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CREDIT OPINION
5 August 2016

Update

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RATINGS

Puget Sound Energy, Inc.

Domicile	Bellevue, Washington, United States
Long Term Rating	Baa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Puget Sound Energy, Inc.

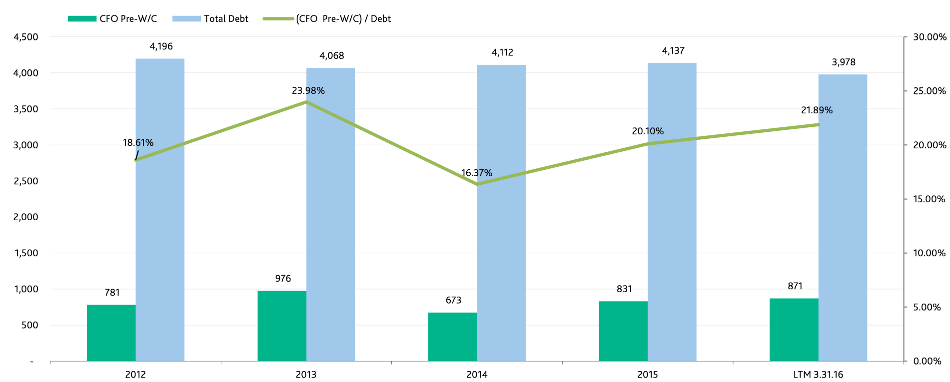
A Vertically Integrated Utility in Bellevue, WA

Summary Rating Rationale

The Baa1 Issuer Rating for Puget Sound Energy, Inc. (PSE) reflects its low risk utility operations with supportive regulatory oversight from the WUTC. The rating also considers strong financial performance at the utility, constrained by holding company leverage at Puget Energy, Inc. (PE, Baa3 stable) and private equity ownership #led by Macquarie Infrastructure Funds (unrated).

The two notch rating differential between PSE and its parent, PE, reflects the structural subordination that exists at PE, and dividend limitations imposed by the WUTC. As of March 2016, PE had approximately $1.8 billion of standalone debt at the parent company, representing approximately 32% of total PE consolidated balance sheet debt.

Exhibit 1
PSE's adjusted CFO Pre-WC, Total Debt and CFO Pre-WC to Debt



Source: Moody's Investors Service

Credit Strengths

» Supportive regulatory environment provides broad suite of timely recovery mechanisms

» Solid financial performance expected to continue

» Ring-fence type provisions help mitigate utility from highly levered parent company

Credit Challenges

» PSE's dividends are required to service $1.8 billion of holding company debt

» Significant capital expenditures over the next 12-18 months

Rating Outlook

The stable outlook reflects PSE's cooperative relationship with the WUTC and its stable and predictable cash flow. The outlook also incorporates a view that the WUTC will remain supportive to long term credit quality.

Factors that Could Lead to an Upgrade

A rating upgrade could be triggered by continued support from the WUTC which helps to improve CFO pre-WC to debt in excess of 25% and CFO pre-WC less dividends to debt in the mid-to-high teens on a sustainable basis.

Factors that Could Lead to a Downgrade

Less supportive regulatory decisions by the WUTC, Retained Cash Flow to debt metrics below 10% or cash flow to debt consistently in the mid-teens range could result in a downgrade.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Puget Sound Energy, Inc.

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	3/31/2016(L)
CFO pre-WC + Interest / Interest	4.1x	4.8x	3.5x	4.4x	4.6x
CFO pre-WC / Debt	18.6%	24.0%	16.4%	20.1%	21.9%
CFO pre-WC – Dividends / Debt	14.4%	13.8%	8.4%	13.5%	15.7%
Debt / Capitalization	47.1%	44.4%	46.2%	45.4%	43.8%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
Source: Moody's Investors Service

Detailed Rating Considerations

SUPPORTIVE COST RECOVERY PROVIDES CREDIT BALLAST

The rate design and regulatory support offered by the WUTC is the primary ratings driver for PSE, which continues to operate under a three year rate plan, initiated in 2013 and extended through this year (see section below). This plan includes a series of predetermined annual rate increases, with an allowed ROE of 9.8% on an equity layer of 48%. Forward-looking rate plans are positive, since it provides a degree of assurance and predictability into PSE's financial performance.

PSE's revenue decoupling mechanism is also credit supportive, since it helps PSE to have greater fixed cost recovery in both its electric and gas segments, even in the current declining sales volume environment. The rate plan also included a property tax and conservations riders, as well as an annual earnings test that requires PSE to share with customers on an equal basis any earnings that exceed its authorized return.

PSE also continues to receive timey recovery for its most significant costs, through the power cost adjustment (PCA), purchased gas adjustment (PGA), and power cost only rate case (PCORC). The PCA and PGA are allow the company to directly pass the costs of purchased power and natural gas through to customers within a year's time, while the PCORC allows PSE to revise electric rates after an expedited 6-month review of the company's power costs and new resources, instead of filing a traditional general rate case. These are positive to PSE's credit in that they help to address some of the highest and most volatile costs that PSE faces, including variability in power supply and commodity costs, as well as hydrology levels.

RATE CASE OUTCOME POSTPONED TO CONSIDER COLSTRIP FUTURE

In March, PSE requested to delay the utility's rate case filing until January 2017 in order to include a strategy to address the much maligned Colstrip Units 1 and 2 within the filing. The 2,100 MW, four unit, coal-fired power generation plant in Rosebud County, MT

(PSE owns a 50% stake in Units 1 and 2) had been receiving increased criticism from environmental groups in and around the state of Washington, with Units 1 and 2 facing increasing pressure for early retirement, due to emissions generated from the facility.

Subsequent to the postponement of the rate case filing, Senate Bill 6248 was signed into law in Washington, which allows PSE to collect decommissioning funds for the possible retirement of the two units. Furthermore, PSE and co-owner of Untis 1 and 2, Talen Energy Supply (Ba3, ratings under review for possible downgrade), reached a settlement agreement with environmental groups to retire Units 1 and 2 by no later than July 2022. The settlement does not impact Units 3 and 4 (PSE's owns 25% of both units).

We view the developments surrounding Colstrip to be credit supportive to PSE, since it provides a funding mechanism for the decommissioning of relatively old units, which will support the company's financial position as it addresses an uncertain liability. The devolvement also evidence collaboration between the utility and other stakeholders, which could translate into a more cooperative rate case filing in January. However, we note that the process will continue to be politicized, since the units exist in Montana where Colstrip provides local tax revenue and jobs.

SOLID FINANCIAL PERFORMANCE EXPECTED TO CONTINUE

PSE's financial profile rebounded, as expected, in 2015, due to one-time events in 2014. For example, 2014 cash flow was abnormally low due to a $52.7 million one-time refund to customers which was triggered when PSE sold assets located in the Jefferson County Public Utility District, compounded by roughly $60 million of lower revenue due to lower volumes sold. As such, the company's CFO pre-WC to debt fell to under 17% in 2014.

However, the decoupling mechanism provides for eventual cash flow recovery of volumetric changes and the true-up in 2015 led to cash flow from operations before changes in working capital (CFO pre-WC) of around $830, as anticipated. As such, the company produced CFO pre-WC to debt of 20% for 2015 - a level that we expect to continue, despite elevated capex over the next twelve months.

RING-FENCE-LIKE PROVISIONS AFFORD PROTECTION TO PSE's CREDITORS

Due to the significant level of debt residing at PE and PSE being the sole source of cash flow to support PE's debt service, regulatory protections and credit insulation are an important aspect of the analysis of PSE.

Key among the ring-fence-like mechanisms established when the WUTC approved the change in ownership, in 2009, are: a required "golden share" vote to address concern about potential substantive consolidation of PSE in any parent bankruptcy or any voluntary filing by PSE; minimum required levels of PSE common equity to be maintained; and limits on PSE and parent distributions under certain circumstances. For example, dividend restrictions would apply if PSE's common equity ratio, calculated on a regulatory basis, is 44% or below except to the extent a lower equity ratio is ordered by the WUTC, and if PSE's issuer rating falls below investment grade. If PSE's credit rating is below investment grade, PSE's ratio of EBITDA to interest expense, for the four most recently ended fiscal quarters prior to such date, must be equal to or greater than 3.0x.

Liquidity Analysis

PSE's internal liquidity consists of cash flow from operations, which we expect to be around $850 million for 2016. This will be insufficient to cover relatively high capex of over $800 million in the next twelve to eighteen months and dividends to PE, which were around $240 million through LTM 1Q16. Based on these figures, PSE would have negative free cash flow of about $190 million.

PE's upstream dividend policy for PSE has been aggressive, historically, with a five year average payout of 99% for the utility. However, 2015 dividends were less than we had anticipated, at an 89% payout and LTM 1Q16 has shown further reduction to a 73% payout ratio. PSE's dividends are somewhat restricted by the maintenance of its equity layer to achieve maximum allowed returns as well as the minimum equity ratio of 44% imposed by ring-fencing provisions instituted during its 2009 acquisition.

PSE's external liquidity consists of two five-year committed credit facilities aggregating $1.0 billion. The facilities include a $650 million revolver to support working capital and act as backup to its commercial paper program and a $350 million revolver to support its energy hedging program, both of which expire in April 2019. As of March 31, 2016, PSE had no amounts outstanding under any of these sources of liquidity.

The $650 million working capital revolver has a $75 million sublimit for same day borrowings and the facilities do not require material adverse event representation for new money borrowings. There is a financial covenant (debt / capitalization cannot exceed 65%) and PSE is comfortably compliant. Additionally, PE has access to a $800 million senior secured credit facility due April 2018.

The company's next material debt maturity is in June 2018, when $200 million matures.

Profile

Puget Sound Energy, Inc. (PSE), the primary subsidiary of Puget Energy, Inc. (PE), is an electric and natural gas utility serving about 1.1 million electric and over 785,000 natural gas customers in the State of Washington.

PSE is part of a complex ownership structure since PE was acquired in 2009 by Puget Holdings LLC, which is indirectly owned by consortium of private equity investors led by Macquarie Infrastructure Funds (41.8%), along with Canada Pension Plan Investment Board (31.6%), British Columbia Investment Management Corp (15.8%), Alberta Investment Management Corp (7.1%), and FSS Infrastructure Trust (3.7%).

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Puget Sound Energy, Inc.				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2016**		**Moody's 12-18 Month Forward View As of date published [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.2x	Baa	4x-4.5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	20.7%	Baa	18% - 22%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	12.6%	Baa	13% - 17%	Baa
d) Debt / Capitalization (3 Year Avg)	43.8%	A	45% - 50%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		N/A		N/A
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
[2] As of 3/31/2016(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
PUGET SOUND ENERGY, INC.	
Outlook	Stable
Issuer Rating	Baa1
Senior Secured	A2
Commercial Paper	P-2
PARENT: PUGET ENERGY, INC.	
Outlook	Stable
Issuer Rating	Baa3
Senior Secured	Baa3/A2
PUGET SOUND ENERGY, INC. (OLD)	
Jr Subordinate	Baa2

Source: Moody's Investors Service

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