

**EXH. CGP-13
DOCKETS UE-240004/UG-240005 et al.
2024 PSE GENERAL RATE CASE
WITNESS: CARA G. PETERMAN**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-240004
Docket UG-240005
(consolidated)**

In the Matter of the Petition of

PUGET SOUND ENERGY

**For an Accounting Order Authorizing
deferred accounting treatment of
purchased power agreement expenses
pursuant to RCW 80.28.410**

**Docket UE 230810
(consolidated)**

**SECOND EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF**

CARA G. PETERMAN

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 18, 2024

Research Update:

Puget Energy Inc. And Subsidiary Ratings Placed On CreditWatch Negative Over Regulatory Concerns

July 23, 2020

Rating Action Overview

- Bellevue, Wash.-based Puget Sound Energy Inc.'s (PSE's) recent rate order from the Washington Utilities and Transportation Commission (WUTC) was less than credit supportive, effectively negating a rate increase over the next two years. The order substantially reduced a requested rate increase to mitigate the economic effects of the COVID-19 pandemic on customers.
- S&P Global Ratings expects this development to significantly affect parent Puget Energy Inc.'s (PE's) consolidated financial measures, with funds from operations to debt declining below our downgrade threshold of 13%; however, we expect the company could take steps to offset this weakness.
- In addition, we view the WUTC's decision as a potential shift in the company's regulatory construct that increases business risk for both PSE and PE.
- As a result, we are placing the ratings on PE and PSE on CreditWatch with negative implications.
- The CreditWatch placement reflects the increased probability we could lower the ratings in the next three months.

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Rating Action Rationale

The CreditWatch placement reflects the increased possibility of a downgrade over the next three months. The order was significantly weaker than expected in that the company requested a nearly \$200 million rate increase and only received \$2 million. The commission also denied the company's request for an attrition adjustment of roughly \$39 million, which increases the company's regulatory lag. The WUTC's decision raises concerns regarding the company's regulatory construct and increases the business risk for PSE and PE. We will be focusing on future rate cases in the state, particularly, PacifiCorp, whose rate order is expected by November 2020, to give us additional information on whether the regulatory environment for the utilities to operate has materially weakened. This could result in a downward revision of PE and PSE's business risk profile.

We also expect the company to take steps to protect financial measures and will reevaluate the ratings impact of any potential improvement as we get that information. If the company is unable to offset the weakness in its financial metrics or if business risk further deteriorates further, we would lower the ratings.

Our ratings on PE are lower by one notch to reflect our negative comparative ratings analysis modifier. This is in line with our view of both the company's financial and business risk profiles that we view as consistently reflecting the lower end of the range for their categories. Looking forward, PSE may be more susceptible to regulatory lag and unfavorable regulatory decisions, which dims our view of the company's overall management of regulatory risk in the state.

CreditWatch

We expect to resolve the CreditWatch in the coming months when we receive additional information regarding any actions the company takes to mitigate the weakness in financial measures along with additional information around regulatory actions in the state. Additional information around the company's action plan or the regulatory construct in the state could prompt rating actions, including a rating affirmation. We would also expect to lower the ratings if in our view the regulatory construct in the state materially weakens.

Ratings Score Snapshot

BBB-/CreditWatch Negative/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: a-

Modifiers

- 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+

Group credit profile: bb+

Entity status within group: Insulated (-2 notches from the SACP)

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: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; CreditWatch

	To	From
Puget Energy Inc.		
Issuer Credit Rating	BBB-/Watch Neg/--	BBB-/Negative/--

Puget Sound Energy Inc.

Issuer Credit Rating	BBB/Watch Neg/A-2	BBB/Negative/A-2
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Ratings Affirmed; CreditWatch; Recovery Rating Unchanged

	To	From
Puget Sound Energy Inc.		
Senior Secured	A- /Watch Neg	A-
Recovery Rating	1+	1+
Puget Energy Inc.		
Senior Secured	BBB-/Watch Neg	BBB-

Puget Sound Energy Inc.

Commercial Paper	A-2/Watch Neg	A-2
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