

Exhibit ___ (KLE-12)
Docket U-072375
Witness: Kenneth L. Elgin

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of

DOCKET U-072375

**PUGET HOLDINGS LLC AND PUGET
SOUND ENERGY, INC.,**

**For an Order Authorizing Proposed
Transaction**

EXHIBIT TO TESTIMONY OF

Kenneth L. Elgin

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

*Standard & Poors Ratings Direct
Research Update: Puget Energy Inc.'s 'BBB-' Rating
Placed On WatchNeg Following
Announcement of Proposed Sale*

and

*Moody's Investors Service
Rating Action: Puget Sound Energy, Inc.
October 29, 2007
June 18, 2008*

October 26, 2007

Research Update:
**Puget Energy Inc.'s 'BBB-' Rating
Placed On WatchNeg Following
Announcement Of Proposed Sale**

Primary Credit Analyst:

Antonio Bettinelli, San Francisco (1) 415-371-5067; antonio_bettinelli@standardandpoors.com

Secondary Credit Analyst:

Anne Selting, San Francisco (1) 415-371-5009; anne_selting@standardandpoors.com

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Research Update:

Puget Energy Inc.'s 'BBB-' Rating Placed On WatchNeg Following Announcement Of Proposed Sale

Rationale

On Oct. 26, 2007, Standard & Poor's Ratings Services placed the ratings of holding company Puget Energy, Inc. ('BBB-/--') and its electric and gas utility subsidiary Puget Sound Energy, Inc. ('BBB-/A-3') on CreditWatch with negative implications. The action follows the announcement that Puget Energy has agreed to sell itself to a consortium of private investors led by Macquarie Infrastructure Partners, an affiliate of Macquarie Bank Ltd. (A/Stable/A-1) for \$7.4 billion. The proposed transaction is to be financed with a significant amount of debt; the company has also announced a private equity placement of \$300 million with the consortium, which is not conditioned on the completion of the merger.

Bellevue, Wash.-based Puget had roughly \$3.2 billion of total debt outstanding as of June 30, 2007.

The CreditWatch listing reflects the possibility that debt ratings for Puget Energy could be lowered dependent on the final outcome of regulatory approval proceedings. Importantly, the company's credit profile has been improving, which provides financing flexibility to accommodate the proposed capital structure at the current rating level. Still, Puget's consolidated credit measures post-transaction could be stretched if final terms are changed or regulatory requirements impact coverage metrics. We will update the CreditWatch status as the acquisition progresses.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Puget Energy Inc.		
Corporate Credit Rating	BBB-/Watch Neg/--	BBB-/Stable/--
Puget Sound Energy Inc.		
Corporate Credit Rating	BBB-/Watch Neg/A-3	BBB-/Stable/A-3
Senior Secured		
Local Currency	BBB+/Watch Neg	BBB+
Junior Subordinated		
Local Currency	BB/Watch Neg	BB
Preferred Stock		
Local Currency	BB/Watch Neg	BB
Commercial Paper		
Local Currency	A-3/Watch Neg	A-3



Moody's Investors Service

Global Credit Research
Rating Action
 29 OCT 2007

Rating Action: Puget Sound Energy, Inc.

Moody's may downgrade Puget Energy; affirms LT-rtgs of sub

Approximately \$3.6 billion of securities affected

New York, October 29, 2007 – Moody's Investors Service today placed the Ba1 Issuer Rating of Puget Energy, Inc. (Puget Energy) on review for possible downgrade. 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 ((P)Ba1 shelf for Trust Preferred Securities), and changed the rating outlook of PSE and its affiliate to stable from positive. Moody's also placed PSE's Prime-2 short-term rating for commercial paper under review for possible downgrade.

The rating action follows an announcement that a consortium of infrastructure investors led by Macquarie Infrastructure Partners has signed a merger agreement to purchase 100% of the equity of Puget Energy. The proposed transaction has an enterprise value of approximately \$7.4 billion, including the assumption of PSE's estimated \$2.6 billion of debt that is expected to be outstanding at the time of closing the transaction. The financing plan for the transaction includes approximately \$1 billion of incremental consolidated borrowings that we assume will be issued by Puget Energy and has the potential for a widening of the rating notching between Puget Energy and PSE.

The review for possible downgrade of Puget Energy reflects our concern that the proposed transaction increases Puget Energy's business and financial risk profiles. These concerns are somewhat balanced by the scale of the investor consortium's proposed equity investment in the transaction (\$3.2 billion), as well as its reputation as a long-term infrastructure investor. The affirmation of PSE's long-term ratings is conditioned upon expectations that supportive regulatory treatment will continue despite the change in ownership. The review for possible downgrade of PSE's short-term rating for commercial paper and the revision of the outlook to stable from positive for PSE and its affiliates reflects high multi-year utility capital spending needs that may be a drain on liquidity as well as the expected weaker credit profile of the parent company, Puget Energy.

Our review for possible downgrade will consider the impact the proposed transaction is expected to have on Puget Energy's consolidated financial profile, the need for dividends from PSE to service parent company debt, any ring-fencing measures that may be introduced to insulate the credit profile of PSE, and any significant regulatory developments that occur during the potentially lengthy regulatory approval process. Furthermore, we will consider the requirements and proposed funding sources for PSE's significant multi-year capital expenditures.

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.

New York
 Kevin G. Rose
 Vice President - Senior Analyst
 Corporate Finance Group
 Moody's Investors Service
 JOURNALISTS: 212-553-0376
 SUBSCRIBERS: 212-553-1653

New York
 William L. Hess
 Managing Director
 Corporate Finance Group
 Moody's Investors Service
 JOURNALISTS: 212-553-0376

SUBSCRIBERS: 212-553-1653

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