

Rating Action: Moody's downgrades Puget Energy to Ba2; affirms LT-rtg of utility subsidiary

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Approximately US\$6.9 billion of securities and bank debt affected

New York, February 02, 2009 -- Moody's Investors Service today downgraded the Issuer Rating of Puget Energy, Inc. to Ba2 from Ba1. Moody's also affirmed the long term ratings of its regulated utility subsidiary, Puget Sound Energy, Inc. (PSE; Baa2 senior secured), and the utility's affiliated entity, Puget Sound Energy Capital Trust III (shelf for Trust Preferred Securities (P)Ba1). In addition, Moody's downgraded PSE's short-term rating for commercial paper to Prime-3 from Prime-2. Concurrent with these rating actions, Moody's assigned Baa3 ratings to PSE's three new committed five-year senior unsecured bank revolvers aggregating \$1.150 billion and Ba2 ratings to a committed \$1.225 billion senior unsecured five-year term loan and a committed \$1.0 billion senior unsecured five-year capital expenditure bank facility arranged by Puget Merger Sub, Inc. The rating outlook for all the companies is stable.

The rating actions take into account the impending completion of the purchase of 100% of the common stock of Puget Energy, Inc. by a consortium of infrastructure private equity investors led by Macquarie Infrastructure Partners. Following the recent receipt of the final required regulatory approval for the transaction from the Washington Utilities Transportation Commission (WUTC), closing of the transaction is expected by February 6, 2009. Upon closing, Puget Merger Sub, Inc. will merge with and into Puget Energy, Inc., leaving Puget Energy as the surviving entity and obligor for the amounts drawn under the term loan and capital expenditure facility at the close of the transaction.

"The rating downgrade for Puget Energy reflects our concerns about the significant increase in financial risk at the holding company level as over \$1.0 billion of standalone holding company debt is being introduced into the capital structure" said Moody's Vice President and Senior Analyst, Kevin Rose. "In affirming PSE's long-term ratings, while downgrading Puget Energy, a wider notching of ratings between PSE and its parent is established, reflecting initial debt reduction at the utility as the transaction closes and ring-fencing mechanisms that afford additional credit protection for the utility to the potential detriment of Puget Energy's credit quality", Rose added.

The downgrade of PSE's short-term rating for commercial paper reflects our concerns about the demands for capital as PSE faces high multi-year spending needs. Although PSE will benefit from access to its own bank revolvers to supplement internally generated cash flow plus indirect access to the \$1.0 billion committed capital expenditure facility at the parent level, its liquidity could be stretched if any unexpected challenges, including potential cost overruns arise. The three new PSE facilities will replace prior arrangements effective at closing, including a new \$400 million liquidity facility available for commercial paper backstop. The quality of the alternate liquidity provided by the new revolvers also benefits from not having any ongoing material adverse change clause or any onerous financial covenant requirements. Importantly, we expect that PSE should maintain adequate headroom against the covenants given expected financial performance and there are no rating triggers in the bank facilities that might cause acceleration or puts of obligations; however, they do contain rating sensitive pricing.

The use of proceeds from the financing of this transaction will include initial debt reduction for the utility, thereby improving PSE's capital structure in anticipation of the planned substantial multi-year capital program and prospectively should on average support cash flow from operations before the effects of changes in working capital (CFO Pre W/C) to interest and debt metrics in excess of 4x and 20%, respectively. Financial performance that delivers on these expectations, which assume continued support from the WUTC for frequent rate increases over the next several years, could suggest a higher rating is warranted for PSE; however, PSE's rating is constrained due to the increased financial risk at the holding company, even after considering the protection provided by the institution of ring fence like mechanisms.

The significant first time layer of standalone parent company debt being introduced is expected to weaken Puget Energy's consolidated metrics, including CFO Pre W/C to interest and debt on average in the low-to-mid 3x range and the low teens, respectively. At these levels, the Ba2 rating more appropriately reflects the

structural subordination of payments on Puget Energy's obligations to those of PSE, even as we expect PSE to maintain flexibility under covenants requiring a minimum equity component in its capital structure and limiting distributions to its parent under certain circumstances.

Rating downgraded for Puget Energy, Inc. includes:

Issuer Rating to Ba2 from Ba1

Ratings assigned for Puget Merger Sub, Inc. include:

\$1.225 billion committed five-year term loan at Ba2

\$1.0 billion committed five year capital expenditure facility at Ba2

Ratings affirmed for Puget Sound Energy, Inc. include:

Baa2 senior secured debt;

Baa3 senior unsecured bank facility and Issuer Rating

Ba2 preferred stock

(P)Baa2 shelf registration for senior secured debt

(P)Baa3 shelf registration for senior unsecured debt

(P)Ba2 shelf registration for preferred stock

Rating affirmed for Puget Sound Energy Capital Trust III includes:

(P)Ba1 shelf registration for Trust Preferred Securities

Ratings assigned for Puget Sound Energy, Inc. include:

\$400 million senior unsecured liquidity revolver at Baa3

\$400 million senior unsecured capital expenditure revolver at Baa3

\$350 million senior unsecured energy hedging revolver at Baa3

Rating downgraded for Puget Sound Energy, Inc. includes:

Short-term rating for commercial paper to Prime-3 from Prime-2

The principal methodology used in rating these issuers was Rating Methodology: Global Regulated Electric Utilities, which can be found at www.moodys.com in the Credit Policies & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Credit Policy and Methodologies directory.

Moody's last rating action was on October 29, 2007 when the Issuer Rating of Puget Energy, Inc. was placed under review for possible downgrade; the long-term ratings of Puget Sound Energy, Inc. were affirmed, while the rating outlook was changed to stable from positive; and Puget Sound Energy's short-term rating for commercial paper was placed under review for possible downgrade.

Puget Sound Energy, Inc. is a combination electric and natural gas utility subsidiary of Puget Energy, Inc., a holding company. Both companies are headquartered in Bellevue, Washington.

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