EXH. CGP-14
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*)**

THIRD EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF

CARA G. PETERMAN

ON BEHALF OF PUGET SOUND ENERGY

SEPTEMBER 18, 2024

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms PE and PSE; Outlooks Revised to Stable

Tue 01 Jun, 2021 - 12:47 PM ET

Fitch Ratings - New York - 01 Jun 2021: Fitch Ratings has affirmed Puget Energy Inc.'s (PE) Long-Term Issuer Default Rating (LT IDR) at 'BBB-' and Puget Sound Energy, Inc.'s (PSE) LT IDR at 'BBB+'. The Rating Outlook for both entities has been revised to Stable from Negative.

PE and PSE's Rating Outlooks improved as a result of the Senate Bill 5295, which was signed into law in May 2021. The legislation allows for multi-year rate plans, reducing regulatory lag. Certain rate adjustments and mitigating actions after the July 2020 rate order are expected to stabilize FFO leverage at around 5.5x in the next two years. FFO leverage could further improve to below 5.5x assuming Washington Utilities and Transportation Commission (WUTC) implements the legislation in a credit-supportive manner in the next rate case.

KEY RATING DRIVERS

New Legislation Reduces Regulatory Lag

Feedback

On May 3, 2021, Washington Governor Jay Inslee signed into law the Senate Bill 5295 to transform utility regulation into multi-year rate plan and performance-based rate-making. Fitch believes that the legislation is largely positive, but it is subject to interpretation and implementation by the WUTC.

Under the law, beginning Jan. 1, 2022, utilities will file multi-year rate plans between two to four years in length, which would reduce regulatory lag and provide greater certainties on earnings and cash flow going forward. Rates after the first year can be based on forecast data. This is an improvement from the historic test year.

If the commission approves a multiyear rate plan with a duration of three or four years, utilities are bound by rates of the first and second year, but can file a new rate plan in year three and four. Utilities must also defer refund for earnings exceeding 0.5% above the authorized returns. The commission must, in approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan. Fitch expects PSE to file a multi-year rate case in early 2022 with an order to follow 11-month later.

Favorable Rate Adjustments

PSE received an unfavorable rate order in July 2020. Since then, PSE has secured some positive rate adjustments. WUTC increased the revenue requirement for the rate order to $27.8 million from $2.2 million, primary due to errors related to EDIT and power costs. New rates took effect on Oct. 1, 2020.

Puget began to recover certain deferred power and gas costs totaling $124 million in late 2020 and secured revenue decoupling revenue of $36.4 million in 2021.

In April 2021, a settlement was reached for the 2020 power cost only rate case (PCORC). The settlement would result a revenue increase of $65.3 million or 3.1%. Pending approval by the Washington Commission, the increase is expected to be effective June 2021.

Credit Metrics Expected to Improve

PSE's and PE's credit metrics in 2019 and 2020 have been negatively affected by mixed rate case outcomes, fuel cost deferral and cash recoveries and refunds due to tax reform. In the next two years, FFO leverage could decline to mid-5x. Assuming a reasonable rate case outcome, Fitch expects FFO leverage to improve to low 5x by 2023.

Parent-Subsidiary Linkage

Fitch applies a bottom-up approach in rating PSE and PE. PSE's ratings reflect its standalone credit profile, as well as its linkage with PE, while PE's ratings reflect a consolidated credit profile. Fitch typically limits PSE's IDR to a maximum of two notches above PE's IDR. Currently, the notching differential is two notches.

Fitch generally considers PSE to be stronger than PE due to its lower leverage and lower operating risks as a regulated utility. A high level of parent-only debt (approximately 30%) results in weaker credit metrics at PE. While operational and strategic ties are strong, a prescribed regulatory capital structure provides reasonable protection, allowing PSE to be notched above PE.

The notching differential also reflects the ring-fencing measures in place as conditions to receive Washington commission's approval of PE's 2009 buyout by a consortium of investors. They include a non-consolidation opinion and a requirement that at least one of PSE's directors is an independent director. Without the unanimous vote of all directors, including the independent director, PSE will not consent to the institution of bankruptcy proceedings or the inclusion of PSE in any bankruptcy proceeding by PE or its affiliates.

PSE is prohibited from lending or pledging utility assets to PE or upstream owners without the permission of the commission and there will be no cross-subsidization by PSE customers for unregulated activities. PSE is prohibited from making upstream distributions if the common equity ratio is less than 44%. Dividends are also restricted if PSE's issuer rating is below investment grade. If PSE is downgraded below investment grade, while its EBITDA interest coverage is equal to or greater than 3.0x on an annualized basis, PSE is allowed to distribute dividends only up to an amount sufficient to service debt at PE, and to satisfy financial covenants in PE's credit facilities. Under this scenario, PE is prohibited from distributing to its equity owners.

PE's ability to pay upstream dividends is limited by the merger order issued by WUTC. Pursuant to the merger order, PE may not declare or make a distribution unless on such date PE's ratio of consolidated EBITDA to consolidated interest expense for the four most recently ended fiscal quarters prior to such date is equal to or greater than 2x.

DERIVATION SUMMARY

PE's peers include Cleco Corporate Holdings, LLC (Cleco; BBB-/Stable), IPALCO Enterprises, Inc. (BBB-/Stable) and DPL Inc. (BB/Negative), all of which are holding companies operating one primary utility. All four companies have sizable parent-only debt. PE has approximately 30% parent-only debt, which is similar to IPALCO and lower than both Cleco's and DPL's 60%.

PSE operates an electric and gas utility with a larger customer base and higher gross revenue than Cleco Power LLC (BBB/Stable), Dayton Power & Light Company (BBB-/Negative) and Indianapolis Power & Light Co. (BBB+/Stable). However, PSE's service territory is less favorable than its peers, as it is subject to restrictive regulation and progressive energy goals in Washington, a primary credit concern.

PE's credit metrics weakened in recent years due to capex, mixed rate case results, fuel cost deferrals and tax reform. PE's FFO leverage is likely to hover around 5.5x in the next two years, modestly stronger than that of Cleco and DPL but weaker than IPALCO. Similar to Cleco Power, DP&L and IPL, PSE's standalone credit metrics remain consistent with its current rating, but it is upward-restricted by PE's ownership.

Feedback

KEY ASSUMPTIONS

--$3.1 billion capex from 2021 to 2023;

--PCORC implemented per settlement in April 2021;

--Certain assumptions were made regarding future rate cases;

--Certain management mitigation actions were assumed.

RATING SENSITIVITIES

PE

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Given the uncertainty of implementing a multi-year rate plan, an upgrade is unlikely in the near to intermediate term. Nevertheless, if PE's FFO leverage declines to below 4.2x, and/or there is a track record of constructive rate case proceedings, PE could be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--PE will be downgraded if the 2022 rate case is unfavorable, causing FFO leverage to exceed 5.5x on a sustained basis;

--A downgrade at PSE could lead to the same at PE.

PSE

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Given the uncertainty of implementing a multi-year rate plan, an upgrade is unlikely in the near to intermediate term. Nevertheless, if PE is upgraded, PSE could be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A downgrade at PE could lead to a downgrade at PSE;

--FFO leverage sustained above 4.8x.

Feedback

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

ISSUER PROFILE

PE is an energy services holding company and substantially all of its operations are conducted through its regulated and integrated utility PSE. PSE provides electric and natural gas service principally in the Puget Sound region. PE also has a wholly-owned nonregulated subsidiary, named Puget LNG LLC, which owns, develops and finances the non-regulated activity of a liquefied natural gas (LNG) facility at the Port of Tacoma, Washington.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Feedback

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Puget Sound Energy, Inc.	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Negative

ENTITY/DEBT	RATING			PRIOR
	ST IDR	F2	Affirmed	F2
• senior secured	LT	A	Affirmed	A
• senior unsecured	ST	F2	Affirmed	F2

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Julie Jiang
Director
Primary Rating Analyst
+1 212 908 0708
Fitch Ratings, Inc.
33 Whitehall Street New York, NY 10004

Barbara Chapman, CFA
Senior Director
Secondary Rating Analyst
+1 646 582 4886

Shalini Mahajan, CFA
Managing Director
Committee Chairperson
+1 212 908 0351

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

Feedback

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Parent and Subsidiary Linkage Rating Criteria (pub. 26 Aug 2020)

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

Corporate Rating Criteria (pub. 21 Dec 2020) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 30 Apr 2021)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Puget Energy Inc.	EU Endorsed, UK Endorsed
Puget Sound Energy, Inc.	EU Endorsed, UK Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, THE FOLLOWING HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

READ LESS

COPYRIGHT

substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

Feedback

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Corporate Finance Utilities and Power North America United States