

MOODY'S

INVESTORS SERVICE

Rating Action: **Moody's Upgrades Puget Energy and Puget Sound Energy;** **Outlook Stable**

16 Mar 2011

New York, March 16, 2011 -- Moody's Investors Service has today upgraded all long-term ratings of Puget Energy, Inc. (PE), including the long-term ratings of its core regulated electric and gas operating subsidiary, Puget Sound Energy, Inc (PSE) one notch. At the same time we have upgraded PSE short-term commercial paper rating to P-2 from P-3. The outlook is stable.

Ratings upgraded include:

Puget Energy

Issuer Rating -- to Ba1 from Ba2

Senior secured bank facility -- to Ba1 from Ba2

Senior Secured -- to Ba1 from Ba2

Puget Sound Energy

Issuer rating - to Baa2 from Baa3

Senior unsecured bank facility -- to Baa2 from Baa3

Senior Unsecured Shelf -- to (P) Baa2 from (P) Baa3

Senior Secured -- to A3 from Baa1

First Mortgage Bonds -- to A3 from Baa1

Subordinated - to Baa3 from Ba1

Short-term commercial paper -- to P-2 from P-3

RATINGS RATIONALE

Today's rating action is reflective of a number of considerations including the relative stability in operations observed following the company's purchase by a consortium of investors in February 2009, as well as the progress being made to extend the maturity profile of the debt at the PE level that was used to help finance the acquisition. Prospectively, we believe the utility's capital spending will peak in 2011 resulting in a higher level of retained cash flow in 2012. Additionally, we expect PSE will seek authorization from the Washington Utilities and Transportation Commission for rate increases at both the electric and gas businesses sometime in 2011 (effective 2012), providing an opportunity for stronger positioning at its current rating category.

The Baa2 (senior unsecured) ratings for PSE, reflect the relatively low risk utility operations, collaborative regulatory relationships and recent credit supportive rate case outcomes, efficient handling of electric and gas supply needs, acceptable credit metrics for the rating category, and continued access to its own committed bank credit facilities plus indirect access to the parent's committed capital expenditure facility to supplement internal cash flow.

At Ba1 (senior unsecured) for PE following today's rating action, a two notch differential remains between the rating of PSE and its parent. The difference takes into account the structural subordination of PE debt to that of its primary cash flow provider, PSE, but also considers the relative size of the debt (25% of consolidated debt) resulting in weaker credit metrics, and the relatively strong ring-fencing at PSE. The higher leverage at the parent is clearly observed when viewing certain year-end 2010 credit metrics. For example, cash from operations (pre w/c) to debt at PSE was 17% and 10% at PE; however, both metrics are in line with their respective rating categories.

Despite the expected negative free cash flow in 2011, we believe liquidity at both entities is good. This is based on the existing \$1.0 billion committed credit line at PE (approximately \$435 million drawn) and the combined \$1.15 billion of credit lines at PSE (approximately \$507 million drawn). We expect that the company will seek to term-out some of these borrowings in 2011. As noted above, we have also upgraded the short-term rating to P-2. PSE's commercial paper program is backstopped by a committed \$400 million senior unsecured working capital facility that expires February 6, 2014. It has same-day drawing availability and no material adverse event language for ongoing drawdowns.

The rating outlook is stable given that the current credit metrics for both PE and PSE are well placed in the "Ba" and "Baa" categories, respectively. As such, further credit metric strengthening would be necessary for any further positive rating action. However, the stable outlook also incorporates a view that the company will be able to successfully refinance the sizable 2014 acquisition-debt maturity at PE, and skillfully carry out its expected rate cases and capital program over the next 18 months.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in August 2009.

Headquartered in Bellevue, Washington, Puget Energy, Inc., is an electric utility holding company that operates through its principal operating subsidiary Puget Sound Energy, Inc. PE reported LTM revenue and balance sheet debt of \$3.1 billion and \$4.9 billion, respectively, at December 31, 2010.

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