

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's upgrades Puget Energy to Baa3 from Ba1 and Puget Sound to Baa1 from Baa2; outlooks are stable**

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Global Credit Research - 30 Jan 2014

#### **Approximately \$5.2 Billion of Debt Affected**

New York, January 30, 2014 -- Moody's Investors Service upgraded the ratings of Puget Energy (Puget; including its long-term issuer rating to Baa3 from Ba1) and the ratings of its operating subsidiary Puget Sound Energy (PSE; including its long-term issuer rating to Baa1 from Baa2). Moody's also affirmed the commercial paper rating of PSE at P-2. This rating action completes our review of Puget and PSE initiated on November 8, 2013. The outlooks for both Puget and PSE are stable.

"The rating upgrades for Puget and PSE primarily reflect an improved rate design framework in Washington, which will translate to enhanced cost recovery and opportunity for Puget and PSE to improve earned returns" said Ryan Wobbrock, Assistant Vice President.

#### **RATINGS RATIONALE**

The primary driver of today's rating action is Moody's more favorable view of the relative credit supportiveness of the US regulatory framework, as detailed in our September 23, 2013 Request for Comment: "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation." Factors supporting this view include better cost recovery provisions, reduced regulatory lag, and generally fair and open relationships between utilities and regulators. The US utility sector's low number of defaults, high recovery rates, and generally strong financial metrics from a global perspective provide additional corroboration for these upgrades.

The rating upgrades for Puget and PSE acknowledges an expectation for sustained improvement in Puget and PSE's financials, due to supportive regulatory treatment. For example, the most recent rate case decision for PSE included the Washington Utilities and Transportation Commission (WUTC) allowance for an electric and gas revenue decoupling mechanism and provided for a series of predetermined annual delivery rate increases, including cost escalation factors.

Puget and PSE's ratings reflect relatively low risk utility operations and a collaborative regulatory relationship with the WUTC. The ratings also considers an improving financial profile that incorporates a relatively high degree of holding company leverage at Puget, which is the reason for double notching (due to structural subordination and upstream dividend limitations) between the Puget and PSE.

#### **Rating Outlook**

The stable outlooks reflect improved financial profiles at Puget and PSE, which are likely to remain at levels of CFO pre-WC to debt of around 13% and 20%, respectively, over the intermediate-term.

#### **What Could Change the Rating - Up**

A rating upgrade for both Puget could be triggered by continued regulatory support of PSE and evidence of Puget's ability to achieve CFO pre-WC to debt of about 15%, on a sustainable basis.

PSE could be upgraded with an upgrade to Puget, since the level of holding company debt (around 28% of consolidated debt as of September 2013) acts as a constraint to the rating for PSE.

#### **What Could Change the Rating - Down**

Considering the stable outlook, a rating downgrade is not anticipated over the near term. Greater than anticipated dividends to its private equity owners, an inability to achieve stability in recently improved financial metrics, or unexpected regulatory developments or setbacks could cause us to revise the rating outlooks for Puget and PSE downward.

Upgraded Ratings Include:

Puget Energy, Inc.

Issuer Rating to Baa3 from Ba1

Senior Secured to Baa3 from Ba1

Outlook Stable

Puget Sound Energy, Inc.

Issuer Rating to Baa1 from Baa2

First Mortgage Bonds to A2 from A3

Senior Secured A2 from A3

Senior Unsecured Bank Credit Facility to Baa1 from Baa2

Outlook Stable

Affirmed Ratings Include:

Puget Sound Energy Bkd Commercial Paper P-2

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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