

**EXHIBIT NO. DEG-20
DOCKET NOS. UE-090704/UG-090705
2009 PSE GENERAL RATE CASE
WITNESS: DONALD E. GAINES**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-090704
Docket No. UG-090705**

**NINTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
DONALD E. GAINES
ON BEHALF OF PUGET SOUND ENERGY, INC.**

DECEMBER 17, 2009

**STANDARD
& POOR'S**

RATINGS DIRECT®

March 27, 2009

Summary:
Puget Sound Energy Inc.

Primary Credit Analyst:
Tony Bettinelli, San Francisco (1) 415-371-5067; antonio_bettinelli@standardandpoors.com

Table Of Contents

Rationale

Outlook

Summary: Puget Sound Energy Inc.

Credit Rating: BBB/Stable/A-2

Rationale

The 'BBB' corporate credit rating on Puget Sound Energy Inc. (PSE) primarily reflects the risk profile of its integrated electric and gas utility operations, and the 'BB+' corporate credit rating on Puget Energy Inc. (Puget) primarily reflects the consolidated financial measures that are weaker due to additional debt leverage and disadvantaged by insulating provisions, following Puget's acquisition by an investor consortium that closed on Feb. 6, 2009. However, the relationship between these entities and lack of other operating units constrains the degree of separation between the two credit ratings.

Standard & Poor's Ratings Services views the package of commitments entered into by the company prior to the close of the merger, including the placement an independent director on the board of directors of the utility company, dividend restrictions based on minimum equity, financial tests, and credit ratings, as providing a degree of insulation to the utility company. In addition, the utility company's stand-alone financial metrics are expected to improve post-transaction as some debt is repaid and, on a forward basis, the capital structure is expected to be managed to a credit-supportive level. The corporate credit rating on Puget reflects the additional transaction debt and our expectation that the amount of priority debt, including all operating company debt and credit facilities, in addition to the insulation of the utility company, is a disadvantage to creditors of Puget.

The 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. PSE's cost recovery mechanisms support credit quality. The company has flexibility in implementing rate changes through its power cost adjustment (PCA), but the threshold it must meet to true up under-collected 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 customers. 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 power 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. The use of this mechanism has allowed the company to keep deferral balances low and better match actual costs with collected costs. The holding company has no additional operating units or business activities, and thus carries the same business profile.

Puget's financial risk profile is 'aggressive' under Standard & Poor's corporate risk matrix. Financial measures have historically been adequate for the rating and are expected to weaken going forward due to the net addition of approximately \$850 million of acquisition debt. Adjusted funds from operations (FFO) to interest coverage was slightly over 4x, while FFO to average total debt was at about 17% for the year ended Dec. 31, 2008. However, these year-end financial positions do not reflect the increased debt at Puget upon the completion of its acquisition,

which closed in February. Due to the additional debt at the holding company, we expect consolidated post-transaction credit metrics to run at no less than 3x and 12%, respectively. Adjusted debt leverage -- including debt adjustments for operating leases, purchased power, and hybrid equity -- is expected to rise to slightly above 60%. Dividends to Puget could be restricted, under conditions of financial weakness at PSE. In addition, PSE must maintain investment-grade credit ratings and a minimum equity level, which may also restrict the dividend, pursuant to the company's commitments approved by state regulators.

PSE's financial risk profile is also categorized as 'aggressive' but it will reflect more robust financials metrics post-transaction due to the exclusion of holding company debt and the repayment of some utility debts. Adjusted FFO to interest coverage is expected to average above 4x, while FFO to average total debt is expected to average above 20%. Adjusted debt leverage is expected to be balanced at 50%. Capital requirements are very high at PSE, with capital expenditures of \$3.5 billion planned for 2009 through 2011 driven by infrastructure replacement, renewable standards, and other new resource requirements. Ongoing periodic external debt and equity funds are expected to supplement internal cash flows to finance this growth.

Short-term credit factors

PSE's short-term rating is 'A-2'. Overall liquidity at PSE is adequate. PSE has three committed unsecured revolving credit facilities that provide, in aggregate, \$1.15 billion in short-term borrowing capability. These new facilities include a \$400 million credit agreement for working capital needs, a \$400 million credit facility for funding capital expenditures, and a \$350 million facility to support other working capital and energy hedging activities. At the close of the merger on Feb. 6, 2009, PSE had borrowed \$70 million on the \$400 million working capital facility and had a \$30 million letter of credit outstanding under the \$350 million facility. In addition to the credit agreements, PSE had a \$6.6 million letter of credit through a bank in support of a long-term transmission contract. These facilities mature in 2014.

Effective with the close of the merger, Puget has a \$1.225 billion five-year term loan and a \$1 billion credit facility for funding capital expenditures. As of Feb. 6, 2009, the term loan was fully drawn at \$1.225 billion and \$258 million was outstanding under the \$1 billion facility. These facilities also mature in 2014.

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 \$158 million due in 2009 and \$232 million due in 2010. We expect PSE to internally fund at least 40% of capital expenditures in order to maintain a stable capital structure.

Outlook

The stable outlook on Puget reflects our expectation that it will be able to refinance term loans and credit facilities that come due in five years and that financial risks are prudently managed such that they remain within our 'aggressive' financial category -- that consolidated adjusted FFO to debt is expected to remain above 12% on an ongoing basis and adjusted debt to capital near 60%. The stable outlook on PSE reflects reasonable and timely rate relief related to resource additions and changes in power costs. Factors that could lead to a negative outlook on both entities include commodity cost disallowances, excessive power cost deferrals that stretch liquidity, regulatory lag or insufficiency, or a disproportionate reliance on debt financing to meet the companies' capital needs. Consideration of a positive rating outlook is unlikely at this time.

Copyright © 2009 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscriber's or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7260 or by e-mail to: research_request@standardandpoors.com.

