

**EXHIBIT NO. ___(DEG-6)
DOCKET NO. UE-09___/UG-09___
2009 PSE GENERAL RATE CASE
WITNESS: DONALD E. GAINES**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-09___
Docket No. UG-09___**

**FIFTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
DONALD E. GAINES
ON BEHALF OF PUGET SOUND ENERGY, INC.**

MAY 8, 2009

Research

Research Update:

Puget Energy Term Loan, Facility Assigned 'BB+' Rating; Puget Sound Energy Facilities Assigned 'BBB' Rating

30-Jan-2009

Rationale

On Jan. 30, 2009, Standard & Poor's Ratings Services assigned its 'BB+' rating and a recovery rating of '3' to **Puget Merger Sub Inc.**'s, which, after the close of the transaction will be merged with **Puget Energy** (Puget), \$1.225 billion term loan, and \$1.000 billion capital expenditure facility. Standard & Poor's also assigned its 'BBB' rating to integrated electric and gas utility company **Puget Sound Energy's** (PSE) \$400 million capital expenditure facility, \$400 million liquidity facility, and \$350 million energy hedging facility. At the same time, Standard & Poor's affirmed its 'BB+' corporate credit rating on Puget Energy and its 'BBB' corporate credit rating on Puget Sound Energy. The outlook is stable.

These facilities are related to the acquisition of Puget by a consortium of private investors led by Macquarie Infrastructure Partners, an affiliate of Macquarie Group Ltd. (A-/Negative/A-2) for \$7.4 billion. The ratings on Puget and PSE reflect the credit profile of the approved transaction. All federal and state regulatory and shareholder approvals required for the merger have been obtained, and the company expects the transaction to close by Feb. 6, 2009.

The corporate credit rating on PSE reflects Standard & Poor's view that plans to place an independent director on the board of directors of the utility company, coupled with other commitments, particularly dividend restrictions, provides insulation to the utility company. In addition, the utility company's stand-alone financial metrics are expected to improve post-transaction as some debt is repaid and, on a forward basis, the capital structure is expected to be managed to a credit-supportive level. The corporate credit rating on Puget Energy reflects the additional transaction debt and our expectation that the amount of priority debt, including all operating company debt and credit facilities, in addition to the insulation of the utility company, is a disadvantage to creditors of Puget Energy.

The business risk profile is 'excellent', reflecting the combined electric and gas utility business of PSE, which is subject to regulation by the Washington Utilities and Transportation Commission (WUTC). The regulatory environment in Washington and how the company manages its relationship with the WUTC are key drivers of credit quality, especially in light of PSE's high capital needs and commodity price exposure. PSE's cost recovery mechanisms support credit quality. The company has flexibility in implementing rate changes through its power cost adjustment (PCA), but the threshold it must meet to true up under-collected rates is high and deferred costs are not automatically collected. Each year, uncollected costs are subject to defined sharing bands, allowing the company to defer certain portions for collection from customers. However, the PCA mechanism does not trigger a rate increase until a minimum deferral balance is reached. Puget is also able to update rates for changes in projected costs by filing a power-cost-only rate case (PCORC), which gives it the flexibility to file for changes in variable and fixed costs whenever there is a projected deferral balance of \$30 million or more. The PCORC functions as a "mini" rate case that takes about five months and is especially useful for new plant additions or contracts. The use of this mechanism has allowed the company to keep deferral balances low and better match actual costs with collected costs.

Puget's financial risk profile is 'aggressive' under Standard & Poor's corporate risk matrix. Financial measures have been adequate for the rating, although cash flow coverage metrics have been mixed and are expected to weaken post-acquisition. Adjusted funds from operations (FFO) to interest coverage

was approximately 3.9x, while FFO to average total debt was at about 19.8% for the 12 months ended Sept. 30, 2008. Due to the additional debt at the holding company, post-transaction coverages are expected to be run at 3.0x and no less than 12%, respectively. Adjusted debt leverage -- including debt adjustments for operating leases, purchased power, and hybrid equity -- is expected to rise slightly above 60%. Dividends to Puget may be restricted, under conditions of financial weakness at PSE.

PSE's financial risk profile is also categorized as 'aggressive' but it will reflect more robust financials metrics post-transaction due to the exclusion of holding company debt. Adjusted FFO to interest coverage is expected to average above 4x, while FFO to average total debt is expected to average above 20%. Adjusted debt leverage is expected to be balanced at 50%. Capital requirements are very high at PSE, with capital expenditures of \$2.7 billion planned for 2008 through 2010 related to system upgrade needs, customer growth, and further generation resource additions. Ongoing periodic debt and equity funds are expected to finance this growth.

Short-term credit factors

PSE's short-term rating is 'A-2'. Overall liquidity at PSE is adequate, with \$147 million in available capacity as of Sept. 30, 2008, under its \$500 million committed unsecured bank credit agreement that expires April 15, 2012, and a fully available \$350 million facility to support hedging activities, less \$35 million allocated to Lehman. In August 2008, PSE entered into a nine-month, \$375 million credit agreement with \$300 remaining available under the agreement. Additional liquidity resources at PSE include a \$200 million receivables securitization facility with \$29 million available and a cash balance of \$158 million as of Sept. 30, 2008. Liquidity requirements will remain high at PSE due to a high level of planned capital spending and potential collateral requirements related to the company's electric and gas supply arrangements. Debt maturities are manageable, with about \$158 million due in 2009 and \$232 million due in 2010. We expect PSE to internally fund at least 40% of capital expenditures in order to maintain a stable capital structure. Post-transaction, Puget is expected to have ample liquidity due to the addition of new credit facilities.

Outlook

The stable outlook on Puget reflects our expectation that it will be able to refinance term loans and credit facilities that come due in five years and that financial risks are prudently managed such that they remain within our 'aggressive' financial category -- that consolidated adjusted FFO to debt is expected to remain above 12% on an ongoing basis and adjusted debt to capital near 60%. The stable outlook on PSE reflects reasonable and timely rate relief related to resource additions and changes in power costs. Factors that could lead to a negative outlook on both entities include commodity cost disallowances, excessive power cost deferrals that stretch liquidity, regulatory lag or insufficiency, or a disproportionate reliance on debt financing to meet its capital needs. Consideration of a positive rating outlook is unlikely at this time.

Ratings List

New Rating

Puget Merger Sub Inc.

Senior Secured (2 issues) BB+

Puget Sound Energy Inc.

Senior Unsecured (3 issues) BBB

New Rating; CreditWatch/Outlook Action

Puget Merger Sub Inc.

Corporate Credit Rating BB+/Stable/--

New Rating

Puget Merger Sub Inc.

Senior Secured

US\$1.225 bil adj rate term bank ln due 2014	BB+
Recovery Rating	3
US\$1 bil adj rate credit facility bank ln due 2014	BB+
Recovery Rating	3

Ratings Affirmed

Puget Energy Inc.

Corporate Credit Rating BB+/Stable/--

Puget Sound Energy Inc.

Corporate Credit Rating BBB/Stable/A-2
Commercial Paper
Local Currency A-2

Puget Sound Power & Light Co.

Corporate Credit Rating BBB/Stable/--

Washington Natural Gas Co.

Corporate Credit Rating BBB/Stable/--

Puget Sound Energy Capital Trust I

Preferred Stock (1 issue) BB+

Puget Sound Energy Inc.

Senior Secured (3 issues) A
Senior Secured (18 issues) A-
Senior Secured (5 issues) AA
Junior Subordinated (1 issue) BB+
Preferred Stock (2 issues) BB+
Commercial Paper (1 issue) A-2

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Primary Credit Analyst: Tony Bettinelli, San Francisco (1) 415-371-5067;
antonio_bettinelli@standardandpoors.com

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