

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's affirms Puget Energy and Puget Sound Energy; changes outlooks to positive**

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28 Jun 2013

New York, June 28, 2013 -- Moody's Investors Service today affirmed the ratings for Puget Energy, Inc. (PE: Ba1 Issuer Rating) and its regulated utility subsidiary Puget Sound Energy, Inc. (PSE: Baa2 Issuer Rating) and revised the rating outlooks for both companies to positive from stable.

#### RATINGS RATIONALE

"The revision in outlooks to positive acknowledges a steady improvement in PE and PSE's financial profiles driven by the growth of PSE's rate base" said Moody's Vice President Scott Solomon. "Continued improvement in the companies financial profiles would likely trigger one-notch ratings upgrades over the next 12-18 months", added Solomon.

PE's key consolidated financial metrics of cash from operations pre-changes in working capital (CFO pre-WC) to debt improved to approximately 12% in 2012 from 10% in 2010 while interest coverage improved to 2.8 times from 2.6 times.

PSE's financial metrics have followed a similar trend. Specifically, the utility's CFO pre-WC to debt metric improved to 21% in 2012 from 16% in 2010 while interest coverage improved to 4.4 times from 3.6 times.

The change in rating outlook also reflects a recent credit supportive regulatory outcome that is expected to reduce regulatory lag and increase PSE's opportunity to earn its authorized rate of return. PSE's earned return on equity in 2012 was 7.7%, a modest improvement from the 6.9% earned in 2011, but below the 9.8% return allowed by the Washington Utilities and Transportation Commission (WUTC).

In a June Order approved earlier this week, the WUTC approved a modest increase in electric rates, granted PSE authority to implement full decoupling of electric and natural gas rates and provided for a series of predetermined annual delivery rate increases implemented through fixed escalation factors. Per the Order, PSE may not file its next general rate case before April 2015. PSE is permitted, however, to seek rate increases during this timeframe through existing riders and trackers including power-cost-only rate case filings.

The positive outlook considers PSE's capital expenditures, which are expected to be reduced considerably from historical levels. As a result, the utility is transitioning from being a net cash borrower, where in the past construction expenditures exceeded funds from operations, to being net cash positive. Forecasted expenditures for the 2013-2015 period total \$1.6 billion and represent more of a baseline spend without any significant planned new generation. We anticipate that a higher level of dividends will be paid given the expected decline in the utility's capital spending programs.

A rating upgrade over the next 12 to 18 months could be triggered by continued regulatory support and evidence of PE's ability to achieve consolidated interest coverage and CFO pre-W/C to debt metrics in excess of 3.0 times and 13%, respectively, on a sustainable basis.

Greater than anticipated dividends to its private equity owners, an inability to achieve the above cited key financial metrics or unexpected regulatory setbacks or developments could cause us to revise the rating outlooks for PE and PSE to stable.

PE is a holding company whose sole subsidiary is PSE, a combination electric and natural gas utility. Both companies are headquartered in Bellevue, Washington.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in August 2009. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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Scott Solomon  
Vice President - Senior Analyst  
Infrastructure Finance Group  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

Michael G Haggarty  
Senior Vice President  
Corporate Finance Group  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

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