Exhibit No. ___(MPG-10)
Docket No. U-072375
Witness: Michael P. Gorman

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
Complainant,	)	
v.	)	**Docket No. U-072375**
PUGET SOUND ENERGY, INC.	)	
Respondent.	)	

EXHIBIT NO.___(MPG-10)

STANDARD AND POOR'S

RATINGS DIRECT

RESEARCH UPDATE MAY 29, 2007

June 18, 2008

STANDARD
&POOR'S

RATINGSDIRECT®

May 29, 2007

Research Update:

Duquesne Light Ratings Cut To 'BBB-', Off Watch Neg

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Research Update:

Duquesne Light Ratings Cut To 'BBB-', Off Watch Neg

Rationale

On May 29, 2007, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on electric transmission and distribution utility holding company Duquesne Light Holdings Inc. (DLH) and its utility subsidiary Duquesne Light Co. to 'BBB-' from 'BBB'. At the same time, Standard & Poor's removed the rating from CreditWatch with negative implications.

The outlook is stable. Pittsburgh, Pa.-based DLH had $1.2 billion of total debt and $147 million in preferred stock as of March 31, 2007. Duquesne Light subsequently redeemed $11 million of preference stock.

The CreditWatch removal and downgrade reflects the expected completion of an investor consortium's acquisition of DLH for about $3 billion that includes, after repayments, approximately a 50% net debt increase that in our view will constrain DLH's consolidated financial measures. The leveraging nature of the transaction, the expected credit measures, and the firm's overall financial policy are in-line with the 'BBB-' corporate credit rating. The consortium is led by Macquarie Infrastructure Partners (affiliated with Macquarie Bank Ltd.) and publicly listed fund Diversified Utility and Energy Trusts (See "Credit FAQ: The Acquisition Of Two U.S. Utilities By Infrastructure Funds" dated Jan. 31, 2007).

Since the acquisition announcement, numerous credit quality enhancing events have occurred including:

- Pennsylvania Public Utility Commission (PUC) approval of a $117 million distribution base rate increase for Duquesne Light that was in line with our expectations;
- PUC authority to implement a rate rider that will provide for automatic pass-through of FERC-approved transmission rates;
- A pending settlement filed with the PUC that would resolve provider-of-last-resort (POLR) obligations for the POLR IV period (2008-2010);
- The resolution of a Pennsylvania state tax dispute for $60 million versus a much greater amount;
- A final payment of $56 million related to a federal tax settlement;
- Sale of the landfill gas business for pre-tax proceeds of about $105 million that was used for debt reduction;
- The liquidation of lease-in/lease-out (LILO) investments that has been generating after-tax proceeds that will be used for debt reduction; and
- The expected termination of synthetic fuel operations after the 2007 expiration of federal tax credits related to this business.

Due to the credit quality enhancement of these events, both DLH's and Duquesne Light's business risk profiles are '4' (strong). (Utility business risk profiles are categorized from '1' (excellent) to '10' (vulnerable)).

In addition to the business risk profile, DLH's and Duquesne Light's creditworthiness reflect a consolidated financial risk profile that we consider aggressive. This largely reflects the acquisition debt in the capital structure and its expected weakening effect on cash flow coverage ratios. After adjustments and on a consolidated basis, total debt to total capital, funds from operations (FFO) to total debt, and FFO interest coverage are all expected to be within the benchmark ranges for the rating.

Liquidity

Internally generated cash should be bolstered with the recently approved distribution rate increase and transmission rate rider. Although free operating cash flow after capital spending will increase, it is likely that the additional cash flow will at least be partly used for shareholder distributions. Due to these distributions, DLH's net cash flow (FFO after dividends) relative to capital expenditures coverage is expected to be below 50% over the intermediate term. Therefore, the company will require external financing for incremental capital expenditures. The financing should be completed prudently.

Currently, DLH has adequate liquidity with $97 million cash on hand as of March 31, 2007, and revolving credit facilities for DLH ($250 million) and Duquesne Light ($150 million) that had $391 million available. As of April 30, 2007, availability had declined to $360 million. After the acquisition closes, DLH and Duquesne Light will have credit facilities for $200 million and $75 million, respectively. DLH currently has sound liability management with the next significant debt maturity in 2008 ($40 million) and none scheduled for several years thereafter.

Outlook

The stable outlook on DLH reflects a strong business risk profile and the expectation that credit protection measures over the intermediate term will support the current rating. We expect greater cash flow stability given that many legacy issues have been resolved and the company will emphasize its regulated operations. Should business risk increase materially either from unfavorable regulatory decisions or increased unregulated operations or the financial profile weakens, we will revise the outlook to negative and the ratings could be lowered. We don't expect to raise the rating unless the company significantly lowers its business risk or materially reduces debt leverage on a permanent basis, resulting in higher cash flow protection measures that are sustainable.

Ratings List

Downgraded

	To	From
Duquesne Light Co.		
Corporate Credit Rating	BBB-/Stable/--	BBB/Watch Neg/--

Senior Secured	BBB	BBB+/Watch Neg
Senior Unsecured	BBB-	BBB-/Watch Neg
Preferred Stock	BB	BB+/Watch Neg
Duquesne Light Holdings Inc.		
Corporate Credit Rating	BBB-/Stable/--	BBB/Watch Neg/--
Senior Unsecured	BBB-	BBB-/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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