EXHIBIT NO. ___(BJL-6)
DOCKETS UE-17____/UG-17____
2017 PSE GENERAL RATE CASE
WITNESS: BRANDON J. LOHSE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-17____** **Docket UG-17____**

FIFTH EXHIBIT (NONCONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF

BRANDON J. LOHSE

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 13, 2017

S&P Global
Ratings

RatingsDirect®

Summary:

Puget Sound Energy Inc.

Primary Credit Analyst:
Obioma Ugboaja, New York 212-438-7406; obioma.ugboaja@spglobal.com

Secondary Contact:
Gabe Grosberg, New York (1) 212-438-6043; gabe.grosberg@spglobal.com

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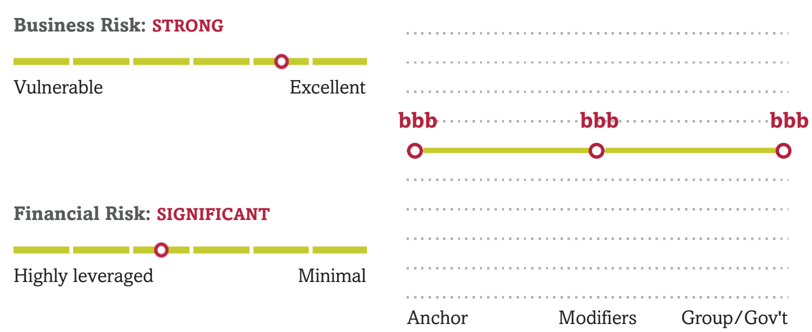
Summary:

Puget Sound Energy Inc.



CORPORATE CREDIT RATING

BBB/Stable/A-2

Rationale

Business Risk: Strong	Financial Risk: Significant
• A lower-risk regulated electric and gas utility. • The company's management of regulatory risk is gradually improving primarily due to constructive regulatory mechanisms, including decoupling that somewhat mitigates regulatory lag. • A large customer base that is mostly residential provides stability to the company's revenues. • Historically volatile profits constrains our overall business risk assessment.	• Use of the medial volatility table, reflecting a lower-risk regulated utility business model and the company's management of regulatory risk. • Postponed general rate case (GRC) filing partly mitigated by scheduled automatic rate increase through 2017. • Recent settlement to retire Colstrip Units 1 and 2 by July 1, 2022, potentially creates some decommissioning cost risks. • Increased capital spending in 2016 and 2017 partly due to PSE's portion of the proposed Tacoma LNG facility. • Credit measures consistently reflect the significant financial risk profile category, including funds from operations (FFO) to debt that we expect to range from 20%-22%.

Outlook: Stable

The stable rating outlook on Puget Sound Energy Inc. (PSE) reflects S&P Global Ratings' expectations for modestly weaker financial measures at parent Puget Energy (PE), demonstrating only minimal cushion at the present rating level. This is partially offset by our expectation that the company's continued focus on managing regulatory risk should result in financial measures that remain adequate for the rating.

Downside scenario

We could lower the ratings over the next 12 to 18 months if PE's consolidated financial measures consistently weakened such that FFO to debt remains less than 13%. This could occur if the company's management of regulatory risk weakens.

Upside scenario

We could raise the rating over the next 12 to 18 months if PE's business risk profile improves, which could occur if the company consistently demonstrates more effective management of regulatory risk. Alternatively, we could raise the rating if the group credit profile improves.

Our Base-Case Scenario

Assumptions

- Continued use of existing regulatory mechanisms afforded by the Washington Utilities and Transportation Commission (WUTC), including decoupling;
- Postponed general rate case (GRC) filing partly mitigated by scheduled automatic rate increase through 2017;
- Increased capital spending in 2016 and 2017 partly due to PSE's portion of the proposed Tacoma LNG facility;
- No equity content for hybrid securities; and
- All debt maturities are assumed to be refinanced.

Key Metrics

	2015A	2016E	2017E
FFO/debt (%)	22.2	20-22	20-22
Debt/EBITDA (x)	3.5	3.6-3.8	3.6-3.8

A--Actual. E—Estimate. FFO—Funds from operations.

Business Risk: Strong

Our business risk assessment of PSE incorporates our view of a very low industry risk since PSE benefits from being a regulated utility that operates exclusively in U.S. markets. PSE sells regulated electricity and gas to customers in the Puget Sound region in the state of Washington, and benefits from having a large customer base, serving about 1.1 million electric customers and 800,000 gas customers. We view PSE's management of regulatory risk as gradually improving primarily due to the implementation of constructive regulatory mechanisms, including decoupling that somewhat mitigates regulatory lag, and provides stability to the company's authorized returns. PSE also has about 4,887 MW of generating capacity, including about 3,575 MW (73%) that the company owns. Of the generation facilities owned by PSE, 52% is fueled by natural gas, 19% by coal, 7% by hydro, and the remaining 22% by wind.

Although we acknowledge PSE's gradual improvement in its management of regulatory risk, we also take into account its historically volatile profits, collectively resulting in a strong business risk assessment. In addition, we view the recent WUTC approval, allowing PSE to partially develop an LNG facility at the Port of Tacoma as minimally affecting PSE's business risk considering that PSE's allocation of the capital costs (43%) will be regulated.

Financial Risk: Significant

Our financial risk assessment reflects core credit ratios, including FFO to debt that we expect will range from 20%-22%, and debt to EBITDA of about 3.7x. Our assessment incorporates the use of our medial volatility table to assess PSE's financial risk, reflecting the company's lower-risk regulated utility business model and management of regulatory risk. Key assumptions to our base case include a postponed GRC filing through December 2017, no equity content ascribed for PSE's hybrid securities, and increased capital spending for 2016 and 2017.

In September 2016, the U.S. District Court of Montana approved a settlement, with PSE effectively agreeing to retire Colstrip Units 1 and 2 located in eastern Montana by no later than July 1, 2022. We view this settlement as potentially creating some decommissioning cost risks for PSE, even though the full extent of PSE's decommissioning costs presently remains unknown.

Liquidity: Adequate

PSE has adequate liquidity, in our view, and can more than cover its needs for the next 12 months, even if EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed its uses by more than 1.1x. Under our stress scenario, we do not expect that PSE would require access to the capital markets during that period to meet its liquidity needs. PSE also benefits from sound relationships with its banks and a satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Credit facility availability of $1 billion; • FFO of about $960 million; and • Cash on hand of about $16 million.	• Capital spending of about $816 million; • $172 million outstanding under the company's commercial paper program; and • Dividends of about $270 million.

Other Credit Considerations

Modifiers have no impact on the rating outcome.

Group Influence

Under the group rating criteria, our group credit profile (GCP) incorporates our view of Puget Holdings LLC (PH; unrated), as the ultimate parent of PSE, and of PSE's intermediate parent company, Puget Energy. We view PSE as a core subsidiary of PH, reflecting our view that PH is highly unlikely to sell PSE, it is integral to the group's strategy, and PH has a strong long-term commitment to PSE even under stressful conditions.

Our issuer credit rating (ICR) on PSE is the same as our stand-alone credit profile (SACP) on PSE or two notches higher than the GCP because of the cumulative value of structural protections in place that insulate the subsidiary from the rest of the group, including dividend restrictions, and a non-consolidation opinion that make it unlikely that PSE's assets and liabilities would be substantively consolidated into those of PH in the event of a parent company's bankruptcy.

Issue Ratings

Our rating on PSE's commercial paper is 'A-2', based on our issuer credit rating on the company and our assessment of its liquidity as adequate.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)

- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bb+
- **Entity status within group:** Insulated (+2 notches from SACP)

Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMB) issued by U.S. utilities, which can result in issue ratings being notched above the ICR on a utility depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage And Issue Notching Rules for '1+' And '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property," published Feb. 14, 2013).
- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed the ICR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories, depending on the calculated ratio.
- Puget Sound Energy's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 2x supports a recovery rating of '1+' and an issue rating two notches above the ICR.

Related Criteria And Research

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 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 And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-