

**Exh. DCP-16
UE-240004/UG-240005
Witness: David C. Parcell**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**DOCKETS UE-240004 and
UG-240005 (*Consolidated*)**

EXHIBIT TO TESTIMONY OF

DAVID C. PARCELL

**ON BEHALF OF STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

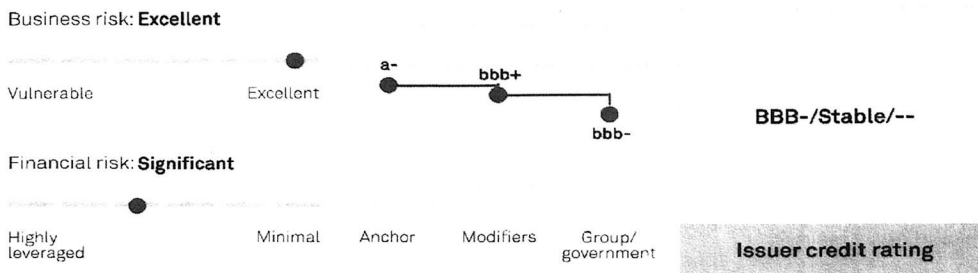
*Standard & Poor's Global Ratings Report dated June 19, 2023, excerpted from
Response to UTC Staff Data Request No. 2*

August 6, 2024

Puget Energy Inc.

June 19, 2023

Ratings Score Snapshot



Primary contact

William Hernandez
 Dallas
 1-214-765-5877
 william.hernandez
 @spglobal.com

Secondary contact

Gerrit W Jepsen, CFA
 New York
 1-212-438-2529
 gerrit.jepsen
 @spglobal.com

Research contributor

Naman Agarwal
 CRISIL Global Analytical Center,
 an S&P Global Ratings affiliate
 Pune

Credit Highlights

Overview

Key strengths

Fully regulated, vertically integrated electricity and natural gas distribution utility operations.
 Limited coal-fired generation.
 Mostly residential customer base supports operating cash flow stability.

Key risks

Limited geographic and regulatory diversity.
 Historically challenging regulatory environment in Washington.
 Discretionary cash flow deficit creates external funding needs.

Subsidiary Puget Sound Energy's multi-year rate outcome reduces regulatory risk for parent Puget Energy Inc.

In December 2022, Puget Sound Energy was authorized to increase its electricity rates by \$223 million in 2023 and \$38 million in 2024 and its gas rates by \$70.6 million in 2023 and \$18.8 million in 2024. The forward-looking rate increase reflects forecasted rate base estimates through 2024, which we view favorably from a credit standpoint because of the

Puget Energy Inc.

ability to reduce regulatory lag. The outcome also provides predictability for the company, both reducing its regulatory risk.

We expect Puget Sound Energy will fully recover any compliance costs, net of allowance sales, related to the state of Washington's Climate Commitment Act (CCA). The CCA requires businesses emitting more than 25,000 metric tons of carbon dioxide per year to participate in a cap-and-trade program. Puget Sound Energy was recently authorized to defer the revenues and expenses relating to compliance with the program. However, clarity around cost recovery is important to avoid cash flow volatility.

Outlook

The stable outlook on Puget Sound Energy reflects that of parent Puget Energy Inc. and our expectation that the implementation of Senate Bill (SB) 5295 and the multiyear rate plan will reduce regulatory lag and cash flow volatility. Under our base case, we expect Puget Energy's funds from operations (FFO) to debt will be 13%-14% through 2025.

Downside scenario

We could lower the rating over the next 12 to 24 months if:

- The regulatory construct under the Washington Utilities and Transportation Commission (WUTC) weakens, resulting in increased business risk;
- Puget Sound Energy cannot earn close to its authorized return on equity; or
- Puget Energy's financial measures weaken, reflecting FFO to debt consistently below 13%

Upside scenario

Although less likely, we could raise the rating on Puget Energy over the next 24 months if:

- Puget Sound Energy significantly improves its management of regulatory risk, which could manifest as reduced regulatory lag;
- Puget Sound Energy consistently earns at or above its authorized return on equity;
- The commission continues to implement SB 5295 in a credit-supportive manner; and
- Puget Energy maintains FFO to debt above 16%.

Our Base-Case Scenario

Assumptions

- Ongoing cost recovery through authorized mechanisms and periodic rate case filings.
- Capital spending averages \$1.3 billion per year through 2025.
- Negative discretionary cash flow indicates external funding needs.
- All debt maturities refinanced.

Key metrics

Puget Energy Inc.--Key Metrics*

Mil. \$	2022a	2023f	2024f	2025f
Debt to EBITDA (x)	5.6	5.0-5.5	5.0-5.5	4.5-5.0
FFO to debt (%)	12.7	14-15	14-15	14-15
FFO interest coverage (x)	3.8	4.0-4.5	4.0-4.5	4.0-4.5

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Company Description

Puget Energy operates as a regulated electric and natural gas utility company through subsidiary Puget Sound Energy, which represents majority of its consolidated operations. Through its regulated utility subsidiary, Puget Energy engages in electric transmission, distribution, generation, and natural gas distribution in Washington state and serves about 1.2 million electric customers and about 900,000 gas customers. Puget Energy also has a wholly owned nonregulated subsidiary, Puget LNG LLC (not rated).

Peer Comparison

Puget Energy Inc.--Peer Comparisons

	Puget Energy Inc.	Avista Corp.	Cleco Corporate Holdings LLC	NorthWestern Corp.
Foreign currency issuer credit rating	BBB-/Stable/--	BBB/Negative/A-2	BBB-/Stable/--	BBB/Stable/A-2
Local currency issuer credit rating	BBB-/Stable/--	BBB/Negative/A-2	BBB-/Stable/NR	BBB/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	\$	\$	\$	\$
Revenue	4,221	1,710	2,230	1,478
EBITDA	1,407	472	645	473
Funds from operations (FFO)	998	352	513	348
Interest	376	126	145	126
Cash interest paid	362	118	132	120
Operating cash flow (OCF)	833	134	339	290
Capital expenditure	1,051	459	235	499
Free operating cash flow (FOCF)	(218)	(326)	104	(209)
Discretionary cash flow (DCF)	(234)	(455)	(116)	(349)

Puget Energy Inc.

Puget Energy Inc.--Peer Comparisons

Cash and short-term investments	106	13	58	8
Gross available cash	106	13	58	8
Debt	7,831	3,048	3,248	2,764
Equity	4,964	2,335	2,947	2,665
EBITDA margin (%)	33.3	27.6	28.9	32.0
Return on capital (%)	4.4	5.0	5.7	5.3
EBITDA interest coverage (x)	3.7	3.7	4.5	3.8
FFO cash interest coverage (x)	3.8	4.0	4.9	3.9
Debt/EBITDA (x)	5.6	6.5	5.0	5.8
FFO/debt (%)	12.7	11.6	15.8	12.6
OCF/debt (%)	10.6	4.4	10.4	10.5
FOCF/debt (%)	(2.8)	(10.7)	3.2	(7.6)
DCF/debt (%)	(3.0)	(14.9)	(3.6)	(12.6)

Business Risk

We base our assessment of Puget Sound Energy's business risk on its regulated utility operations that provide essential services to its local economies in Washington. Given the material barriers to entry, Puget Sound Energy and the regulated utility industry as a whole are insulated from competitive market challenges. This underlies our view of regulated utilities' very low industry risk compared with other industries.

Our assessment of Puget Sound Energy's business risk is supported by generally constructive regulation in Washington under the WUTC that is based on a multiyear ratemaking framework. In addition to reducing regulatory lag and cash flow volatility, we believe multiyear ratemaking promotes predictability and lowers uncertainty for the utility and its stakeholders. Our assessment of the company's business risk also incorporates its large customer base of about 1.2 million electricity customers and 900,000 natural gas customers that are mostly residential, and revenue decoupling mechanisms for its electricity and natural gas utilities. Overall, we believe the regulatory environment under the WUTC has historically been challenging, but we expect Puget Sound Energy will continue managing regulatory risk in line with its peers.

The company's Tacoma Liquefied Natural Gas (LNG) facility at the Port of Tacoma completed commissioning and commenced commercial operations in February 2022. The Tacoma LNG project partially weakens the company's excellent level of business risk because it exposes Puget Energy to counterparty credit, volumetric, commodity, and additional operational risks. However, the LNG project contributes about 1% to consolidated EBITDA.

Financial Risk

We expect elevated capital spending to average \$1.25 billion annually through 2025 across Puget Energy's businesses. While its utility's most recent regulatory outcome provides rate relief over the next two years, we forecast its operating cash flows to be lower than capital spending and dividends on an annual basis, necessitating consistent access to the capital markets. We forecast stand-alone S&P Global Ratings-adjusted FFO to debt of 14%-15% through 2025, placing Puget Energy at the low end of the benchmark range. We believe the company's ability to cover annual cash interest payments based on S&P Global Ratings-adjusted FFO

Puget Energy Inc.

supports the financial risk profile assessment, with annual coverage of 4x-4.5x through 2025, which is within the financial risk profile assessment. Finally, we forecast leverage, as indicated by S&P Global Ratings-adjusted debt to EBITDA, to be 4.5x-5.5x through 2025, below the financial risk profile assessment benchmarks.

We assess Puget Energy's financial risk profile using our medial volatility benchmarks, reflecting its lower-risk, regulated utility operations and effective management of regulatory risk. These benchmarks are more relaxed than those used for typical corporate issuers.

Puget Energy Inc.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	\$	\$	\$	\$	\$	\$
Revenues	3,460	3,346	3,401	3,326	3,806	4,221
EBITDA	1,443	1,355	1,333	1,341	1,451	1,407
Funds from operations (FFO)	1,079	985	964	970	1,060	998
Interest expense	386	375	377	394	380	376
Cash interest paid	363	362	358	366	368	362
Operating cash flow (OCF)	990	924	550	751	861	833
Capital expenditure	1,045	1,080	968	916	938	1,051
Free operating cash flow (FOCF)	(54)	(157)	(418)	(165)	(78)	(218)
Discretionary cash flow (DCF)	(177)	(234)	(482)	(211)	(184)	(234)
Cash and short-term investments	27	38	45	52	57	106
Gross available cash	27	38	45	52	57	106
Debt	6,314	6,628	7,124	7,360	7,682	7,831
Common equity	3,750	3,861	4,000	4,140	4,563	4,964
Adjusted ratios						
EBITDA margin (%)	41.7	40.5	39.2	40.3	38.1	33.3
Return on capital (%)	8.3	5.5	5.3	5.1	5.2	4.4
EBITDA interest coverage (x)	3.7	3.6	3.5	3.4	3.8	3.7
FFO cash interest coverage (x)	4.0	3.7	3.7	3.7	3.9	3.8
Debt/EBITDA (x)	4.4	4.9	5.3	5.5	5.3	5.6
FFO/debt (%)	17.1	14.9	13.5	13.2	13.8	12.7
OCF/debt (%)	15.7	13.9	7.7	10.2	11.2	10.6
FOCF/debt (%)	(0.9)	(2.4)	(5.9)	(2.2)	(1.0)	(2.8)
DCF/debt (%)	(2.8)	(3.5)	(6.8)	(2.9)	(2.4)	(3.0)

Puget Energy Inc.

Reconciliation Of Puget Energy Inc. Reported Amounts With S&P Global Adjusted Amounts (Mil. \$)

Financial year	Shareholder		Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
	Debt	Equity								
Dec-31-2022										
Company reported amounts	7,105	4,964	4,221	1,558	778	329	1,407	770	16	1,005
Cash taxes paid	-	-	-	-	-	-	(47)	-	-	-
Cash interest paid	-	-	-	-	-	-	(321)	-	-	-
Lease liabilities	307	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	24	7	7	(7)	17	-	-
Accessible cash and liquid investments	(106)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	18	(18)	(18)	-	(18)
Power purchase agreements	433	-	-	80	16	16	(16)	65	-	65
Asset-retirement obligations	165	-	-	6	6	6	-	-	-	-
Nonoperating income (expense)	-	-	-	-	9	-	-	-	-	-
Debt: other	(73)	-	-	-	-	-	-	-	-	-
COGS: other nonoperating nonrecurring items	-	-	-	(261)	(261)	-	-	-	-	-
Total adjustments	727	-	-	(151)	(223)	47	(409)	63	-	46
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	7,831	4,964	4,221	1,407	554	376	998	833	16	1,051

Liquidity

Our 'A-2' short-term rating on Puget Energy reflects our issuer credit rating on the company. As of March 31, 2023, we assess the company's liquidity as adequate, with sources covering uses by 1.1x for the coming 12 months, even if forecast stand-alone EBITDA declines 10%. We use slightly less stringent thresholds to assess the utility's liquidity because we believe the regulatory framework under the WUTC provides it with a manageable level of cash flow stability, even in times of economic stress.

Our assessment also reflects Puget Energy's generally prudent risk management--we expect the utility will manage its upcoming long-term debt maturities well in advance of their scheduled

Puget Energy Inc.

due dates--sound relationships with its banks, and satisfactory standing in the credit markets. In addition, we believe it could reduce its high capital spending during stressful periods, which limits the need to refinance under such conditions.

Overall, we believe Puget Energy will likely withstand the adverse market circumstances over the next 12 months while maintaining sufficient liquidity to meet its obligations. This is partially supported by its \$1.6 billion of committed credit facility capacity through 2027, \$800 million of which is at subsidiary Puget Sound Energy.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> • Credit facility availability of \$1.6 billion; • Estimated cash FFO of about \$1.2 billion; and • Cash and cash equivalents of about \$110 million. 	<ul style="list-style-type: none"> • Debt maturities, including outstanding commercial paper, of about \$237 million; • Working capital outflows of about \$20 million; • Capital spending of about \$1.3 billion; and • Dividends of about \$145 million.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- Climate transition risks					- N/A					- N/A				

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Puget Sound Energy. We note that about 10% of generation capacity comes from hydropower generation, which we view as favorable from an environmental perspective. Natural gas, wind, and coal contribute about 60%, 20%, and 10%, respectively, to the total megawatts of generation capacity. These risks are partially mitigated through the company's continuous effort to retire fossil fuel generation and investment in renewable power generation.

Group Influence

Under our group rating methodology criteria, we consider Puget Energy to be core to its ultimate parent Puget Holdings LLC (not rated). This reflects our view that the intermediate holding company is highly unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and is closely linked to the parent's name and reputation.

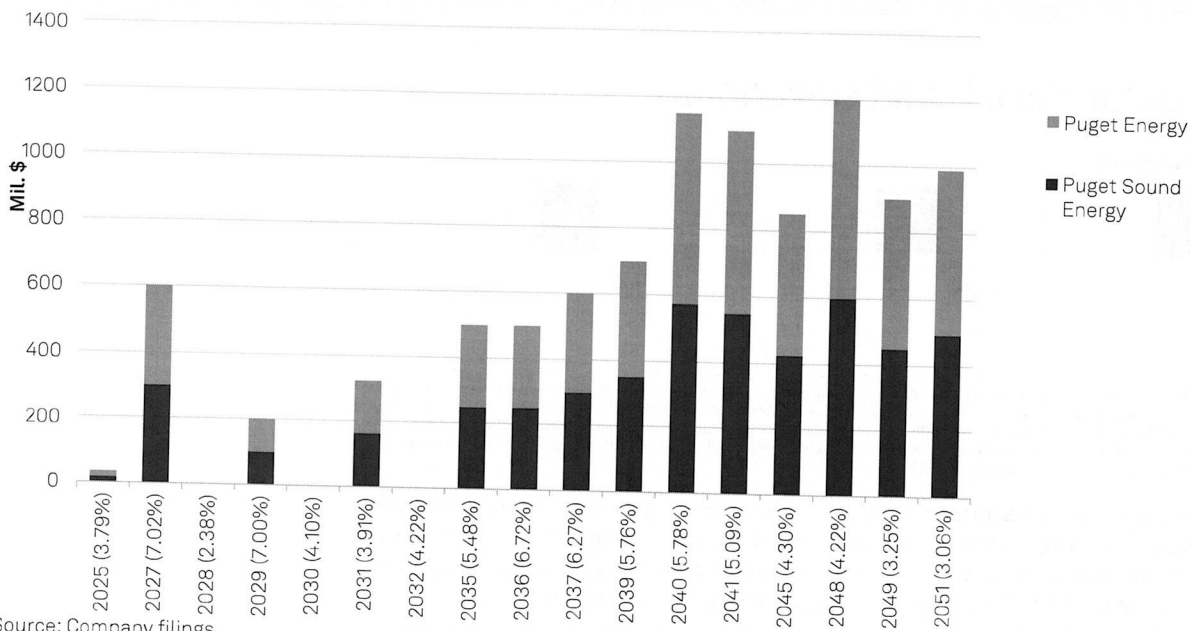
Furthermore, we rate the intermediate holding company one notch higher than our group credit profile on Puget Holdings LLC. This is due to the strength of Puget Energy's stand-alone credit profile and existing regulatory and structural protections in place that we believe would prevent the subsidiary from supporting the group to an extent that would unduly impair its stand-alone creditworthiness.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2023, Puget Energy's consolidated capital structure consisted of about \$6.8 billion of debt, including about \$4.8 billion of first-mortgage bonds and senior notes at Puget Sound Energy.

Scheduled maturities of Puget Energy Inc.'s long-term debt



Source: Company filings.
 Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Analytical conclusions

- Puget Energy's senior secured debt is secured by the equity interests it holds in Puget Sound Energy. We rate this senior secured debt the same as the company's issuer credit rating because of regulatory restrictions that would inhibit the company from supporting the group in a manner that would impair its credit quality. We therefore believe these regulatory restrictions mitigate the debt's subordination risk.

Puget Energy Inc.

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/--
Local currency issuer credit rating	BBB-/Stable/--
Business risk	Excellent
Country risk	Very Low
Industry risk	Very Low
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	a-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	bbb+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Puget Energy Inc.

Ratings Detail (as of June 19, 2023)*

Puget Energy Inc.

Issuer Credit Rating	BBB-/Stable/--
Senior Secured	BBB-

Issuer Credit Ratings History

27-May-2021	BBB-/Stable/--
21-Aug-2020	BBB-/Negative/--
23-Jul-2020	BBB-/Watch Neg/--
14-Dec-2018	BBB-/Negative/--

Related Entities

Puget Sound Energy Inc.

Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Senior Secured	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.