked to improve PSE's access to sufficient levels of liquidity through the years. To supplement internally generated cash flows at the operating company level, PSE has a $500 million unsecured credit facility expiring in April 2012. As a result of the GRC order, PSE recently established a separate $350 million five-year bank credit facility to use for liquidity needs related to its hedging program. The terms and conditions of this agreement, which expires in April 2012, mirror those of the $500 million agreement used to backstop PSE's commercial paper program. The $350 million facility will allow the company to use letters of credit for collateral purposes in addition to posting cash. At March 31, 2007, PSE had $8.3 million for an outstanding letter of credit and $299.5 million commercial paper outstanding, effectively reducing the available borrowing capacity under the credit agreements to $542.2 million.

At March 31, 2007, PSE had available a $200 million receivables securitization facility that expires in December 2010. There was $162 million outstanding under the receivables securitization facility as of that date. PSE's remaining borrowing base of eligible receivables at March 31, 2007 was $38 million.

The two credit facilities and the receivables securitization facility provide a total of $1.05 billion in liquidity to PSE.

On June 1, 2006, PSE entered into a demand promissory note with its parent, Puget Energy, under which PSE may borrow up to $30 million from Puget Energy. At March 31, 2007, the outstanding balance of the Note was $24.4 million.

Meanwhile, we note that upcoming maturities of long-term debt are quite manageable, with $125 million of PSE long-term debt maturing during 2007 and about $180 million maturing in 2008.

Rating Outlook

The positive rating outlook for PSE reflects our view that PSE may be able to sustain its recent financial performance, particularly if the utility continues to efficiently manage its resource planning strategy while adding significantly to utility rate base, to conservatively address the external financing that will be necessary to fund a large portion of its higher than historical average capital program over the next several years, and to receive reasonably supportive decisions in pending and future rate proceedings at the WUTC related to its ever-growing rate base and persistently higher than historical average natural gas costs.

What Could Change the Rating - Up

A combination of factors that could lead to an upgrade includes: continued favorable outcomes in PSE's currently pending and expected future rate cases that improve PSE's opportunity to achieve higher earnings and more robust cash flows on a larger rate base; additional common equity or equity-like issuances to help fund external financing requirements; successful adherence to the scheduled capital expenditure program; and sustainment of the improvement in key financial metrics, such as sustaining a ratio of cash flow from operations (exclusive of working capital changes) to interest coverage of around 3.5x or above and a cash flow from operations (exclusive of working capital changes) to debt ratio of 17% or higher.

What Could Change the Rating - Down

Although not necessarily anticipated, a change in management's conservative approach to non-utility investments, including adding material debt at the parent holding company, would increase the business risk profile and pressure the rating, as would unexpected shortfalls in PSE's performance that compromises its ability to sustain healthy credit metrics.

Rating Factors

Puget Sound Energy, Inc.

Select Key Ratios for Global Regulated Electric Utilities

Rating	Aa	Aa	A	A	Baa	Baa	Ba	Ba
Level of Business Risk	Medium	Low	Medium	Low	Medium	Low	Medium	Low
CFO pre-W/C to Interest (x) [1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%) [1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%) [1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-70	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

Moody's Investors Service

Global Credit Research
Rating Action
29 OCT 2007

Rating Action: Puget Sound Energy, Inc.

Moody's may downgrade Puget Energy; affirms LT-rtgs of sub

Approximately $3.6 billion of securities affected

New York, October 29, 2007 -- Moody's Investors Service today placed the Ba1 Issuer Rating of Puget Energy, Inc. (Puget Energy) on review for possible downgrade. Moody's also affirmed the long-term ratings of its regulated utility subsidiary, Puget Sound Energy, Inc. (PSE; Baa2 senior secured), and the utility's affiliated entity, Puget Sound Energy Capital Trust III ((P)Ba1 shelf for Trust Preferred Securities), and changed the rating outlook of PSE and its affiliate to stable from positive. Moody's also placed PSE's Prime-2 short-term rating for commercial paper under review for possible downgrade.

The rating action follows an announcement that a consortium of infrastructure investors led by Macquarie Infrastructure Partners has signed a merger agreement to purchase 100% of the equity of Puget Energy. The proposed transaction has an enterprise value of approximately $7.4 billion, including the assumption of PSE's estimated $2.6 billion of debt that is expected to be outstanding at the time of closing the transaction. The financing plan for the transaction includes approximately $1 billion of incremental consolidated borrowings that we assume will be issued by Puget Energy and has the potential for a widening of the rating notching between Puget Energy and PSE.

The review for possible downgrade of Puget Energy reflects our concern that the proposed transaction increases Puget Energy's business and financial risk profiles. These concerns are somewhat balanced by the scale of the investor consortium's proposed equity investment in the transaction ($3.2 billion), as well as its reputation as a long-term infrastructure investor. The affirmation of PSE's long-term ratings is conditioned upon expectations that supportive regulatory treatment will continue despite the change in ownership. The review for possible downgrade of PSE's short-term rating for commercial paper and the revision of the outlook to stable from positive for PSE and its affiliates reflects high multi-year utility capital spending needs that may be a drain on liquidity as well as the expected weaker credit profile of the parent company, Puget Energy.

Our review for possible downgrade will consider the impact the proposed transaction is expected to have on Puget Energy's consolidated financial profile, the need for dividends from PSE to service parent company debt, any ring-fencing measures that may be introduced to insulate the credit profile of PSE, and any significant regulatory developments that occur during the potentially lengthy regulatory approval process. Furthermore, we will consider the requirements and proposed funding sources for PSE's significant multi-year capital expenditures.

Puget Sound Energy, Inc. is a combination electric and natural gas utility subsidiary of Puget Energy, Inc., a holding company. Both companies are headquartered in Bellevue, Washington.

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October 26, 2007

Research Update:

Puget Energy Inc.'s 'BBB-' Rating Placed On WatchNeg Following Announcement Of Proposed Sale

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Research Update:

Puget Energy Inc.'s 'BBB-' Rating Placed On WatchNeg Following Announcement Of Proposed Sale

Rationale

On Oct. 26, 2007, Standard & Poor's Ratings Services placed the ratings of holding company Puget Energy, Inc. ('BBB-/--') and its electric and gas utility subsidiary Puget Sound Energy, Inc. ('BBB-/A-3') on CreditWatch with negative implications. The action follows the announcement that Puget Energy has agreed to sell itself to a consortium of private investors led by Macquarie Infrastructure Partners, an affiliate of Macquarie Bank Ltd. (A/Stable/A-1) for $7.4 billion. The proposed transaction is to be financed with a significant amount of debt; the company has also announced a private equity placement of $300 million with the consortium, which is not conditioned on the completion of the merger.

Bellevue, Wash.-based Puget had roughly $3.2 billion of total debt outstanding as of June 30, 2007.

The CreditWatch listing reflects the possibility that debt ratings for Puget Energy could be lowered dependent on the final outcome of regulatory approval proceedings. Importantly, the company's credit profile has been improving, which provides financing flexibility to accommodate the proposed capital structure at the current rating level. Still, Puget's consolidated credit measures post-transaction could be stretched if final terms are changed or regulatory requirements impact coverage metrics. We will update the CreditWatch status as the acquisition progresses.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Puget Energy Inc.		
Corporate Credit Rating	BBB-/Watch Neg/--	BBB-/Stable/--
Puget Sound Energy Inc.		
Corporate Credit Rating	BBB-/Watch Neg/A-3	BBB-/Stable/A-3
Senior Secured		
Local Currency	BBB+/Watch Neg	BBB+
Junior Subordinated		
Local Currency	BB/Watch Neg	BB
Preferred Stock		
Local Currency	BB/Watch Neg	BB
Commercial Paper		
Local Currency	A-3/Watch Neg	A-3

Washington Natural Gas Co.		
Corporate Credit Rating	BBB-/Watch Neg/--	BBB-/Stable/--
Senior Secured		
Local Currency	BBB+/Watch Neg	BBB+

Ratings Affirmed; CreditWatch/Outlook Action; New Rating

	To	From
Puget Sound Power & Light Co.		
Corporate Credit Rating	BBB-/Watch Neg/--	BBB-/Stable/NR

Ratings Affirmed;CreditWatch/Outlook Action

	To	From
Puget Sound Energy Inc.		
Senior Secured		
US$150 mil 5.197% sr nts 1st mtg bnd due 10/01/2015	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$300 mil 7.02% 1st mtg bnd ser A due 12/01/2027	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$200 mil 6.74% sr med-term nts due 06/15/2018	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$300 mil 6.274% fallaway 1st mtg bnd due 03/15/2037	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$250 mil 6.724% fallaway sr nts 1st mtg bnd due 06/15/2036	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$150 mil 6.46% fallaway 1st mtg bnd due 03/09/2009	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$100 mil 7% fallaway 1st mtg bnd ser B due 03/09/2029	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$225 mil 7.96% 1st mtg bnd due 02/22/2010	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$150 mil 3.36% 1st mtg bnd due 06/01/2008	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$260 mil 7.69% 1st mtg bnd ser C due 02/01/2011	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$25 mil 7.61% 1st mtg bnd ser B due 09/08/2008	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+
US$250 mil 5.483% 1st mtg bnd due 06/01/2035	BBB+/Watch Neg	BBB+
Recovery Rating	1+	1+

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March 26, 2008

Puget Energy Inc.

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Puget Energy Inc.

Major Rating Factors

Corporate Credit Rating

BBB-/Watch Neg/--

Strengths:

- Regulated electric and gas operations that provide relatively stable cash flows;
- A generally supportive state regulatory regime with good power and fuel cost adjustment mechanisms;
- A growing base of electric and gas customers in the Puget Sound region; and
- The absence of material, unregulated businesses.

Weaknesses:

- Aggressive financial strategy;
- Heavy capital requirements driven by system maintenance and resource requirements;
- Moderate price and commodity risk related to Puget Sound Energy's (PSE) reliance on hydroelectric; and gas-fired resources as well as a moderate amount of market purchases.

Rationale

The 'BBB-' corporate credit rating on Puget Energy Inc. (Puget) and PSE remains on CreditWatch with negative implications, pending the requisite approvals for final outcome of regulatory approval proceedings. The ratings reflect the excellent business profile of PSE, a regulated, vertically integrated electric and gas utility, and the consolidated financial risk profile of Puget.

Bellevue, Wash.-based Puget had roughly $3.1 billion of total debt outstanding as of Dec. 31, 2007.

The CreditWatch listing reflects the possibility that debt ratings for Puget and PSE could be lowered contingent on the final outcome of regulatory merger approval proceedings. Importantly, the company's credit profile has been improving, which provides financial flexibility to accommodate the proposed capital structure at the current rating level. Still, Puget's expected consolidated credit measures post-transaction will be stretched and the final regulatory order could weaken anticipated cash flow coverage metrics.

Standard & Poor's Ratings Services placed the ratings of holding company Puget Energy Inc. and its electric and gas utility subsidiary Puget Sound Energy Inc. on CreditWatch with negative implications on Oct. 26, 2007. The action followed the announcement that Puget Energy has agreed to sell itself to a consortium of private investors led by Macquarie Infrastructure Partners, an affiliate of Macquarie Group Ltd. (A-/Stable/A-2) for $7.4 billion. The proposed transaction is to be financed with a significant amount of debt at the holding company and is expected to increase debt leverage on a consolidated basis.

Puget's excellent business risk profile is "excellent," reflecting the combined electric and gas utility business of PSE, which is subject to regulation by the Washington Utilities and Transportation Commission (WUTC). The regulatory environment in Washington and how the company manages its relationship with the WUTC are key drivers of credit quality, especially in light of PSE's high capital needs and commodity price exposure. The company's most recent general rate case granted PSE a 10.4% return on equity on a hypothetical 44% equity layer, as well as permission to recover costs for recent plant additions and for short-term financing needs related to power supply hedging. The commission did not approve the company's requests for a gas "decoupling" mechanism, a depreciation tracker, and a modification to its power cost adjustment (PCA) mechanism. An electric case is currently pending for a $174 ~~million, or 9.5%, rate increase and a gas case for $56.8 million, or 5.3%, annually. Both are expected to be finalized~~ by November.

Puget's cost recovery mechanisms also support credit quality. The company has a great degree of flexibility in implementing rate changes through its PCA, but the threshold it must meet to update rates is high and deferred costs are not automatically collected. Each year, uncollected costs are subject to defined sharing bands, allowing the company to defer certain portions for collection from customer. However, the PCA mechanism does not trigger a rate increase until a minimum deferral balance is reached. Puget is also able to update rates for changes in projected costs by filing a power cost only rate case (PCORC), which gives it the flexibility to file for changes in variable and fixed costs whenever there is a projected deferral balance of $30 million or more. The PCORC functions as a "mini" rate case that takes about five months and is especially useful for new plant additions or contracts.

Puget's financial risk profile is "aggressive" under Standard & Poor's corporate risk matrix. Financial measures have been adequate for the rating, although cash flow coverage metrics have been mixed and are expected to weaken if the pending acquisition by Macquarie is completed. Adjusted funds from operations (FFO) to interest coverage was approximately 3.2x, while FFO to average total debt was at about 16.1% for the 12 months ended Dec. 31, 2007. Adjusted debt leverage -- including debt adjustments for operating leases, purchased power, and hybrid equity -- was approximately 56.6% as of Dec. 31, 2007, and was bolstered by a private equity placement of about $300 million with Macquarie Infrastructure. Although this transaction has strengthened the balance sheet, Puget's consolidated credit measures post-transaction will be weaker, assuming successful completion of the merger.

Capital requirements are very high at PSE, with capital expenditures of $2.7 billion planned for 2008 through 2009 related to system upgrade needs, customer growth, and further resource additions. Ongoing periodic debt and equity funds are expected to finance this growth.

Short-term credit factors

PSE's short-term rating is 'A-3'. Overall liquidity at PSE was adequate, with $384 million in available capacity as of Dec. 31, 2007, under its $500 million committed unsecured bank credit agreement at PSE that expires April 15, 2012, and a fully available $350 million facility to support hedging activities. Secondary liquidity resources at PSE include a $200 million receivables securitization facility with $48 million available as of Dec. 31, 2007. Liquidity requirements will remain high at PSE due to a high level of planned capital spending and potential collateral requirements related to the company's electric and gas supply arrangements. Debt maturities are manageable, with about $179 million due in 2008 and $158 million due in 2009. We expect Puget to internally fund about 50% of capital expenditures in order to maintain a stable capital structure.

Table 1

Puget Energy Inc. -- Peer Comparison*

Industry Sector: Combo

	Puget Energy Inc.	Avista Corp.	Portland General Electric Co.	IDACORP Inc.
Rating as of March 25, 2008	BBB-/Watch Neg/--	BBB-/Stable/A-3	BBB+/Stable/A-2	BBB/Stable/A-2

