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

RATINGSDIRECT®

March 27, 2009

Summary:

Puget Sound Energy Inc.

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Table Of Contents

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.