

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

| | | |
|----------------------------|---|---------------------------------|
| WASHINGTON UTILITIES AND |) | |
| TRANSPORTATION COMMISSION, |) | |
| |) | |
| Complainant, |) | Dockets UE-121697 and UG-121705 |
| |) | <i>(Consolidated)</i> |
| v. |) | |
| |) | Dockets UE-130137 and UG-130138 |
| PUGET SOUND ENERGY, INC., |) | <i>(Consolidated)</i> |
| |) | |
| Respondent. |) | |
| _____ |) | |

EXHIBIT NO.__(MPG-40)

STANDARD & POOR’S CREDIT METRICS

December 3, 2014

Puget Sound Energy

Standard & Poor's Credit Metrics

Thousands of Dollars

| <u>Line</u> | <u>Description</u> | Retail | | <u>S&P Benchmark (Medial Volatility)^{1/2}</u> | | | <u>Reference</u> |
|-------------|--|------------------------|---------------|--|--------------------|-------------------|---------------------------------------|
| | | <u>Cost of Service</u> | <u>Amount</u> | <u>Intermediate</u> | <u>Significant</u> | <u>Aggressive</u> | |
| | | | (1) | (2) | (3) | (4) | (5) |
| 1 | Rate Base - WA | \$ | 2,621,992 | | | | Exhibit No.____(KJB-3), page 2. |
| 2 | Weighted Common Return | | 4.46% | | | | Page 2, Line 1, Col. 3. |
| 3 | Pre-Tax Rate of Return | | 10.25% | | | | Page 2, Line 3, Col. 4. |
| 4 | Income to Common | \$ | 117,046 | | | | Line 1 x Line 2. |
| 5 | EBIT | \$ | 268,716 | | | | Line 1 x Line 3. |
| 6 | Depreciation & Amortization | \$ | 181,009 | | | | Exhibit No.____(KJB-3), page 2. |
| 7 | Imputed Amortization | \$ | 49,796 | | | | S&P RatingsDirect, November 19, 2014 |
| 8 | Deferred Income Taxes & ITC | \$ | 68,601 | | | | Exhibit No.____(KJB-3), page 2. |
| 9 | Funds from Operations (FFO) | \$ | 416,452 | | | | Sum of Line 4 and Lines 6 through 8. |
| 10 | Imputed & Capitalized Interest Expense | \$ | 20,112 | | | | S&P RatingsDirect, November 19, 2014 |
| 11 | EBITDA | \$ | 519,632 | | | | Sum of Lines 5 through 7 and Line 10. |
| 12 | Total Adjusted Debt Ratio | | 53.4% | | | | Page 3, Line 5, Col. 2. |
| 13 | Debt to EBITDA | | 2.7x | 2.5x - 3.5x | 3.5x - 4.5x | 4.5x - 5.5x | (Line 1 x Line 12) / Line 11. |
| 14 | FFO to Total Debt | | 30% | 23% - 35% | 13% - 23% | 9% - 13% | Line 9 / (Line 1 x Line 12). |

Sources:

¹ Standard & Poor's: "Criteria: Corporate Methodology," November 19, 2013.

² Ratings Direct: "Summary: Puget Sound Energy, Inc.," June 30, 2014.

Note:

Based on the June 2014 S&P report, PSE has a "Strong" business profile and a "Significant" financial profile, and falls under the 'Medial Volatility' matrix.

Puget Sound Energy

Standard & Poor's Credit Metrics (Pre-Tax Rate of Return)

| <u>Line</u> | <u>Description</u> | <u>Weight</u> ¹ (1) | <u>Cost</u> (2) | <u>Weighted Cost</u> (3) | <u>Pre-Tax Weighted Cost</u> (4) |
|-------------|------------------------------------|-----------------------------------|--------------------|-----------------------------|-------------------------------------|
| 1 | Common Equity | 48.0% | 9.30% | 4.46% | 7.18% |
| 2 | Short-Term Debt | 4.0% | 2.68% | 0.11% | 0.11% |
| 2 | Long-Term Debt | <u>48.0%</u> | 6.16% | <u>2.96%</u> | <u>2.96%</u> |
| 3 | Total | 100.0% | | 7.53% | 10.25% |
| 4 | Tax Conversion Factor ² | | | | 1.6094377 |

Sources:

¹Exhibit No.____(MPG-24).

²Exhibit No.____(KJB-4), page 1.

Puget Sound Energy

Standard & Poor's Credit Metrics (Financial Capital Structure)

Thousands of Dollars

| <u>Line</u> | <u>Description</u> | <u>Amount</u> ¹ (1) | <u>Weight</u> (2) |
|-------------|--|-----------------------------------|----------------------|
| 1 | Long-Term Debt | \$ 3,773,860 | 46.6% |
| 2 | Short-Term Debt | \$ 267,878 | 3.3% |
| 3 | Off-Balance Sheet Debt for Operating Leases ² | \$ 110,369 | 1.4% |
| 4 | Off-Balance Sheet Debt for PPAs ² | <u>\$ 174,100</u> | <u>2.1%</u> |
| 5 | Total Debt | \$ 4,326,207 | 53.4% |
| 6 | Common Equity | <u>\$ 3,773,860</u> | <u>46.6%</u> |
| 7 | Total | \$ 8,100,067 | 100.0% |

Sources:

¹Exhibit No.____(MPG-24).

²S&P RatingsDirect, November 19, 2014.