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**PSE CREDIT FACILITY DISCUSSION**

Approval to refinance PSE credit facility

November 2, 2012

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**Introduction**

Puget Sound Energy's ("PSE") three credit facilities expire in February 2014. Conditions in the credit market enable the Company to enter into a new 5-year revolving credit facility on attractive terms.

PSE's 5-year financial plan projects a significant reduction in capital expenditures compared to the levels in recent years. As a result, PSE can scale new revolving credit facilities to more closely meet its needs, resulting in annual cost savings of over \$1.0 million per year.

**Background**

PSE presently has three bank facilities that were put in place at the time of the merger. At that time, PSE entered into a \$400 million capital expenditure facility, \$400 million working cap facility and \$350 million hedging facility. Puget Energy ("PE") presently has a \$1.0 billion liquidity facility that was renegotiated in January 2012.

As of September 30, 2012, PSE had no borrowed funds outstanding under any of its credit facilities. However, the Company did have \$106 million of commercial paper and a \$10 million letter of credit outstanding. At that same time, PE had an outstanding drawn balance of \$434 million on its \$1.0 billion facility.

At present, there are twenty-seven (27) lenders in the PSE credit facilities and fourteen (14) lenders in the PE facility. Refinancing the PSE credit facilities enables the Company to better align the number of lenders in its facilities with its strategic relationship banks and improve the terms and condition of the facilities

Conditions in the credit markets have improved markedly since the bankruptcy of Lehman Brothers in September 2008. Although banks are working through the new Dodd-Frank and Basel III requirements, the volume of lending has improved.

**New Credit Facilities**

Conditions in the bank credit market enable PSE to replace its existing agreements with a new 5-year \$650 million liquidity facility and a new \$350 million hedging facility on attractive terms and conditions. PSE expects the level of its drawn spread to increase and its commitment fee to decrease compared to its existing facilities.

PSE intends to consolidate its two existing \$400 million facilities into one \$650 million working cap facility. The reduction from \$800 million to \$650 million will save \$337,500 per year in commitment fees. The existing \$350 million hedging facility would remain unchanged bringing the total new facilities to \$1.0 billion.

Coincident with the implementation of the new PSE facilities, PE intends to reduce the size of its facility to \$800 million. PE has had three successful note offerings and no longer needs to rely exclusively on the bank lending market for debt capital. Amending the PE agreement requires a 3-day advance notice with no lender consent required. The \$200 million reduction in the PE credit facility leaves ample credit available over the remaining four year life of that facility and results in a \$740,000 reduction in annual commitment fees.

The reduction in size of the PE facility will make available 20% of each lender's commitment to that facility enabling those lenders to increase the size of their commitment to the new PSE facilities. The number of lenders in the PSE facility would likely be reduced to between fifteen and twenty banks. The size reduction also better aligns PE's consolidated facilities with its needs.

**Summary Terms and Conditions**

PSE can enter into new 5-year credit facilities today at an attractive savings and with a bank group more closely tied with its relationship lenders

The Company expects the new facility to have terms and conditions essentially similar to those on the attached summary indicative term sheet. The new facility would, among other things; 1) reduce the size of the existing facility by \$150 million, 2) combine the working capital and capital expenditure facilities into one general corporate purpose facility, 3) contain a 150 basis point drawn spread, modestly higher than the current agreement, and 4) include a 20-25 basis point commitment fee, as compared to the 26 basis point fee in the current agreement.

If approved, the Company plans to have the new facility in place before the 10-K is filed.

**Requested Action by the Board of Directors**

Management is requesting that the Board of Directors approve resolutions allowing PSE to enter into new 5-year revolving credit facilities totaling \$1.0 billion on terms and conditions similar to those contained in the attached Indicative Term Sheet.