EXH. CGP-9
DOCKETS UE-240004/UG-240005
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**

EIGHTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF

CARA G. PETERMAN

ON BEHALF OF PUGET SOUND ENERGY

FEBRUARY 15, 2024

FitchRatings

Corporates
Electric-Corporate
United States

Puget Energy Inc. and Puget Sound Energy, Inc.

Puget Energy Inc.'s (PE) ratings are driven by the regulated gas and electric utility operations at subsidiary Puget Sound Energy, Inc. (PSE). PSE is regulated by the Washington Utilities and Transportation Commission (WUTC).

The approval of PSE's first multiyear rate plan has resulted in improved credit metrics for PE and PSE. Nonetheless, Fitch considers the WUTC to have a mixed record of credit-supportive decisions. Additionally, Washington is one of the most progressive states and imposes stringent environmental regulations and aggressive renewable and social objectives that, without appropriate recovery mechanism, can negatively affect credit.

Key Rating Drivers

Mainly Regulated Business: PSE is a fully regulated integrated electric and gas utility in western Washington. PSE's revenue represents almost 100% of PE's consolidated revenue. PE completed the Tacoma liquefied natural gas (LNG) facility in February 2022. Tacoma LNG is an 8 million gallon storage tank at the Port of Tacoma that provides peak-shaving service to PSE's gas customers and LNG to transport customers, primarily in the marine market. Although 57% of the LNG facility is an unregulated asset, its contribution to PE is less than 1% of consolidated EBITDA.

Rate Case Approved: During December 2022 and January 2023, WUTC approved various aspects of PSE's first multiyear (two-year) base rate settlement. Under the order, PSE implemented an electric rate increase of $247 million, or 10.8%, effective Jan. 11, 2023, and will implement an increase of $33.1 million, or 1.3%, in 2024. This is approximately 70% of requested revenue requirement for electric. PSE also implemented a gas rate increase of $70.8 million, or 6.40%, effective Jan. 7, 2023 and will implement an increase of $19.5 million, or 1.7%, in 2024, which is 52% of the requested amount. The ROE and equity ratio are 9.4% and 49%, respectively.

The order approved additional updates to power costs from 2023 to 2024. PSE agreed not to file a power cost-only rate case in 2023 and 2024. The order approved a $30 million investment in LNG distribution facilities but required deferral of the revenue until Tacoma LNG's prudency review is concluded.

Legislation Expected to Reduce Lag: PSE's 2022 rate case was filed pursuant to Senate Bill 5295, which was signed into law in 2021. It transformed utility regulation into a multiyear rate plan and performance-based rate-making from traditional rate-making.

Under the law, beginning Jan. 1, 2022, utilities can file multiyear rate plans between two to four years in length, which would reduce regulatory lag and provide greater certainties on earnings and cash flow. Rates after the first year can be based on forecast data, 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 years three and four.

Washington Regulation Is Mixed: PSE has revenue decoupling for gas and electric's operating revenues related to electric transmission and distribution, natural gas operations and general administrative costs and fixed production costs from most residential, commercial and industrial customers. Decoupling mitigates the effects of abnormal weather, conservation impacts and changes in usage patterns per customer. However, a one- to two-year lag is expected for the recovery of under-collection of revenue. PSE has trackers and mechanisms for power costs, conservation, property taxes, purchased gas and low-income customers.

Ratings

Puget Energy Inc.

Long-Term IDR	BBB–
Senior Secured Debt - Long-Term Rating	BBB
Outlook	
Long-Term Foreign Currency IDR	Stable

Puget Sound Energy, Inc.

Long-Term IDR	BBB+
Short-Term IDR	F2
Senior Secured Debt - Long-Term Rating	A
Senior Unsecured Debt - Short-Term Rating	F2
Outlook	
Long-Term Foreign Currency IDR	Stable

Click here for the full list of ratings

2035 Climate Vulnerability Signal: 38

Applicable Criteria

Corporate Rating Criteria (November 2023)
Sector Navigators – Addendum to the Corporate Rating Criteria (November 2023)
Corporates Recovery Ratings and Instrument Ratings Criteria (October 2023)
Parent and Subsidiary Linkage Rating Criteria (June 2023)

Related Research

Global Corporates Macro and Sector Forecasts
North American Utilities, Power & Gas Outlook 2024 (December 2023)
North American Utilities, Power & Gas — Relative Credit Analysis (November 2023)
North American Utilities, Power & Gas Dashboard: Third-Quarter 2023 (October 2023)

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PSE earned ROE for TTM Sept. 30, 2023 was 6.6%, which is significantly less than its authorized ROE of 9.4%

Progressive State: Washington is one of the most progressive states and imposes stringent environmental regulations and aggressive renewable and social objectives, a credit-negative. Politicians and many large businesses operating in load centers strongly favor renewable energy. There is also a strong focus on social equity in many aspects of utilities' business practices. Progressive policies could lead to regulatory decisions that are not credit-supportive and/or pressure costs and customer bills.

Expected Credit Metrics Improvement: PE and PSE's credit metrics in the last few years have been negatively affected by mixed rate case outcomes, fuel cost deferral and cash recoveries and refunds due to tax reform. PE's 2022 FFO leverage was 6.3x and PSE's was 4.6x. Fitch Ratings expects PE's FFO leverage to improve to less than 5.5x and PSE's to improve to around 4.0x. As of the TTM ended Sept. 30, 2023, PE's FFO leverage was 5.3x and PSE's was 3.8x.

Parent-Subsidiary Linkage: There is parent-subsidiary linkage between PE and PSE. Fitch determines PE's standalone credit profile based on consolidated metrics. Fitch considers PSE to have stronger credit profile on a standalone basis due to its lower leverage and lower operating risks as a regulated utility. A high level of parent-only debt results in weaker credit metrics at PE. As such, Fitch has followed the stronger subsidiary path. Legal ring-fencing is porous given the general protections afforded by economic regulation, and access and control are also porous. Due to the linkage considerations, Fitch will limit the difference between PE and PSE to two notches.

Financial Summary

Puget Energy Inc.

($ mil.)	2019	2020	2021	2022
Gross revenue	3,401	3,326	3,806	4,221
EBITDA	1,271	1,155	1,281	1,436
Cash flow from operations (Fitch-defined)	527	727	825	767
Capital intensity (capex/revenue) (%)	28.2	27.3	24.2	23.8
Debt	6,760	6,999	6,997	7,299
FFO interest coverage (x)	2.9	3.2	3.4	3.5
FFO leverage (x)	6.9	6.2	5.9	6.3
EBITDA leverage (x)	5.3	6.1	5.5	5.1

Source: Fitch Ratings, Fitch Solutions

Puget Sound Energy, Inc.

($ mil.)	2019	2020	2021	2022
Gross revenue	3,401	3,326	3,806	4,216
EBITDA	1,275	1,256	1,386	1,562
CFO (Fitch-defined)	623	824	919	815
Capital intensity (capex/revenue) (%)	27.0	26.3	23.9	23.7
Debt	4,552	4,750	4,964	5,181
FFO interest coverage (x)	4.1	4.6	4.7	4.5
FFO leverage (x)	4.7	4.2	4.4	4.6
EBITDA leverage (x)	3.6	3.8	3.6	3.3

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

PE's peers include Cleco Corporate Holdings, LLC (BBB–/Stable), IPALCO Enterprises, Inc. (BBB–/Stable) and DPL Inc. (BB/Stable), 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 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), The 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.

PE's credit metrics weakened in recent years due to capex and mixed rate case results. Assuming a reasonable rate case outcome at PSE, PE's FFO leverage could improve to within the 5.5x FFO leverage downgrade trigger, modestly stronger than that of Cleco and DPL but weaker than IPALCO's.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead To Positive Rating Action/Upgrade at PE

- FFO leverage sustained below 4.5x.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade at PE

- FFO leverage exceeding 5.5x on a sustained basis;
- A downgrade at PSE could lead to one at PE.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade at PSE

- Absent an upgrade at PE, it is unlikely that PSE's ratings will be upgraded.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade at PSE

- A downgrade at PE could lead to a downgrade at PSE;
- FFO leverage sustained above 4.8x.

Liquidity and Debt Structure

Adequate Liquidity: PSE and PE have separate and reasonable liquidity access. PSE has an unsecured $800 million revolving credit facility maturing on May 14, 2027. The facility has a swing-line feature allowing same day availability on borrowings up to $75 million. Subject to bank approval, PSE can increase the size of the facilities to $1.4 billion. The credit agreement requires that PSE maintain maximum debt/total capitalization of 65%. PSE is in compliance with the covenant. As of Sept. 30, 2023, PSE had no draw under the facility, $9 million LC outstanding and $343 million cash.

PE provides PSE with a $200 million revolving facility in the form of a credit agreement and a demand note. PSE had no outstanding balance under the note as of Sept. 30, 2023.

PE maintains an $800 million senior secured revolving credit facility that matures on May 14, 2027. The revolver also has an accordion feature that could increase the size to $1.3 billion. As of Sept. 30, 2023, $244.2 million was outstanding under the facility. The primary financial covenant under the credit agreement is maximum total debt/total capitalization of 65%. PE complies with all applicable covenants.

Debt maturities are very manageable. Over the forecast period, the only long-term debt maturities are PE's $400 million in 2025 and PSE's $17 million in 2025.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

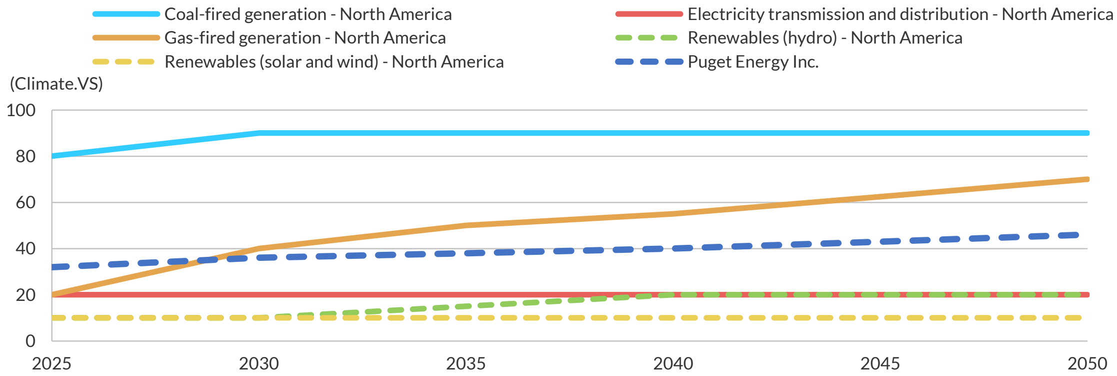
Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's *Corporate Rating Criteria.*

The Climate.VS for PE and PSE for 2035 is 38 based upon 2021 asset value. The signal reflects the PE's and PSE's electric and natural gas utility asset base. For further information on how Fitch perceives climate-related risks in the utilities sector, see *Utilities – Climate Vulnerability Signals Update*.

Puget Energy Inc.

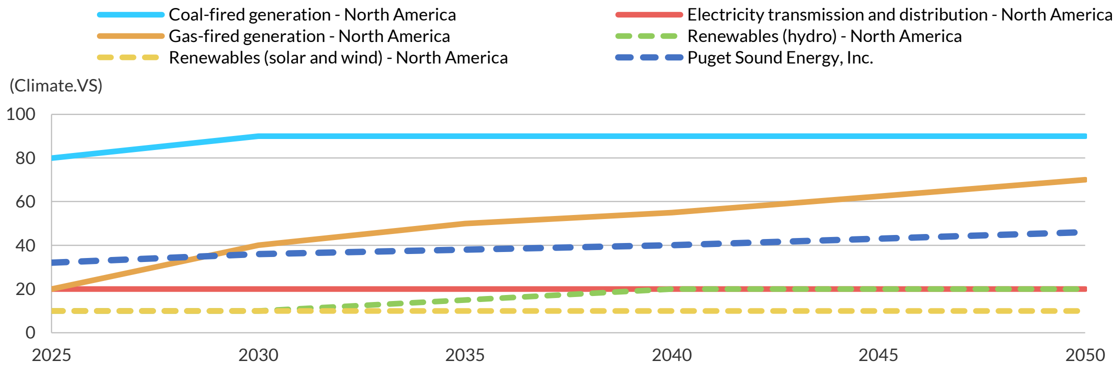
Climate.VS Evolution
As of Dec. 31, 2022



Source: Fitch Ratings

Puget Sound Energy, Inc.

Climate.VS Evolution
As of Dec. 31, 2022



Source: Fitch Ratings

Liquidity and Debt Maturities

Liquidity Analysis — Puget Energy Inc.

($ mil.)	12/31/21	12/31/22
Total cash and cash equivalents	103	169
Short-term investments	0	0
Less not readily available cash and cash equivalents	46	63
Fitch-defined readily available cash and cash equivalents	**57**	**106**
Availability under committed lines of credit	1,427	1,124
Total liquidity	**1,484**	**1,230**
LTM EBITDA after associates and minorities	1,281	1,436
LTM FCF	-203	-254

Source: Fitch Ratings, Fitch Solutions, Puget Energy Inc.

Scheduled Debt Maturities — Puget Energy Inc.

($ mil.)	12/31/22
2023	441
2024	0
2025	417
2026	0
2027	334
Thereafter	6,107
Total	**7,299**

Source: Fitch Ratings, Fitch Solutions, Puget Energy Inc.

Liquidity Analysis — Puget Sound Energy, Inc.

($ mil.)	12/31/21	12/31/22
Total cash and cash equivalents	96	166
Short-term investments	0	0
Less not readily available cash and cash equivalents	46	63
Fitch-defined readily available cash and cash equivalents	**50**	**103**
Availability under committed lines of credit	660	443
Total liquidity	**710**	**546**
LTM EBITDA after associates and minorities	1,386	1,562
LTM FCF	-219	-221

Source: Fitch Ratings, Fitch Solutions, Puget Sound Energy, Inc.

Scheduled Debt Maturities — Puget Sound Energy, Inc.

($ mil.)	12/31/22
2023	357
2024	0
2025	17
2026	0
2027	300
Thereafter	4,507
Total	**5,181**

Source: Fitch Ratings, Fitch Solutions, Puget Sound Energy, Inc.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer Include

- Capex of $3.8 billion in 2023–2025;
- New rates starting in January 2023;
- Customer annual growth of approximately 1.0%–1.3%.

Financial Data

Puget Energy Inc.

($ mil.)	2019	2020	2021	2022
Summary income statement				
Gross revenue	3,401	3,326	3,806	4,221
Revenue growth (%)	1.6	-2.2	14.4	10.9
EBITDA before income from associates	1,271	1,155	1,281	1,436
EBITDA margin (%)	37.4	34.7	33.7	34.0
EBITDA after associates and minorities	1,271	1,155	1,281	1,436
EBITDAR	1,293	1,178	1,281	1,436
EBITDAR margin (%)	38.0	35.4	33.7	34.0
EBIT	519	508	577	775
EBIT margin (%)	15.3	15.3	15.2	18.4
Gross interest expense	-357	-374	-352	-327
Pretax income including associate income/loss	228	184	285	474
Summary balance sheet				
Readily available cash and equivalents	45	52	57	106
Debt	6,760	6,999	6,997	7,299
Lease-adjusted debt	6,930	7,180	6,997	7,299
Net debt	6,715	6,946	6,940	7,194
Summary cash flow statement				
EBITDA	1,271	1,155	1,281	1,436
Cash interest paid	-343	-351	-346	-337
Cash tax	-11	-5	-23	-47
Dividends received less dividends paid to minorities (inflow/outflow)	—	—	—	—
Other items before FFO	-279	-18	-82	-222
FFO	639	781	830	831
FFO margin (%)	18.8	23.5	21.8	19.7
Change in working capital	-112	-54	-5	-63
CFO (Fitch-defined)	527	727	825	767
Total non-operating/nonrecurring cash flow	—	—	—	—
Capex	-959	-908	-922	-1,005
Capital intensity (capex/revenue) (%)	28.2	27.3	24.2	23.8
Common dividends	-64	-45	-106	-16
FCF	-497	-227	-203	-254
FCF margin (%)	-14.6	-6.8	-5.3	-6.0
Net acquisitions and divestitures	—	—	—	—
Other investing and financing cash flow items	19	-4	7	3
Net debt proceeds	486	233	-9	299
Net equity proceeds	—	5	210	—
Total change in cash	8	7	5	49

Leverage ratios (x)				
EBITDA leverage	5.3	6.1	5.5	5.1
EBITDA net leverage	5.3	6.0	5.4	5.0
EBITDAR leverage	5.4	6.1	5.5	5.1
EBITDAR net leverage	5.3	6.1	5.4	5.0
EBITDAR net fixed-charge coverage	3.5	3.2	3.7	4.3
FFO adjusted leverage	6.9	6.2	5.9	6.3
FFO adjusted net leverage	6.9	6.2	5.9	6.2
FFO leverage	6.9	6.2	5.9	6.3
FFO net leverage	6.8	6.1	5.9	6.2
Calculations for forecast publication				
Capex, dividends, acquisitions and other items before FCF	-1,024	-954	-1,029	-1,021
FCF after acquisitions and divestitures	-497	-227	-203	-254
FCF margin after net acquisitions (%)	-14.6	-6.8	-5.3	-6.0
Coverage ratios (x)				
FFO interest coverage	2.9	3.2	3.4	3.5
FFO fixed-charge coverage	2.8	3.1	3.4	3.5
EBITDAR fixed-charge coverage	3.5	3.2	3.7	4.3
EBITDA interest coverage	3.7	3.3	3.7	4.3
Additional metrics (%)				
CFO-capex/debt	-6.4	-2.6	-1.4	-3.3
CFO-capex/net debt	-6.4	-2.6	-1.4	-3.3
CFO/capex	54.9	80.1	89.5	76.4

CFO – Cash flow from operations
Source: Fitch Ratings, Fitch Solutions

Puget Sound Energy, Inc.

($ mil.)	2019	2020	2021	2022
Summary income statement				
Gross revenue	3,401	3,326	3,806	4,216
Revenue growth (%)	1.6	-2.2	14.4	10.8
EBITDA before income from associates	1,275	1,256	1,386	1,562
EBITDA margin (%)	37.5	37.7	36.4	37.0
EBITDA after associates and minorities	1,275	1,256	1,386	1,562
EBITDAR	1,296	1,278	1,386	1,562
EBITDAR margin (%)	38.1	38.4	36.4	37.0
EBIT	523	509	580	790
EBIT margin (%)	15.4	15.3	15.2	18.7
Gross interest expense	-244	-247	-248	-254
Pretax income including associate income/loss	332	301	380	571
Summary balance sheet				
Readily available cash and equivalents	44	51	50	103
Debt	4,552	4,750	4,964	5,181
Lease-adjusted debt	4,722	4,931	4,964	5,181
Net debt	4,508	4,699	4,914	5,078
Summary cash flow statement				
EBITDA	1,275	1,256	1,386	1,562
Cash interest paid	-234	-243	-240	-250
Cash tax	-19	-12	-38	-93

Puget Sound Energy, Inc.

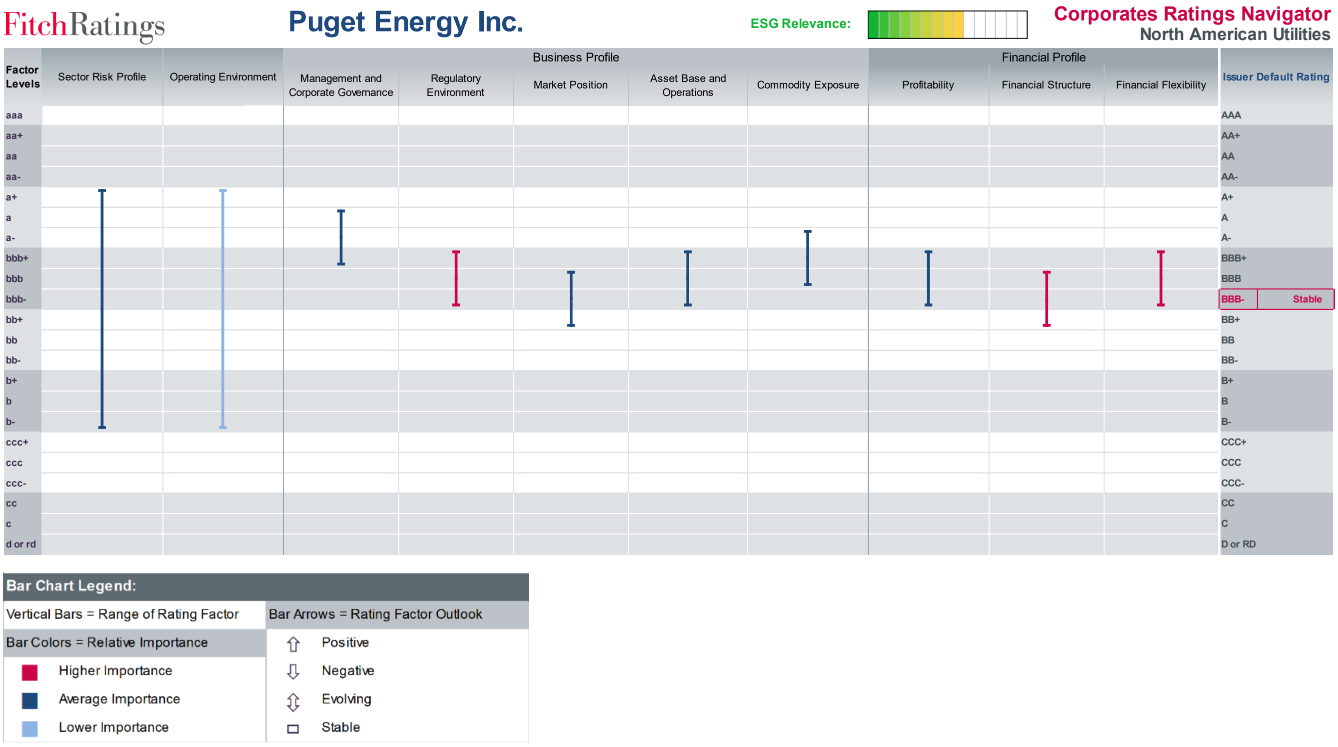
($ mil.)	2019	2020	2021	2022
Dividends received less dividends paid to minorities (inflow/outflow)	—	—	—	—
Other items before FFO	-291	-119	-210	-339
FFO	731	882	898	880
FFO margin (%)	21.5	26.5	23.6	20.9
Change in working capital	-107	-58	21	-65
CFO (Fitch-defined)	623	824	919	815
Total non-operating/nonrecurring cash flow	—	—	—	—
Capex	-919	-876	-908	-1,001
Capital intensity (capex/revenue) (%)	27.0	26.3	23.9	23.7
Common dividends	-165	-149	-230	-35
FCF	-460	-201	-219	-221
FCF margin (%)	-13.5	-6.1	-5.8	-5.2
Net acquisitions and divestitures	—	—	—	—
Other investing and financing cash flow items	19	11	8	7
Net debt proceeds	240	198	210	217
Net equity proceeds	210	—	—	50
Total change in cash	9	7	-1	53
Leverage ratios (x)				
EBITDA leverage	3.6	3.8	3.6	3.3
EBITDA net leverage	3.5	3.7	3.5	3.3
EBITDAR leverage	3.6	3.9	3.6	3.3
EBITDAR net leverage	3.6	3.8	3.5	3.3
EBITDAR net fixed-charge coverage	5.1	4.8	5.8	6.3
FFO adjusted leverage	4.8	4.3	4.4	4.6
FFO adjusted net leverage	4.7	4.3	4.3	4.5
FFO leverage	4.7	4.2	4.4	4.6
FFO net leverage	4.7	4.2	4.3	4.5
Calculations for forecast publication				
Capex, dividends, acquisitions and other items before FCF	-1,084	-1,026	-1,138	-1,036
FCF after acquisitions and divestitures	-460	-201	-219	-221
FCF margin after net acquisitions (%)	-13.5	-6.1	-5.8	-5.2
Coverage ratios (x)				
FFO interest coverage	4.1	4.6	4.7	4.5
FFO fixed-charge coverage	3.9	4.3	4.7	4.5
EBITDAR fixed-charge coverage	5.1	4.8	5.8	6.3
EBITDA interest coverage	5.4	5.2	5.8	6.3
Additional metrics (%)				
CFO-capex/debt	-6.5	-1.1	0.2	-3.6
CFO-capex/net debt	-6.6	-1.1	0.2	-3.7
CFO/capex	67.8	94.0	101.2	81.4

CFO – Cash flow from operations
Source: Fitch Ratings, Fitch Solutions

FitchRatings

Corporates
Electric-Corporate
United States

Ratings Navigator



FitchRatings

FitchRatings

Puget Energy Inc.

Corporates Ratings Navigator
North American Utilities

Operating Environment

aa-	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
a+	Financial Access	a	Strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Management and Corporate Governance

a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	aa	Transparent group structure.
bbb+	Financial Transparency	a	High quality and timely financial reporting.
bbb			

Regulatory Environment

a-	Degree of Transparency and Predictability	bbb	Generally transparent and predictable regulation with limited political interference.
bbb+	Timeliness of Cost Recovery	bbb	Moderate lag to recover capital and operating costs.
bbb	Trend in Authorized ROEs	bbb	Average authorized ROE.
bbb-	Mechanisms Available to Stabilize Cash Flows		
bb+	Mechanisms Supportive of Creditworthiness		

Market Position

bbb+	Market Structure	bbb	Established market structure but some level of uncertainty in price-setting mechanisms.
bbb	Consumption Growth Trend	bb	Exposure to declining usage or volumes or self-generation.
bbb-	Customer Mix	a	Favorable customer mix.
bb+	Geographic Location		
bb	Supply Demand Dynamics		

Asset Base and Operations

a-	Diversity of Assets	bbb	Good quality and/or reasonable scale diversified assets.
bbb+	Operations Reliability and Cost Competitiveness	bbb	Reliability and cost of operations at par with industry averages.
bbb	Exposure to Environmental Regulations	bb	Significant exposure to environmental regulations.
bbb-	Capital and Technological Intensity of Capex		
bb+			

Commodity Exposure

a	Ability to Pass Through Changes in Fuel	bbb	Limited exposure to changes in commodity costs.
a-	Underlying Supply Mix	bbb	Low variable costs and moderate flexibility of supply.
bbb+	Hedging Strategy		
bbb			
bbb-			

Profitability

a-	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.
bbb+	Volatility of Profitability	bbb	Stability and predictability of profits in line with utility peers.
bbb			
bbb-			
bb+			

Financial Structure

bbb+	EBITDA Leverage	bb	4.75x
bbb	FFO Leverage	bbb	5.0x
bbb-			
bb+			
bb			

Financial Flexibility

a-	Financial Discipline	bbb	Less conservative policy, but generally applied consistently.
bbb+	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb	FFO Interest Coverage	bb	3.5x
bbb-			
bb+			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

Overall ESG

Puget Energy Inc. has 12 ESG potential rating drivers

- Emissions from operations
- Fuel use to generate energy and serve load
- Impact of waste from operations
- Plants' and networks' exposure to extreme weather
- Product affordability and access
- Quality and safety of products and services; data security

Showing top 6 issues

key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	2	issues	2
	0	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

Puget Energy Inc.

Corporates Ratings Navigator
North American Utilities

Credit-Relevant ESG Derivation

Puget Energy Inc. has 12 ESG potential rating drivers

- Puget Energy Inc. has exposure to emissions regulatory risk but this has very low impact on the rating.
- Puget Energy Inc. has exposure to energy productivity risk but this has very low impact on the rating.
- Puget Energy Inc. has exposure to waste & impact management risk but this has very low impact on the rating.
- Puget Energy Inc. has exposure to extreme weather events but this has very low impact on the rating.
- Puget Energy Inc. has exposure to access/affordability risk but this has very low impact on the rating.
- Puget Energy Inc. has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	2	issues	2
	0	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	3	Emissions from operations	Asset Base and Operations; Commodity Exposure; Regulation; Profitability	5
Energy Management	3	Fuel use to generate energy and serve load	Asset Base and Operations; Commodity Exposure; Profitability	4
Water & Wastewater Management	2	Water used by hydro plants or by other generation plants, also effluent management	Asset Base and Operations; Regulation; Profitability	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste from operations	Asset Base and Operations; Regulation; Profitability	2
Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Regulation; Profitability	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.
The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Asset Base and Operations; Regulation; Profitability; Financial Structure	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Regulation; Profitability	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Asset Base and Operations; Profitability	3
Employee Wellbeing	2	Worker safety and accident prevention	Profitability; Asset Base and Operations	2
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Asset Base and Operations; Profitability	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
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2	Irrelevant to the entity rating but relevant to the sector.
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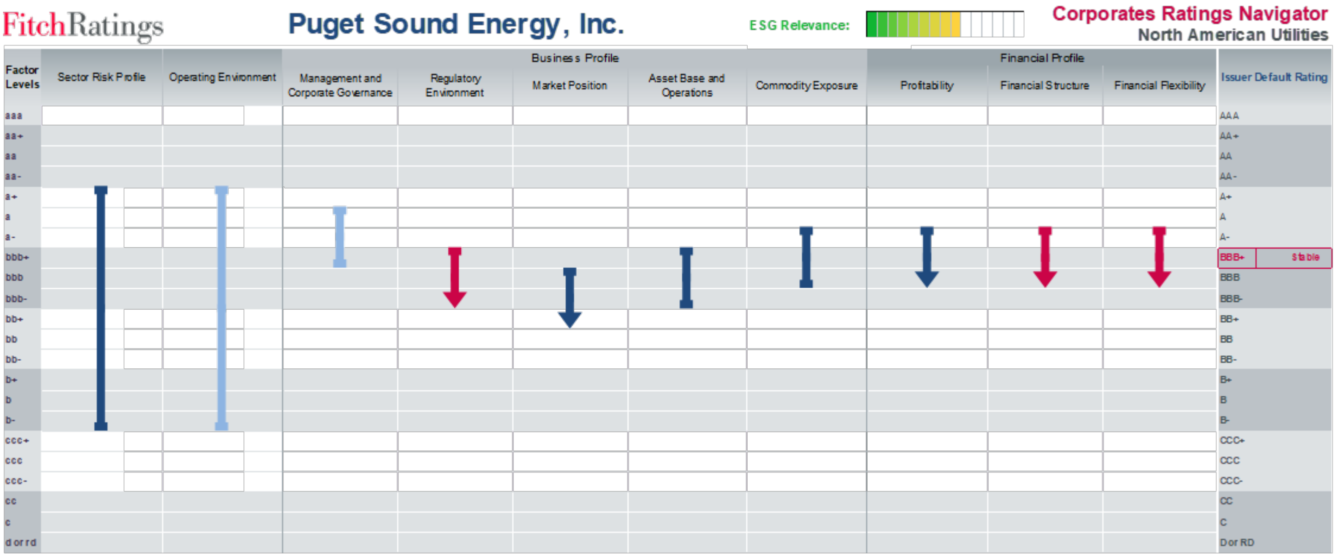
FitchRatings

Corporates
Electric-Corporate
United States



Bar Chart Legend:	
Vertical Bars = Range of Rating Factor	Bar Arrows = Rating Factor Outlook
Bar Colors = Relative Importance	⇧ Positive
Higher Importance	⇩ Negative
Average Importance	⇳ Evolving
Lower Importance	□ Stable

FitchRatings

Puget Sound Energy, Inc.

Corporates Ratings Navigator
North American Utilities

Operating Environment

aa-	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
a+	Financial Access	a	Strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Management and Corporate Governance

a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	aa	Transparent group structure.
bbb+	Financial Transparency	a	High quality and timely financial reporting.
bbb			

Regulatory Environment

a-	Degree of Transparency and Predictability	bbb	Generally transparent and predictable regulation with limited political interference.
bbb+	Timeliness of Cost Recovery	bbb	Moderate lag to recover capital and operating costs.
bbb	Trend in Authorized ROEs	bbb	Average authorized ROE.
bbb-	Mechanisms Available to Stabilize Cash Flows		
bb+	Mechanisms Supportive of Creditworthiness		

Market Position

bbb+	Market Structure	bbb	Established market structure but some level of uncertainty in price-setting mechanisms.
bbb	Consumption Growth Trend	bb	Exposure to declining usage or volumes or self-generation.
bbb-	Customer Mix	a	Favorable customer mix.
bb+	Geographic Location		
bb	Supply Demand Dynamics		

Asset Base and Operations

a-	Diversity of Assets	bbb	Good quality and/or reasonable scale diversified assets.
bbb+	Operations Reliability and Cost Competitiveness	bbb	Reliability and cost of operations at par with industry averages.
bbb	Exposure to Environmental Regulations	bb	Significant exposure to environmental regulations.
bbb-	Capital and Technological Intensity of Capex		
bb+			

Commodity Exposure

a	Ability to Pass Through Changes in Fuel	bbb	Limited exposure to changes in commodity costs.
a-	Underlying Supply Mix	bbb	Low variable costs and moderate flexibility of supply.
bbb+	Hedging Strategy		
bbb			
bbb-			

Profitability

a	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.
a-	Volatility of Profitability	a	Higher stability and predictability of profits relative to utility peers.
bbb+			
bbb			
bbb-			

Financial Structure

a	EBITDA Leverage	bbb	3.75x
a-	FFO Leverage	bbb	5.0x
bbb+			
bbb			
bbb-			

FitchRatings

Corporates
Electric-Corporate
United States

FitchRatings

Puget Sound Energy, Inc.

Corporates Ratings Navigator
North American Utilities

Credit-Relevant ESG Derivation

Puget Sound Energy, Inc. has 12 ESG potential rating drivers

- Puget Sound Energy, Inc. has exposure to emissions regulatory risk but this has very low impact on the rating.
- Puget Sound Energy, Inc. has exposure to energy productivity risk but this has very low impact on the rating.
- Puget Sound Energy, Inc. has exposure to waste & impact management risk but this has very low impact on the rating.
- Puget Sound Energy, Inc. has exposure to extreme weather events but this has very low impact on the rating.
- Puget Sound Energy, Inc. has exposure to access/affordability risk but this has very low impact on the rating.
- Puget Sound Energy, Inc. has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	2	issues	2
	0	issues	1

Environmental (E) Relevance Scores

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Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Regulation; Profitability

E Relevance: 5, 4, 3, 2, 1

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General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Asset Base and Operations; Regulation; Profitability; Financial Structure
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Regulation; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Asset Base and Operations; Profitability
Employee Wellbeing	2	Worker safety and accident prevention	Profitability; Asset Base and Operations
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Asset Base and Operations; Profitability

S Relevance: 5, 4, 3, 2, 1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

G Relevance: 5, 4, 3, 2, 1

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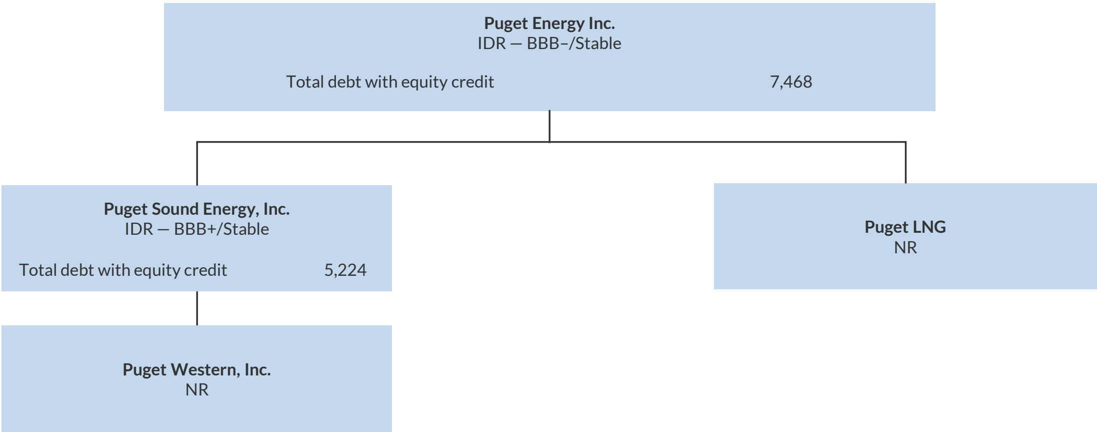
FitchRatings

Corporates
Electric-Corporate
United States

Simplified Group Structure Diagram

Organizational Structure
$ mil., as of Sept. 30, 2023



IDR – Issuer Default Rating. NR – Not rated.
Source: Fitch Ratings, Fitch Solutions, Puget Energy Inc., Puget Sound Energy, Inc.

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue ($ mil.)	FFO ($ mil.)	FFO interest coverage (x)	FFO leverage (x)	EBITDA leverage (x)
Puget Energy, Inc.	BBB–						
	BBB–	2022	4,221	831	3.5	6.3	5.1
	BBB–	2021	3,806	830	3.4	5.9	5.5
	BBB–	2020	3,326	781	3.2	6.2	6.1
DPL Inc.	BB						
	BB	2022	869	105	2.7	10.2	13.2
	BB	2021	673	109	2.8	8.8	9.2
	BB	2020	661	108	2.6	8.6	9.0
IPALCO Enterprises, Inc.	BBB–						
	BBB–	2022	1,792	335	3.8	6.7	6.1
	BBB–	2021	1,426	349	3.9	6.0	5.5
	BBB–	2020	1,353	351	3.8	5.9	5.5
Cleco Corporate Holdings LLC	BBB–						
	BBB–	2022	2,230	444	4.3	5.4	5.0
	BBB–	2021	1,746	384	4.0	6.6	5.5
	BBB–	2020	1,498	374	3.8	6.4	5.7
Puget Sound Energy, Inc.	BBB+						
	BBB+	2022	4,216	880	4.5	4.6	3.3
	BBB+	2021	3,806	898	4.7	4.4	3.6
	BBB+	2020	3,326	882	4.6	4.2	3.8
The Dayton Power & Light Company	BBB–						
	BBB–	2022	860	99	2.4	5.0	7.0
	BBB–	2021	664	112	5.5	4.2	3.8
	BBB–	2020	652	127	6.7	4.0	3.8
Indianapolis Power & Light Company	BBB+						

Company	Issuer Default Rating	Financial statement date	Gross revenue ($ mil.)	FFO ($ mil.)	FFO interest coverage (x)	FFO leverage (x)	EBITDA leverage (x)
	BBB+	2022	1,792	359	5.3	4.9	4.3
	BBB+	2021	1,426	375	5.4	4.1	3.7
	BBB+	2020	1,353	375	5.3	4.1	3.7
Cleco Power LLC	BBB						
	BBB	2022	1,611	366	6.0	3.5	3.5
	BBB	2021	1,242	278	5.0	5.3	4.8
	BBB	2020	1,032	257	4.7	4.9	4.2

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

Puget Energy Inc.

($ mil., as of Dec. 31, 2022)	Notes and formulas	Standardized values	Fair value and other debt adjustments	Lease treatment	Other adjustments	Adjusted values
Income statement summary						
Revenue		4,221	—	—	—	4,221
EBITDA	(a)	1,441	—	-5	-0	1,436
Depreciation and amortization		-663	—	2	-0	-661
EBIT		778	—	-2	0	775
Balance sheet summary						
Debt	(b)	7,207	195	-103	-0	7,299
Of which other off-balance-sheet debt		—	—	—	—	—
Lease-equivalent debt		—	—	—	—	—
Lease-adjusted debt		7,207	195	-103	-0	7,299
Readily available cash and equivalents	(c)	106	—	—	—	106
Not readily available cash and equivalents		63	—	—	—	63
Cash flow summary						
EBITDA	(a)	1,441	—	-5	-0	1,436
Dividends received from associates less dividends paid to minorities	(d)	—	—	—	—	—
Interest paid	(e)	-321	—	2	-18	-337
Interest received	(f)	—	—	—	—	—
Preferred dividends paid	(g)	—	—	—	—	—
Cash tax paid		-47	—	—	—	-47
Other items before FFO		-240	—	—	18	-222
FFO	(h)	833	—	-2	0	831
Change in working capital		-63	—	—	—	-63
CFO	(i)	770	—	-2	-0	767
Non-operating/nonrecurring cash flow		—	—	—	—	—
Capex	(j)	-1,005	—	—	—	-1,005
Common dividends paid		-16	—	—	—	-16
FCF		-251	—	-2	-0	-254
Gross leverage (x)						
EBITDA leverage	b / (a+d)	5.1	—	—	—	5.1
FFO leverage	b / (h-e-f-g)	6.4	—	—	—	6.3
(CFO-capex)/debt (%)	(i+j) / b	-3.2	—	—	—	-3.3
Net leverage (x)						

Puget Energy Inc.

($ mil., as of Dec. 31, 2022)	Notes and formulas	Standardized values	Fair value and other debt adjustments	Lease treatment	Other adjustments	Adjusted values
EBITDA net leverage	(b-c) / (a+d)	5.1	—	—	—	5.0
FFO net leverage	(b-c) / (h-e-f-g)	6.3	—	—	—	6.2
(CFO-capex)/net debt (%)	(i+j) / (b-c)	-3.2	—	—	—	-3.3
Coverage (x)						
EBITDA interest coverage	(a+d) / (-e)	4.5	—	—	—	4.3
FFO interest coverage	(h-e-f-g) / (-e-g)	3.6	—	—	—	3.5

CFO – Cash flow from operations. Note: The standardized items presented above are based on Fitch's taxonomy for the given sector and region. Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly. Debt includes other off-balance-sheet debt.
Source: Fitch Ratings, Fitch Solutions, Puget Energy Inc.

Puget Sound Energy, Inc.

($ mil., as of Dec. 31, 2022)	Notes and formulas	Standardized values	Fair value and other debt adjustments	Lease treatment	Other adjustments	Adjusted values
Income statement summary						
Revenue		4,216	—	—	—	4,216
EBITDA	(a)	1,567	—	-5	0	1,562
Depreciation and amortization		-774	—	2	0	-772
EBIT		792	—	-2	0	790
Balance sheet summary						
Debt	(b)	5,246	37	-103	-0	5,181
Of which other off-balance-sheet debt		—	—	—	—	—
Lease-equivalent debt		—	—	—	—	—
Lease-adjusted debt		5,246	37	-103	-0	5,181
Readily available cash and equivalents	(c)	103	—	—	—	103
Not readily available cash and equivalents		63	—	—	—	63
Cash flow summary						
EBITDA	(a)	1,567	—	-5	0	1,562
Dividends received from associates less dividends paid to minorities	(d)	—	—	—	—	—
Interest paid	(e)	-234	—	2	-18	-250
Interest received	(f)	—	—	—	—	—
Preferred dividends paid	(g)	—	—	—	—	—
Cash tax paid		-93	—	—	—	-93
Other items before FFO		-358	—	—	18	-339
FFO	(h)	882	—	-2	-0	880
Change in working capital		-65	—	—	—	-65
CFO	(i)	817	—	-2	-0	815
Non-operating/nonrecurring cash flow		—	—	—	—	—
Capex	(j)	-1,001	—	—	—	-1,001
Common dividends paid		-35	—	—	—	-35
FCF		-219	—	-2	-0	-221
Gross leverage (x)						
EBITDA leverage	b / (a+d)	3.4	—	—	—	3.3
FFO leverage	b / (h-e-f-g)	4.7	—	—	—	4.6
(CFO-capex)/debt (%)	(i+j) / b	-3.5	—	—	—	-3.6
Net leverage (x)						

Puget Sound Energy, Inc.

($ mil., as of Dec. 31, 2022)	Notes and formulas	Standardized values	Fair value and other debt adjustments	Lease treatment	Other adjustments	Adjusted values
EBITDA net leverage	(b-c) / (a+d)	3.3	—	—	—	3.3
FFO net leverage	(b-c) / (h-e-f-g)	4.6	—	—	—	4.5
(CFO-capex)/net debt (%)	(i+j) / (b-c)	-3.5	—	—	—	-3.7
Coverage (x)						
EBITDA interest coverage	(a+d) / (-e)	6.7	—	—	—	6.3
FFO interest coverage	(h-e-f-g) / (-e-g)	4.8	—	—	—	4.5

CFO – Cash flow from operations. Note: The standardized items presented above are based on Fitch's taxonomy for the given sector and region. Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly. Debt includes other off-balance-sheet debt.
Source: Fitch Ratings, Fitch Solutions, Puget Sound Energy, Inc.

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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MOODY'S
INVESTORS SERVICE

CREDIT OPINION
15 September 2023

Update

Send Your Feedback

Puget Sound Energy, Inc.

Update to credit analysis

Summary

Puget Sound Energy, Inc's (PSE) credit profile is supported by its rate regulated utility operations that benefit from a number of credit supportive cost recovery mechanisms authorized by its primary regulator, the Washington Utilities and Transportation Commission (WUTC). PSE's credit quality continues to be constrained by high holding company debt at its parent, Puget Energy, Inc. (Puget, Baa3 stable).

PSE's 2022 general rate case (filed January 2022) concluded in a multiparty settlement for a two year rate plan. In early January 2023, the WUTC approved the settlement with new rates effective in January 2023. We view the conclusion of the 2022 general rate case as credit positive and indicates that Washington regulation has become more consistent following the state's passage of SB 5116 and SB 5295 in 2019 and 2021, respectively.

As of the last twelve months ending 30 June 2023, PSE's credit metrics improved including a ratio of cash flow from operations before changes in working capital (CFO pre-WC) to debt to about 19% from 16% at the end of 2022. The improvement is driven by stronger cash flow generation primarily because of the new rates as well as collection of the purchase power and fuel costs that were deferred in 2022. We expect credit metrics to be sustained between 18% and 20% over the next two years.

RATINGS

Puget Sound Energy, Inc.

Domicile	Bellevue, Washington, United States
Long Term Rating	Baa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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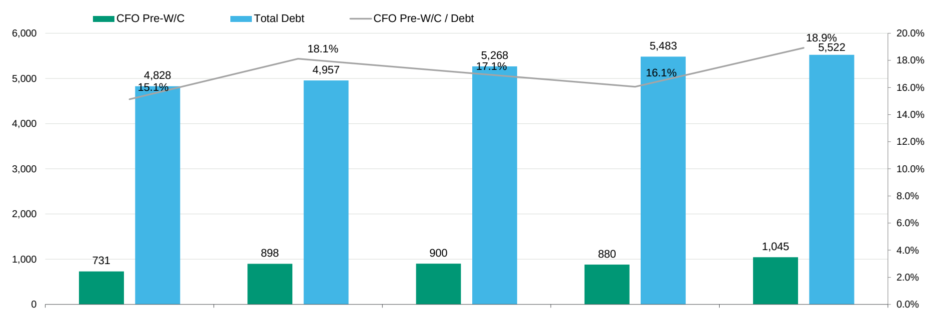
Exhibit 1

Historical CFO pre-WC, Total Debt and CFO pre-WC to Debt ($ MM)



Source: Moody's Financial Metrics

Credit Strengths

» Credit supportive cost recovery mechanisms

» Ring-fence type provisions help insulate utility from highly levered parent company

» Washington legislation provides for additional credit positive regulatory provisions for PSE's electric operations

Credit Challenges

» Large capital expenditures over the next 12-18 months

» PSE's dividends are required to service $2.0 billion of holding company debt

» Heightened wildfire risk

Rating Outlook

The stable outlook reflects PSE's credit supportive relationship with the WUTC and its stable and predictable cash flow that will maintain financial metrics, including a ratio of CFO pre-WC to debt in the 18-20% range over the next several years.

Factors that Could Lead to an Upgrade

A rating upgrade could occur if there is a material improvement in the regulatory environment such that it leads to a CFO pre-WC to debt ratio above 22% on a consistent basis. A significant reduction in leverage at the parent holding company could also lead to a rating upgrade.

Factors that Could Lead to a Downgrade

A rating downgrade could occur if PSE's credit metrics including a CFO pre-WC to debt ratio remains below 19% or if the cost recovery framework in Washington becomes less credit supportive. A rating downgrade could also occur if there is a material change in financial policies, including higher shareholder dividends or if there is a rating downgrade of the parent company.

Key Indicators

Exhibit 2

Puget Sound Energy, Inc. [1]

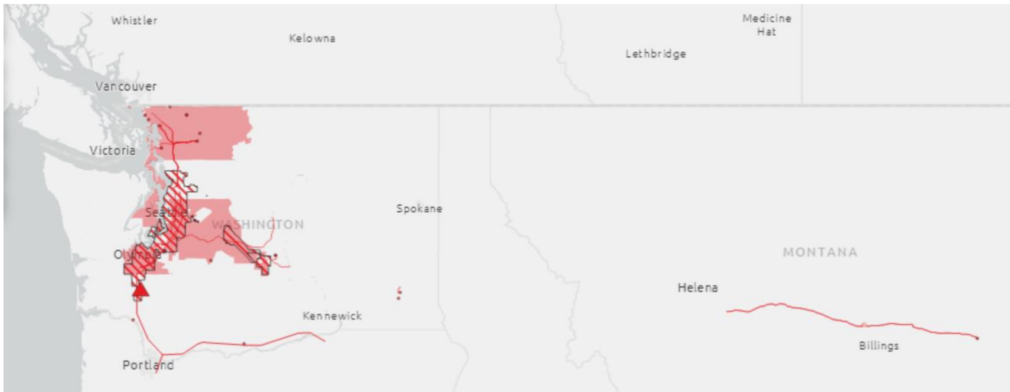
	Dec-19	Dec-20	Dec-21	Dec-22	LTM Jun-23
CFO Pre-W/C + Interest / Interest	3.9x	4.5x	4.5x	4.3x	4.8x
CFO Pre-W/C / Debt	15.1%	18.1%	17.1%	16.1%	18.9%
CFO Pre-W/C – Dividends / Debt	11.7%	15.1%	12.7%	15.4%	17.7%
Debt / Capitalization	49.3%	49.0%	49.3%	47.8%	48.4%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

Puget Sound Energy, Inc. (PSE), the primary subsidiary of Puget Energy, Inc. (Puget), is an electric and natural gas utility serving about 1.2 million electric and around 872,000 natural gas customers in the State of Washington. PSE's electric rate base represents about 65% of its approximately $8.6 billion total rate base.

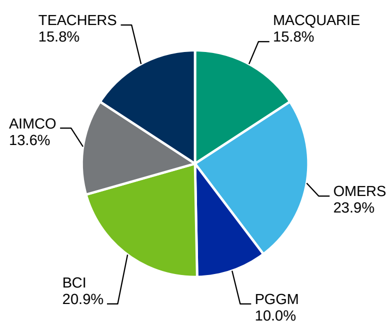
Exhibit 3
Puget's service territory in the Puget Sound Region of Western Washington



Source: S&P Global Market Intelligence

PSE is part of a complex ownership structure put in place following Puget's acquisition in 2009 by Puget Holdings LLC, which is now indirectly owned by a consortium of long-term infrastructure investors and pension fund investors as shown in Exhibit 4.

Exhibit 4
Puget's ownership structure



Source: Puget's Investor Presentation

Detailed credit considerations

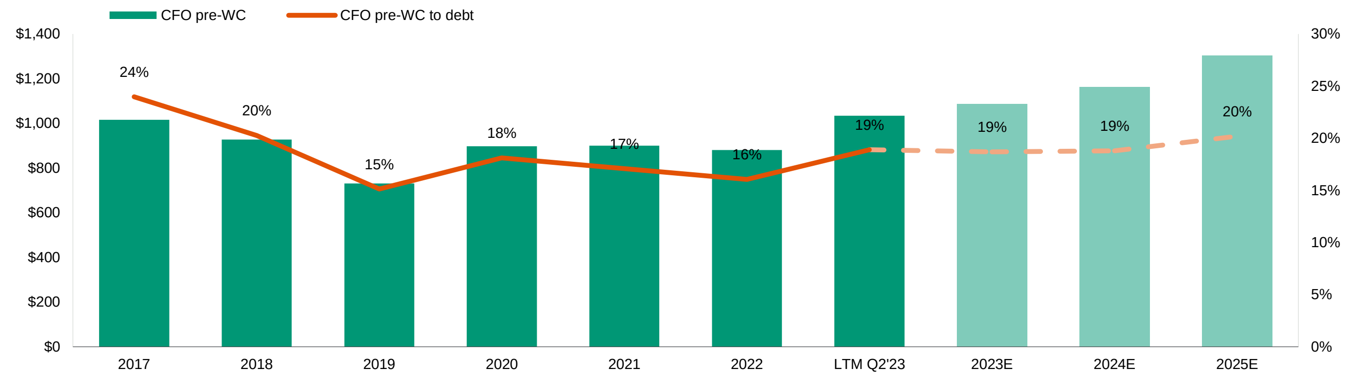
Improved financial profile driven by credit supportive general rate case

PSE's cash flow and credit metrics have been pressured over the last several years because of tax reform, a contentious rate case outcome in 2020, higher fuel and purchase power costs and significant capital expenditures. Favorably, PSE's 2022 general rate case concluded in a credit positive settlement that the WUTC approved in January 2023; with new rates becoming effective immediately and leading to stronger cash flow generation. The utility also received authorization to collect all of the fuel and purchase power costs it deferred in 2022 this year, another credit positive development.

As a result, the utility's credit metrics improved including a CFO pre-WC to debt ratio reaching 19% as of the last twelve months ending 30 June 2023. We expect PSE to maintain this ratio in the 18-20% range over the next two years. The approved 2022 general rate case settlement established a two year rate plan, which set rates for 2023 and 2024. The utility plans to file a general rate case in 2024 to take effect in 2025.

Exhibit 5

Improved credit metrics following favorable rate case outcome
Historical and projected CFO pre-WC ($mm) and CFO pre-WC to debt



Source: Moody's Investors Service

We expected that, with the passage of the Clean Energy Transition Act (CETA, SB 5116) by the Washington legislature in 2019, PSE would benefit from more credit supportive regulatory outcomes. Although PSE's 2020 general rate case was contentious and resulted in a credit negative outcome, we view these proceedings as an isolated and one time event because the WUTC was focused on mitigating the customer bill impact as a result of the unfavorable economic conditions caused by the coronavirus pandemic. The settlement of its last general rate case, the first multiyear rate plan approved following the 2021 passage of SB 5295 (discussed in the next section), points to more consistent regulation in the state of Washington.

Credit supportive cost recovery mechanisms in place

The WUTC affords PSE a number of credit supportive cost recovery mechanisms which include decoupling, an electric and gas conservation rider, an electric property tax tracker, a power cost adjustment mechanism (PCA) and a purchased gas adjustment mechanism (PGA). PSE's revenue decoupling mechanism helps the utility to obtain greater fixed cost recovery in both its electric and gas segments. The PCA and PGA allow it to directly pass the costs of purchased power and natural gas through to customers annually. PSE also has the option to use an expedited rate filing (ERF) or power cost only rate case (PCORC) to recover costs on an accelerated basis between general rate cases.

PSE's 2022 general rate case concluded in a multiparty settlement that was approved by the WUTC in early January 2023. The approved settlement included a two year rate plan that authorized an electric rate increase of $247 million (10.75%) in 2023 and $33.1 million (1.33%) in 2024 effective 11 January 2023. For the gas rate increase, the settlement authorized an increase of $70.8 million (6.4%) in 2023 and $19.5 million (1.65%) in 2024 effective 7 January 2023. The utility's ROE and equity layer remain the same as previously authorized at 9.4% and 49%, respectively, for both electric and gas.

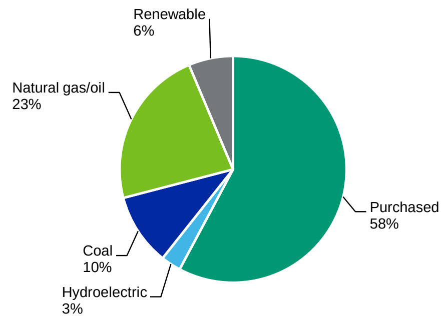
The original filing requested a three year multiyear rate plan for both electric and gas. The filing requested an overall increase in electric and gas rates of $310.6 million (13.6%) and $143 million (13.0%), respectively in 2023; $63.1 million (2.5%) and $28.5 million (2.3%), respectively, in 2024 and $31.8 million (1.2%) and $23.3 million (1.8%), respectively, in 2025. It also requested a 9.9% ROE for all three years and a stepped capital structure of 49% in 2023, 49.5% in 2024 and 50% in 2025.

With the exception of its 2020 rate case, PSE had historically maintained a credit supportive relationship with the WUTC and we view the settlement of the 2022 general rate case as continuing in that trend. We expect the company to continue to receive supportive regulatory outcomes consistent with the state's passage of SB 5116 and SB 5295 in 2019 and 2021, respectively. The bills aimed to reform the regulatory framework and pave the way for multiyear rate plans and performance based rate making. We discuss more details on SB 5116 in "Washington approves clean energy bill, a credit positive for investor-owned utilities" (16 May 2019) and on SB 5295 in "Legislation supporting multiyear rate plans has credit positive implications for Washington's investor owned utilities" (10 May 2021).

Resource needs driven by CETA targets

The CETA established clean energy targets for Washington utilities including eliminating coal fired generation by 2025, transitioning the state's electricity supply to 80% renewables and 100% carbon neutral by 2030 and 100% carbon free by 2045. PSE is well positioned to meet these targets because of its diverse supply. In 2022, PSE's energy supply was largely provided by purchased resources (58%), which is a mix of hydro and other renewables, and owned generation, a mix of natural gas, coal and renewables, as shown in Exhibit 6.

Exhibit 6
PSE's energy production by source

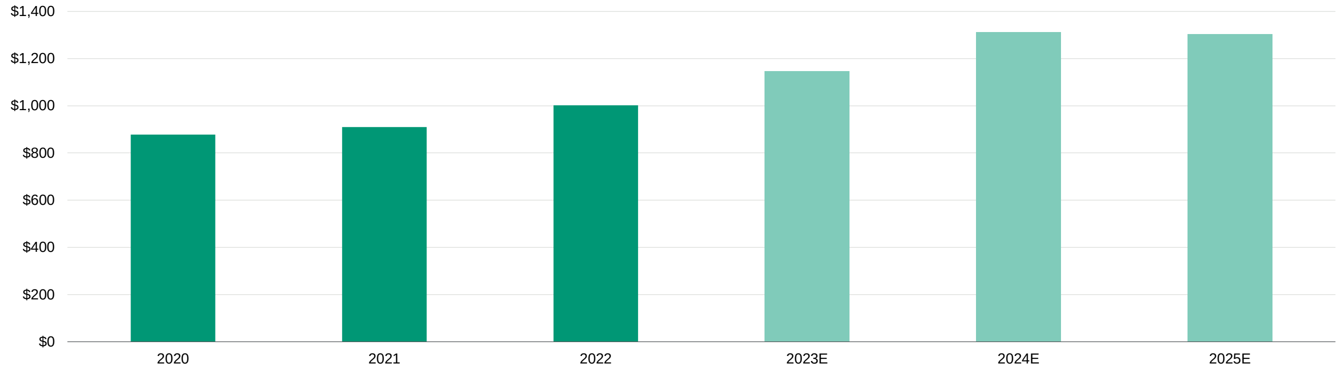


Source: PSE 10K

PSE's coal fired generation includes 25% ownership in Colstrip Unit 3 and 4 (370 MW) and a supply contract with TransAlta Corporation (TransAlta, Ba1 stable). In September 2022, PSE entered into an agreement with Talen Energy Supply, LLC (B1 stable) to transfer full ownership of Colstrip Unit 3 and 4 to Talen, which already owned 30% share in Unit 3 and is the plant operator. PSE will retain its share of environmental remediation and other asset retirement obligations associated with Units 3 and 4 that accrue thorough 31 December 2025, when the transaction is set to close. The TransAlta contract is set to expire at the end of 2025 when the coal plant is planned for retirement.

PSE has identified the need for 6,700 MW of nameplate capacity resources by 2030 to meet the CETA target. This resource need includes reducing its reliance on short-term market purchases (200 MW per year) on a phased out basis through 2029 and replacing coal fired generation (750 MW) capacity. In June 2021, the company issued an all source request for proposals (RFP) seeking up to 1,669 GWh of CETA eligible resources and up to 1,506 MW of capacity resources. In 2022, the utility identified a short list of bidders and negotiations are ongoing. The results of the 2021 RFP will drive the utility's capex program (see exhibit 7) over the next several years. Because much of the utility's resource plans are in line with the CETA, we expect regulatory proceedings to support PSE's investments.

Exhibit 7
Capital program will increase driven by resource needs
($ mm)



Does not include incremental resource needs capex
2020-2022 actual; 2023-2025 estimates
Source: Moody's Investors Service, Puget 10K

Wildfires are a rising risk factor for the Northwestern states

Wildfire risk in the US has been rising over the past few decades. State and federal efforts to suppress wildfires have inadvertently led to the significant accumulation of grasses, shrubs, dead trees and fallen leaves and pine needles, which can fuel wildfires. Meanwhile, climate change has increased wildfire risk by making it easier for fires to start and spread and by making trees more vulnerable to diseases and insect infestation. These elements are further heightened by severe windstorm events that cause branches, whole trees or poles to fall on to power lines causing a spark and ignition and quickly causing a fire to spread over a larger territory if the fire is not contained. The increase in the number and intensity of wildfires is well documented in California, and damages caused by wildfires are also growing in the northwestern states.

PSE's service territory is primarily located west of the Cascade Range, a region that experiences higher than average precipitation and rainfall resulting in a lower number of wildfires when compared to eastern Washington. However, climate change is driving warmer and dryer weather conditions for most of the western states leading to heightened wildfire risk for PSE. The utility has managed this risk through traditional vegetation management, system hardening strategies including enhanced fault reduction and protection activities, situational awareness and public outreach. In its 2023 Wildfire Mitigation and Response Plan, PSE reports having spent about $17.3 million in 2021 and $10.8 million in 2022 on projects that have reliability and wildfire risk reduction benefits, including pole replacements and covered conductors. PSE expect to spend about $102.8 million from 2023 through 2026 on wildfire mitigation projects.

To date, PSE has not had wildfire losses large enough to exceed its insurance coverage. Although there is no precedent of inverse condemnation being applied to utilities in Washington — which holds a utility strictly liable for damages caused by the utility equipment in a wildfire, regardless of fault or the reasonableness of its conduct — PSE remains exposed to litigation risk that could lead to court decisions that result in severe losses to the company.

ESG considerations

PSE's ESG Credit Impact Score is CIS-3 (Moderately Negative)

Exhibit 8
ESG Credit Impact Score

CIS-3
Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

PSE's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with greater potential for future negative impact over time. Physical climate risk and increased exposure to demographic and social trends, such as a less supportive regulatory environment and customer affordability concerns, could weaken credit quality over the long-term**.**

Exhibit 9
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	**S-3**	**G-2**
Moderately Negative	Moderately Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental
The **E-3** score is driven by PSE's physical climate risk exposure because of a rise in wildfire risk and extreme weather events that could damage physical assets or negatively impact commodity or wholesale power prices.

Social
PSE's **S-3** score reflects the fundamental utility risk that demographic and societal trends could include social pressures or public concern around affordability, the utility's reputation or environmental issues. We see these as somewhat mitigated because Puget maintains a constructive relationship with its regulator, which has been generally supportive of the utility's investments in both electric and natural gas system. The company is also moderately exposed to responsible production risk because of the risk to public safety inherent in its gas distribution operations.

Governance
The **G-2** score is largely tied to that of its parent, Puget, which is supported by its financial strategy and risk management. Puget has concentrated private ownership, with limited disclosure around board structure, policies and procedures, which has a moderately negative impact on the utility's governance profile.

ESG Issuer Profile Scores and Credit Impact Scores for PSE are available on Moodys.com. To view the latest scores, please click here to go to the landing page for PSE and view the ESG Scores section.

Liquidity Analysis

We expect PSE to maintain adequate liquidity for the next 12-18 months. The utility's internal liquidity consists of cash flow from operations, which we expect to be close to $1 billion in 2023. We expect PSE to remain free cash flow negative as the utility plans for about $1.2 billion in capital expenditures and pays dividends, which have averaged about $138 million annually over the last three years.

PSE's external liquidity consists of a five-year $800 million unsecured revolving credit facility that matures on 14 May 2027. The facility, which includes an accordion feature that can increase its total size to $1.4 billion upon bank approval, is used for short-term liquidity needs and as a backstop to the utility's commercial paper program. As of 30 June 2023, no amounts were drawn from PSE's credit facility and there was no outstanding commercial paper.

The credit facility has a $75 million sublimit for same day borrowings and does not require a material adverse event representation for new money borrowings. The credit agreement also contains a financial covenant, for which debt to capitalization cannot exceed 65%, which the utility is in compliance with as of 30 June 2023.

The company's next debt maturities include $17 million of first mortgage bonds due in 2025, followed by $300 million of senior secured notes due in 2027.

Structural considerations

The stronger credit profile at PSE relative to its parent, Puget, reflects the structural subordination that exists at Puget and dividend limitations imposed by the WUTC. As of 30 June 2023, Puget had approximately $2.0 billion of stand alone debt at the parent company, representing about 28% of total consolidated balance sheet debt. Because of the significant level of debt residing at Puget and with PSE being the sole source of cash flow to support Puget's debt service, regulatory protections and credit insulation are an important aspect in PSE's credit analysis.

Key among the ring fence-like mechanisms established when the WUTC approved the change in ownership in 2009 are: a required "golden share" vote to address concern about potential substantive consolidation of PSE in any parent bankruptcy or any voluntary filing by PSE; minimum required levels of PSE common equity to be maintained; and limits on PSE and parent distributions under certain circumstances. For example, dividend restrictions would apply if PSE's common equity ratio, calculated on a regulatory basis, is 44% or below (except to the extent a lower equity ratio is ordered by the WUTC) or if PSE's issuer rating falls below investment grade. If PSE's credit rating is below investment grade, PSE's ratio of EBITDA to interest expense for the four most recently ended fiscal quarters before such date, must be equal to or greater than 3.0x.

Methodology and Scorecard

Exhibit 10

Methodology Scorecard Factors

Puget Sound Energy, Inc.

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 6/30/2023		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.7x	A	4.8x-5.2x	A
b) CFO pre-WC / Debt (3 Year Avg)	18.6%	Baa	18%-20%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	16.3%	Baa	17%-19%	A
d) Debt / Capitalization (3 Year Avg)	47.8%	Baa	47%-49%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching				
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
[2] As of 6/30/2023(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Investors Service

Appendix

Exhibit 11

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-19	Dec-20	Dec-21	Dec-22	LTM Jun-23
As Adjusted					
FFO	**951**	**997**	**908**	**831**	**822**
+/- Other	-221	-99	-8	50	223
CFO Pre-WC	**731**	**898**	**900**	**880**	**1,045**
+/- ΔWC	-107	-58	21	-65	-140
CFO	**623**	**841**	**921**	**816**	**905**
- Div	165	149	230	35	69
- Capex	919	878	910	1,002	1,055
FCF	**-460**	**-186**	**-219**	**-221**	**-220**
(CFO Pre-W/C) / Debt	15.1%	18.1%	17.1%	16.1%	18.9%
(CFO Pre-W/C - Dividends) / Debt	11.7%	15.1%	12.7%	15.4%	17.7%
FFO / Debt	19.7%	20.1%	17.2%	15.2%	14.9%
RCF / Debt	16.3%	17.1%	12.9%	14.5%	13.6%
Revenue	3,401	3,326	3,806	4,216	4,674
Interest Expense	254	256	256	266	274
Net Income	272	258	319	467	211
Total Assets	12,610	13,024	13,852	15,182	14,757
Total Liabilities	8,612	8,854	9,512	10,327	9,929
Total Equity	3,998	4,170	4,341	4,855	4,828

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Period are Financial Year-end unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 12

Peer Comparison Table {1}

	Puget Sound Energy, Inc. Baa1 (Stable)			Indianapolis Power & Light Company Baa1 (Stable)			Cleco Power LLC A3 (Stable)			Avista Corp. (P)Baa2 (Stable)			PacifiCorp A3 (Negative)		
(In US millions)	FYE Dec-21	FYE Dec-22	LTM Jun-23	FYE Dec-21	FYE Dec-22	LTM Mar-23	FYE Dec-21	FYE Dec-22	LTM Jun-23	FYE Dec-22	FYE Dec-22	LTM Jun-23	FYE Dec-21	FYE Dec-22	LTM Jun-23
Revenue	3,806	4,216	4,674	1,426	1,792	1,859	1,242	1,621	1,529	1,439	1,710	1,724	5,296	5,679	5,879
CFO Pre-W/C	900	880	1,045	376	349	321	135	374	339	308	284	300	1,799	1,666	1,301
Total Debt	5,268	5,483	5,522	1,890	2,143	2,143	2,023	2,081	2,059	2,651	2,954	2,936	8,806	9,729	10,612
CFO Pre-W/C + Interest / Interest	4.5x	4.3x	4.8x	5.4x	4.9x	4.5x	2.7x	4.9x	4.2x	3.9x	3.4x	3.2x	5.2x	4.8x	3.8x
CFO Pre-W/C / Debt	17.1%	16.1%	18.9%	19.9%	16.3%	15.0%	6.7%	18.0%	16.5%	11.6%	9.6%	10.2%	20.4%	17.1%	12.3%
CFO Pre-W/C – Dividends / Debt	12.7%	15.4%	17.7%	11.6%	10.3%	9.2%	6.7%	12.9%	12.6%	7.2%	5.2%	5.6%	18.7%	16.1%	9.4%
Debt / Capitalization	49.3%	47.8%	48.4%	48.3%	48.8%	48.9%	43.2%	42.7%	41.9%	48.7%	49.5%	48.6%	40.9%	41.2%	44.0%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 13

Category	Moody's Rating
PUGET SOUND ENERGY, INC.	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Commercial Paper	P-2
PARENT: PUGET ENERGY, INC.	
Outlook	Stable
Issuer Rating	Baa3
Senior Secured	Baa3
PUGET SOUND ENERGY, INC. (OLD)	
Outlook	No Outlook
First Mortgage Bonds	A2
Senior Secured	A2
Underlying Senior Secured	A2
WASHINGTON NATURAL GAS COMPANY	
Outlook	No Outlook
Bkd First Mortgage Bonds	A2

Source: Moody's Investors Service

REPORT NUMBER 1376904

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

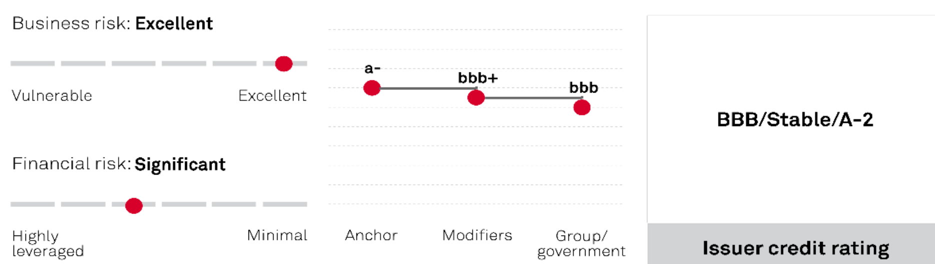
S&P Global
Ratings

Research

Puget Sound Energy Inc.

May 11, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Fully regulated, vertically integrated electricity and natural gas distribution utility.	Limited geographic and regulatory diversity.
Limited coal-fired generation.	Historically challenging regulatory environment in Washington.
Mostly residential customer base supports operating cash flow stability.	Discretionary cash flow deficits create external funding needs.

Puget Sound Energy Inc. was recently authorized to increase its electricity and natural gas rates over a two-year period. In December 2022, Puget Sound Energy was authorized to increase its electricity rates by $223 million in 2023 and $38 million in 2024 and its gas rates by $70.6

million in 2023 and $18.8 million in 2024. We view multiyear ratemaking favorably because it promotes predictability and lowers uncertainty for the utility and its stakeholders.

We expect Puget Sound Energy will fully recover any compliance costs, net of allowance sales, related to the state of Washington's Climate Commitment Act (CCA). The CCA requires businesses emitting more than 25,000 metric tons of carbon dioxide per year to participate in a cap-and-trade program. In December 2022, Puget Sound Energy filed for deferral accounting treatment of the revenues and expenses relating to compliance with the program. Clarity around cost recovery is important to avoid cash flow volatility.

Outlook

The stable outlook on Puget Sound Energy reflects that of parent Puget Energy Inc. (PE) and our expectation that the implementation of Senate Bill (SB) 5295 and the multiyear rate plan will reduce regulatory lag and cash flow volatility. Under our base case, we expect PE's funds from operations (FFO) to debt will be 13%-14% through 2025.

Downside scenario

We could lower the ratings over the next 24 months if:

- The regulatory construct under the Washington Utilities and Transportation Commission (WUTC) weakens, resulting in increased business risk;
- Puget Sound Energy cannot earn close to its authorized return on equity; or
- PE's financial measures weaken, reflecting FFO to debt consistently below 13%.

Upside scenario

Although less likely, we could raise our rating on PE over the next 24 months if:

- Puget Sound Energy significantly improves its management of regulatory risk, which could manifest as reduced regulatory lag;
- Puget Sound Energy consistently earns at or above its authorized return on equity;
- The commission continues to implement SB 5295 in a credit-supportive manner; and
- PE maintains FFO to debt above 16%.

Our Base-Case Scenario

Assumptions

- Ongoing cost recovery through authorized mechanisms and periodic rate case filings.
- Capital spending averages $1.3 billion per year through 2025.
- Dividends are used to balance Puget Sound Energy's regulated capital structure.
- Negative discretionary cash flow indicates external funding needs.
- All debt maturities refinanced.

Key metrics

Puget Sound Energy Inc.--Key Metrics*

	2022a	2023e	2024f	2025f
FFO to debt (%)	17.8	20.0-21.0	20.0-21.0	20.0-21.0
Debt to EBITDA (x)	4.1	3.5-4.0	3.5-4.0	3.5-4.0
FFO cash interest coverage (x)	4.8	5.0-5.5	5.0-5.5	5.0-5.5

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations.

Company Description

Puget Sound Energy's vertically integrated electric utility and natural gas distribution utility provide services to 1.2 million electricity customers and 900,000 gas customers in Washington's Puget Sound region.

Peer Comparison

Puget Sound Energy Inc.--Peer Comparisons

	Puget Sound Energy Inc.	Avista Corp.	IDACORP Inc.	Portland General Electric Co.
Foreign currency issuer credit rating	BBB/Stable/A-2	BBB/Negative/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2	BBB/Negative/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2021-12-31
Mil.	$	$	$	$
Revenue	4,216	1,710	1,644	2,396
EBITDA	1,415	472	524	844
Funds from operations (FFO)	1,047	352	377	690
Interest	285	126	104	164
Cash interest paid	275	118	101	137
Operating cash flow (OCF)	880	134	336	554
Capital expenditure	1,047	459	429	650
Free operating cash flow (FOCF)	(167)	(326)	(92)	(95)
Discretionary cash flow (DCF)	(202)	(455)	(250)	(257)
Cash and short-term investments	103	13	178	52
Gross available cash	103	13	178	52
Debt	5,873	3,048	2,239	4,068
Equity	4,871	2,335	2,815	2,707
EBITDA margin (%)	33.6	27.6	31.9	35.2
Return on capital (%)	5.4	5.0	8.0	6.5

Puget Sound Energy Inc.--Peer Comparisons

EBITDA interest coverage (x)	5.0	3.7	5.0	5.1
FFO cash interest coverage (x)	4.8	4.0	4.7	6.0
Debt/EBITDA (x)	4.1	6.5	4.3	4.8
FFO/debt (%)	17.8	11.6	16.8	17.0
OCF/debt (%)	15.0	4.4	15.0	13.6
FOCF/debt (%)	(2.8)	(10.7)	(4.1)	(2.3)
DCF/debt (%)	(3.4)	(14.9)	(11.1)	(6.3)

Business Risk

We base our assessment of Puget Sound Energy 's business risk on its regulated utility operations that provide essential services to its local economies in Washington. Given the material barriers to entry, Puget Sound Energy and the regulated utility industry as a whole are insulated from competitive market challenges. This underlies our view of regulated utilities' very low industry risk compared with other industries.

Our assessment of Puget Sound Energy's business risk is supported by generally constructive regulation in Washington under the WUTC that is based on a multiyear ratemaking framework. In addition to reducing regulatory lag and cash flow volatility, we believe multiyear ratemaking promotes predictability and lowers uncertainty for the utility and its stakeholders. Our assessment of the company's business risk also incorporates its large customer base of about 1.2 million electricity customers and 900,000 natural gas customers that are mostly residential, and revenue decoupling mechanisms for its electricity and natural gas utilities. Overall, we believe the regulatory environment under the WUTC has historically been challenging, but we expect Puget Sound Energy will continue managing regulatory risk in line with its peers.

Financial Risk

We expect elevated capital spending to average $1.3 billion annually through 2025 across Puget Sound Energy's electricity and natural gas businesses. While the company's most recent regulatory outcome provides rate relief over the next two years, we forecast its operating cash flows to be lower than capital spending and dividends on an annual basis, necessitating consistent access to the capital markets. We forecast stand-alone S&P Global Ratings-adjusted FFO to debt of 20%-21% through 2025, placing Puget Sound Energy above the midpoint of the benchmark range. We believe the company's ability to cover annual cash interest payments based on S&P Global Ratings-adjusted FFO bolsters the financial risk profile assessment, with annual coverage of 5x-5.5x through 2025, which is above the financial risk profile assessment. Finally, we forecast leverage, as indicated by S&P Global Ratings-adjusted debt to EBITDA, to be 3.5x-4x through 2025, in line with the financial risk profile assessment benchmarks.

We assess Puget Sound Energy's financial risk profile using our medial volatility benchmarks, reflecting its lower-risk, regulated utility operations and effective management of regulatory risk. These benchmarks are more relaxed than those used for typical corporate issuers.

Puget Sound Energy Inc.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022

Puget Sound Energy Inc.--Financial Summary

Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	$	$	$	$	$	$
Revenues	3,460	3,346	3,401	3,326	3,806	4,216
EBITDA	1,445	1,358	1,336	1,342	1,453	1,415
Funds from operations (FFO)	1,181	1,079	1,068	1,073	1,152	1,047
Interest expense	271	277	279	267	277	285
Cash interest paid	261	261	249	258	262	275
Operating cash flow (OCF)	1,105	1,015	646	848	955	880
Capital expenditure	968	1,018	928	885	925	1,047
Free operating cash flow (FOCF)	137	(3)	(282)	(36)	30	(167)
Discretionary cash flow (DCF)	(91)	(177)	(446)	(185)	(200)	(202)
Cash and short-term investments	26	35	44	51	50	103
Gross available cash	26	35	44	51	50	103
Debt	4,607	4,853	5,091	5,283	5,820	5,873
Common equity	3,601	3,708	4,049	4,181	4,355	4,871
Adjusted ratios						
EBITDA margin (%)	41.8	40.6	39.3	40.3	38.2	33.6
Return on capital (%)	10.2	7.0	6.7	6.2	6.4	5.4
EBITDA interest coverage (x)	5.3	4.9	4.8	5.0	5.3	5.0
FFO cash interest coverage (x)	5.5	5.1	5.3	5.2	5.4	4.8
Debt/EBITDA (x)	3.2	3.6	3.8	3.9	4.0	4.1
FFO/debt (%)	25.6	22.2	21.0	20.3	19.8	17.8
OCF/debt (%)	24.0	20.9	12.7	16.1	16.4	15.0
FOCF/debt (%)	3.0	(0.1)	(5.5)	(0.7)	0.5	(2.8)
DCF/debt (%)	(2.0)	(3.6)	(8.8)	(3.5)	(3.4)	(3.4)

Reconciliation Of Puget Sound Energy Inc. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	5,144	4,871	4,216	1,567	792	238	1,415	817	35	1,001
Cash taxes paid	-	-	-	-	-	-	(93)	-	-	-
Cash interest paid	-	-	-	-	-	-	(234)	-	-	-
Lease liabilities	307	-	-	-	-	-	-	-	-	-

Reconciliation Of Puget Sound Energy Inc. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Operating leases	-	-	-	24	7	7	(7)	17	-	-
Accessible cash and liquid investments	(103)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	18	(18)	(18)	-	(18)
Power purchase agreements	433	-	-	80	16	16	(16)	65	-	65
Asset-retirement obligations	165	-	-	6	6	6	-	-	-	-
Nonoperating income (expense)	-	-	-	-	10	-	-	-	-	-
Debt: other	(73)	-	-	-	-	-	-	-	-	-
COGS: other nonoperating nonrecurring items	-	-	-	(261)	(261)	-	-	-	-	-
Total adjustments	730	-	-	(151)	(223)	47	(368)	63	-	46
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	5,873	4,871	4,216	1,415	569	285	1,047	880	35	1,047

Liquidity

Our ‘A-2’ short-term rating on Puget Sound Energy reflects our issuer credit rating on the company. As of Dec. 31, 2022, we assess the company’s liquidity as adequate, with sources covering uses by 1.1x for the coming 12 months, even if forecast stand-alone EBITDA declines 10%. We use slightly less stringent thresholds to assess the utility’s liquidity because we believe the regulatory framework under the WUTC provides it with a manageable level of cash flow stability, even in times of economic stress.

Our assessment also reflects Puget Sound Energy’s generally prudent risk management--we expect the utility will manage its upcoming long-term debt maturities well in advance of their scheduled due dates--sound relationships with its banks, and satisfactory standing in the credit markets. In addition, we believe it could reduce its high capital spending during stressful periods, which limits the need to refinance under such conditions.

Overall, we believe Puget Sound Energy will likely withstand the adverse market circumstances over the next 12 months while maintaining sufficient liquidity to meet its obligations. This is partially supported by its $800 million of committed credit facility capacity through 2027.

Principal liquidity sources

- Cash and cash equivalents of about $105 million;
- Credit facility availability of $800 million; and
- Estimated cash FFO of about $1.25 billion.

Principal liquidity uses

- Debt maturities, including outstanding commercial paper, of about $355 million;
- Capital spending of about $1.3 billion; and
- Dividends of about $140 million.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5

- Climate transition risks

S-1	**S-2**	S-3	S-4	S-5

- N/A

G-1	G-2	**G-3**	G-4	G-5

- Governance structure

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Puget Sound Energy. We note that about 10% of generation capacity comes from hydropower generation, which we view as favorable from an environmental perspective. Natural gas, wind, and coal contribute about 60%, 20%, and 10%, respectively, to the total megawatts of generation capacity. These risks are partially mitigated through the company's continuous effort to retire fossil fuel generation and investment in renewable power generation.

Group Influence

Under our group rating methodology, we consider Puget Sound Energy to be core to its ultimate parent Puget Holdings LLC (not rated). This reflects our view that the utility is highly unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and is closely linked to the parent's name and reputation.

Furthermore, we rate the utility two notches higher than our group credit profile on Puget Holdings LLC. This is due to the strength of Puget Sound Energy's stand-alone credit profile and existing regulatory and structural protections in place that we believe would prevent the subsidiary from supporting the group to an extent that would unduly impair its stand-alone creditworthiness.

Issue Ratings--Recovery Analysis

Key analytical factors

Puget Sound Energy 's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. The collateral coverage of greater than 1.5x supports a recovery rating of '1+' and an issue-level rating two notches above the issuer credit rating.

Rating Component Scores

Foreign currency issuer credit rating	**BBB/Stable/A-2**
Local currency issuer credit rating	**BBB/Stable/A-2**
Business risk	**Excellent**
Country risk	Very Low
Industry risk	Very Low
Competitive position	Strong
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**a-**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bbb+**

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 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, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of May 11, 2023)*

Puget Sound Energy Inc.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured	A-
Issuer Credit Ratings History	
27-May-2021	BBB/Stable/A-2
21-Aug-2020	BBB/Negative/A-2
23-Jul-2020	BBB/Watch Neg/A-2
14-Dec-2018	BBB/Negative/A-2
Related Entities	
Puget Energy Inc.	
Issuer Credit Rating	BBB-/Stable/--
Senior Secured	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

S&P Global
Ratings

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Research Update:

Puget Energy Inc. And Subsidiary Outlooks Revised To Stable Following New Rate Plan Legislation; Ratings Affirmed

May 27, 2021

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Rating Action Overview

- We expect Washington State's recent passage of senate bill (SB) 5295, which establishes multiyear rate plans (MYRP) for its utilities, will reduce regulatory lag and smooth cash flow volatility.
- Recently, Puget Energy Inc.'s (PE) subsidiary Puget Sound Energy (PSE) filed and settled various revenue increases totaling about $186 million, and has additional $65 million settlement pending in another filing. As a result, we expect PE's financial measures will consistently remain above our downgrade threshold; over the next 12-18 months we expect FFO to debt of 13%-14%.
- We affirmed our ratings on PE and PSE and revised our outlooks to stable from negative.
- The stable outlooks on PE and PSE reflect our view that PE's financial measures will consistently be above our downgrade threshold, the commission will implement SB 5295 to support credit quality, and that the MYRP will reduce regulatory lag and cash flow volatility. Over the next 12-18 months we expect PE's consolidated FFO to debt to be 13%-14%.

Rating Action Rationale

Washington's SB 5295 includes the mandatory filing of an MYRP that we view as credit supportive. We expect Puget will file its first MYRP in January 2022, with new rates effective the following year. Under the new legislation, utilities must file an MYRP between two and four years long. We expect the commission will approve the MYRPs, reducing regulatory lag and cash flow volatility. Furthermore, power costs are trued-up after the second year, improving cash flow predictability. We believe Washington's new law, predicated on the commission implementing it in a credit supportive manner, could improve the regulatory environment.

We believe the company's rate filings and settlement will help it maintain financial measures consistently above our downgrade thresholds. Since PSE's July 2020 general rate case order, it filed a revenue decoupling, a 2019 power cost adjustment recovery, GRC Clarification Order and a purchase gas adjustment that totaled about $186 million in revenue increases. More recently, PSE has a pending settlement of Power Cost only Rate Case (PCORC) for about $65 million. We believe these recent filings and pending settlement indicate the company can effectively manage regulatory risk. We expect that the company will maintain financial measures consistently above our downgrade threshold, albeit with very minimal financial cushion for the next 18 months.

Our base case assumes further improvement in financial measures. Given the PSE's recent rate filings and PCORC settlement, we expect over the next 12-18 months that PE's consolidated funds from operations (FFO) to debt will be 13%-14%. Furthermore, following the company's MYRP filing and the commission's approval of new rates in 2023, we expect FFO to debt will consistently exceed 14%, indicating some financial cushion from the company's downgrade threshold.

Outlook

The stable outlooks on PE and PSE reflect our view that PE's financial measures will consistently be above our downgrade threshold, the commission will implement SB 5295 to support credit quality, and that the MYRP will reduce regulatory lag and cash flow volatility. Over the next 12-18 months we expect consolidated FFO to debt of 13%-14%.

Downside scenario

We could lower the ratings over the next 12-24 months if:

- The commission does not implement SB 5295 in a credit-supportive manner that includes the use of an MYRP;
- Business risk increases;
- PSE cannot earn close to its authorized return on equity;
- Washington's regulatory construct weakens; or
- PE's financial measures weaken, reflecting FFO to debt of less than 13%.

Upside scenario

Although less likely, we could raise the rating on PE over the next 12-24 months if:

- PSE significantly improves its management of regulatory risk;
- Regulatory lag lessens;
- PSE consistently earns at or above its authorized return on equity;
- The commission implements SB 5295 in a credit-supportive manner; and
- PE's FFO to debt is consistently above 16%.

Ratings Score Snapshot

Issuer credit rating: BBB-/Stable/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: a-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bbb+

- Group credit profile: bb+

Entity status within group: Insulated (-2 notches)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
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- 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, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Puget Energy Inc.		
Issuer Credit Rating	BBB-/Stable/--	BBB-/Negative/--
Puget Sound Energy Inc.		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Negative/A-2
Issue-Level Ratings Affirmed		
Puget Energy Inc.		
Senior Secured	BBB-	
Puget Sound Energy Inc.		
Commercial Paper	A-2	
Issue-Level Ratings Affirmed; Recovery Ratings Unchanged		
Puget Sound Energy Inc.		
Senior Secured	A-	
Recovery Rating	1+	

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
26 August 2021

Update

Rate this Research

RATINGS

Puget Sound Energy, Inc.

Domicile	Bellevue, Washington, United States
Long Term Rating	Baa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Puget Sound Energy, Inc.

Update to credit analysis

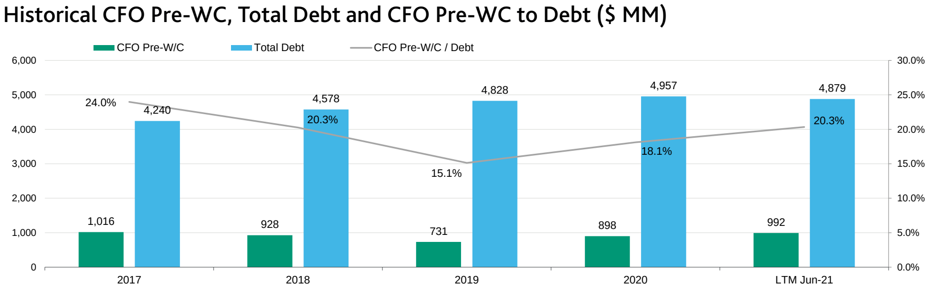
Summary

Puget Sound Energy, Inc's (PSE) credit profile reflects its low risk regulated utility operations with a number of credit supportive cost recovery mechanisms authorized by its primary regulator, the Washington Utilities and Transportation Commission (WUTC). Although the utility's 2020 rate case was contentious, our assessment of PSE's credit acknowledges the WUTC's stated objective to limit the customer rate impact during the uncertain economic conditions caused by the coronavirus pandemic. The outcome of PSE's next regulatory proceeding will be important to its credit profile going forward.

The company's cash flow from operations before changes in working capital (CFO pre-WC) to debt ratio has declined since 2017 because of a combination of factors including federal tax reform, higher debt and regulatory lag. The unfavorable July 2020 rate case outcome further delayed needed cash flow recovery. We expect credit metrics to remain in the high teens over the next several years as we anticipate Puget's management will take actions to prevent further deterioration of the company's metrics until the utility files its next rate case. The stable outlook reflects our expectation that this financial weakness will be temporary and that regulatory support for the utility will improve as the state's economic activity recovers. PSE's credit is also constrained by high holding company leverage at its parent, Puget Energy, Inc. (Puget).

Exhibit 1

Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($ MM)



Source: Moody's Financial Metrics

Credit Strengths

» Credit supportive regulatory mechanisms

» Washington legislation provides for additional credit positive regulatory tools for PSE's electric operations

» Ring-fence type provisions help insulate utility from highly levered parent company

Credit Challenges

» Increasing regulatory lag, exacerbated by unfavorable July 2020 rate case outcome

» Declining credit metrics have recovered somewhat, but are expected to remain weak

» PSE's dividends are required to service $2 billion of holding company debt

» Significant capital expenditures over the next 12-18 months

Rating Outlook

The stable outlook reflects our view that the PSE's financial profile, although weakened in recent years, will recover and that its CFO pre-W/C to debt ratio will be sustained in the 18%-19% range over the next two years as a result of management actions and our expectation of a more credit supportive outcome in its next rate case that will lead to more timely cash flow recovery.

Factors that Could Lead to an Upgrade

A rating upgrade could occur if there is an improvement in the Washington regulatory environment that supports a CFO pre-WC to debt ratio above 22% on a consistent basis, which would require a credit supportive outcome of its next rate case. A reduction in leverage at the parent holding company could also lead to a rating upgrade.

Factors that Could Lead to a Downgrade

A rating downgrade could occur if decisions from the WUTC continue to be inconsistent and unsupportive of credit quality, particularly with regard to the utility's next rate case. If PSE's CFO pre-WC to debt is sustained below 19%, if there is a material change in financial policies including extraordinary shareholder dividends, or if there is a rating downgrade of parent company Puget, a downgrade of PSE's rating could occur.

Key Indicators

Exhibit 2

Puget Sound Energy, Inc. [1]

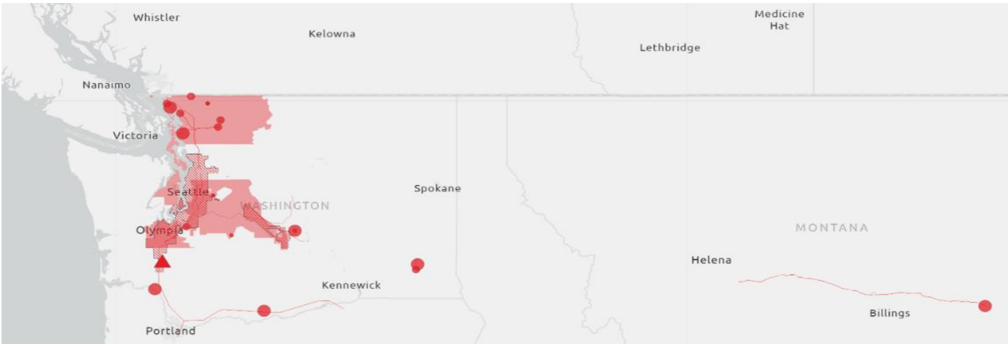
	Dec-17	Dec-18	Dec-19	Dec-20	LTM Jun-21
CFO Pre-W/C + Interest / Interest	5.4x	4.8x	3.9x	4.5x	4.9x
CFO Pre-W/C / Debt	24.0%	20.3%	15.1%	18.1%	20.3%
CFO Pre-W/C – Dividends / Debt	18.5%	16.5%	11.7%	15.1%	17.3%
Debt / Capitalization	48.5%	49.9%	49.3%	49.0%	47.4%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

Puget Sound Energy, Inc. (PSE), the primary subsidiary of Puget Energy, Inc. (Puget), is an electric and natural gas utility serving about 1.2 million electric and around 856,000 natural gas customers in the State of Washington. PSE's electric rate base represents about 70% of its approximately $8.0 billion total rate base.

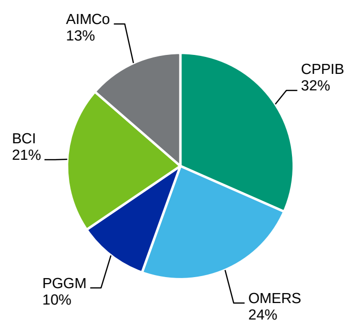
Exhibit 3
Puget's service territory in the Puget Sound Region of Western Washington



Source: S&P Global Market Intelligence

PSE is part of a complex ownership structure put in place following Puget's acquisition in 2009 by Puget Holdings LLC, which is now indirectly owned by a consortium of pension fund investors as shown in Exhibit 4. In July 2021, Macquarie Asset Management (MAM) and Ontario Teacher's Pension Plan Board reached an agreement to jointly acquire a 31.6% stake in Puget Holdings, LLC from Canada Pension Plan Investment Board (CPPIB, CPP Investments). The agreement is pending regulatory approvals.

Exhibit 4
Puget's ownership composition



Source: Puget Energy

Detailed credit considerations

Declining credit metrics have recovered somewhat, but are expected to remain weak

PSE's financial metrics have weakened since 2017 as a result of cash flow loss attributable to tax reform, changes in the utility's rate plan and significant capital expenditures. The company's metrics were particularly low in 2019 because of the adverse effects of an Enbridge Inc. (Enbridge, Baa1 stable) pipeline rupture and a colder than normal winter on purchased gas costs. These costs are being recovered over a three-year period instead of the usual one year time frame to reduce the impact on customers. In 2020, the company ended the year with a CFO pre-WC to debt ratio at 18%, an improvement over the 2019 low, but still weak compared to historic levels.

We had expected that, with the passage of the Clean Energy Transition Act (CETA) by the Washington legislature, PSE would see a more credit supportive regulatory outcomes. However, given unfavorable economic conditions, the WUTC's focus during PSE's 2020 rate case was on mitigating the economic impact of the coronavirus pandemic on PSE's customers. We continue to view the CETA and the most recent Washington legislative action as potentially credit positive, if the supportive provisions contained in the legislation are ever implemented.

Over the next 12 to 18 months, PSE's capital expenditures are significant, in line with 2019 and 2020 levels of around $900 million. The utility's annual capital investments prior to 2017 were in the $500 — $700 million range. This high capex is primarily to fund strategic and risk mitigation initiatives, including investments in electric and gas distribution upgrades, customer and system projects, generation and IT expenditures. We expect PSE to fund capex prudently with internally generated funds and a mix of debt and equity.

In the near-term, we see Puget's management to continue to take actions to mitigate the negative cash flow impact of the 2020 rate case outcome through a combination of O&M, capital expenditure and dividend reductions. Nevertheless, PSE's credit metrics will remain weak over the next two years, with a CFO pre-WC to debt ratio of around 18%-20%.

Credit supportive regulatory mechanisms but unfavorable rate case outcome

The WUTC affords PSE a number of credit supportive cost recovery mechanisms which include decoupling, an electric and gas conservation rider, an electric property tax tracker, a power cost adjustment mechanism (PCA) and a purchased gas adjustment mechanism (PGA). PSE's revenue decoupling mechanism helps PSE obtain greater fixed cost recovery in both its electric and gas segments. The PCA and PGA allow the company to directly pass the costs of purchased power and natural gas through to customers annually. PSE also has the option to utilize an expedited rate filing (ERF) or power cost only rate case (PCORC) to recover costs on an accelerated basis between general rate cases.

Although PSE has historically maintained a credit supportive relationship with the WUTC, recent regulatory outcomes have been inconsistent. In its most recent rate case order on 8 July 2020, the WUTC initially authorized an electric revenue increase of $29.5 million or 1.6%, but also extended the amortization of certain regulatory assets, effectively reducing the revenue increase to $857,000 or 0.05%. With respect to gas operations, the commission also extended regulatory asset amortization, lowering its authorized revenue increase of $36.5 million or 4% to $1.3 million or 0.15%.

On 31 July 2020, following a motion for clarification filed by PSE, the commission corrected errors related to excess deferred income taxes (EDIT) and power costs, resulting in effective rate increases of $31 million and $7.7 million for electric and gas respectively. This was still far below PSE's requested rate increases of $139.9 million or 6.9% and $65.5 million or 7.9% for electric and gas operations respectively. The commission also authorized a below industry average return on equity of 9.4%, slightly lower than the utility's requested and previously allowed ROE of 9.5%, and an equity capitalization of 48.5%, equal to the utility's request and previously authorized equity capitalization. PSE's approximately $40 million attrition adjustment proposal to mitigate regulatory lag was rejected by the commission as not in the public interest. Furthermore, the utility's electric decoupling deferral was extended to two years from one year and its PGA deferral, already extended to two years from one year because of significant gas costs incurred during the 2018-2019 winter because of an Enbridge pipeline rupture and cold weather, was extended further to three years.

Other notable provisions of the rate case order include:

» Approval of an end of period rate base valuation, approval of certain pro forma capital additions such as Get to Zero investments to improve the customer experience and advanced metering infrastructure (AMI) through the end of 2019.

» A requirement that PSE continue deferring the recovery of a return on AMI investments, though deemed prudent, until the completion of the project when the benefits to all customers would be evaluated.

» A requirement that PSE return unprotected excess deferred income taxes (EDIT) associated with tax reform over a three year amortization period and return 2019 and 2020 protected EDIT over a 12 month period.

» Disallowance of recovery of $7.2 million of costs to install SmartBurn controls at Colstrip units 3 and 4, citing a failure on PSE's part to maintain contemporaneous documentation of decision-making.

The commission's objective to limit customer rate increases in light of the uncertain economic environment caused by the coronavirus pandemic was an important driver of its decisions. The outcome of PSE's next regulatory proceeding, which is expected to be filed in early 2022, will be important to its credit profile going forward.

Washington legislation has the potential to enhance regulatory framework if implemented

The Washington regulatory framework has the potential to be enhanced with the passage of two key Senate bills (SB), SB 5116 and SB 5295 in 2019 and 2021, respectively. SB 5116, a clean energy bill with aggressive carbon transition targets, was enacted in 2019 and offered utilities the potential for important regulatory tools to recover associated costs. The bill requires electric utilities to eliminate coal-fired generation by 2025, transition the state's electricity supply to 80% renewables and 100% carbon neutral power by 2030 and be 100% carbon free by 2045. We viewed the law as credit positive because it includes the potential for enhanced cost recovery mechanisms that can improve utility financial performance and provides a legal and regulatory framework to reduce carbon exposure risks.

Compliance with the law will require significant investment and an overhaul of existing state electric infrastructure. However, the law acknowledges the WUTC's authority to implement performance and incentive based regulation, multiyear rate plans and other "flexible regulatory mechanisms" to achieve the state's public interest objectives. Importantly, the law also recognizes that the policy must include safeguards that do not impair the reliability of the electricity system nor impose unreasonable costs on utility customers. We discuss more details on SB 5116 in "Washington approves clean energy bill, a credit positive for investor-owned utilities" (16 May 2019).

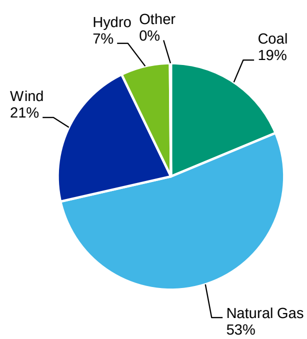
The more recently passed SB 5295 (enacted on 3 May 2021) followed the clean energy bill and aims at reforming the regulatory framework for utilities in the state by paving the way for multiyear rate plans (MYRP) and performance based ratemaking (PBR). We view the bill as credit positive as it could enhance the consistency and predictability of utility regulation. Specifically, we view the PBR construct as a credit supportive rate making mechanism because MYRPs with performance targets and the potential to earn performance incentives could reduce regulatory lag. It could also aid PSE's renewable transition, improve operational efficiency and enhance cash flow and profitability, all while considering customer cost and service. Nevertheless, the extent to which the new law will enhance the Washington regulatory framework and improve utility financial performance is subject to WUTC decisions, which have been historically inconsistent.

The bill requires the WUTC to develop, in collaboration with utilities and other interested stakeholders, a policy statement on alternatives to traditional cost of service rate making, including performance measures, incentives and penalty mechanisms. The WUTC must provide an update to the relevant legislative committees by 1 January 2022. Importantly, beginning 1 January 2022, utilities are required to include a proposal for a MYRP between two and four years in length in every general rate case filing. We discuss more details on SB 5295 in "Legislation supporting multiyear rate plans has credit positive implications for Washington's investor owned utilities" (10 May 2021).

Reduced exposure to Colstrip coal plant is credit positive

Units 1 and 2, the oldest units of the Colstrip coal-fired power plant in Rosebud County, MT, of which PSE owned 50%, were retired at the end of 2019. PSE currently owns a 25% stake in Units 3 and 4. The final order in PSE's 2019 rate case shortened the depreciable life for Colstrip 3 and 4 to 31 December 2025 aligning depreciation with the requirements of the Clean Energy Transformation Act. We view the closure of units 1 and 2 as credit positive from an environmental and sustainability perspective as it mitigates some of PSE's future environmental risk. PSE is committed to reducing its coal exposure as required by Washington state law and continues to work with all stakeholders on a transition plan.

Exhibit 5
Owned generation - 2020 (MW)



Source: Puget Energy 10K

ESG considerations

Environmental

Environmental considerations incorporated into our credit analysis for PSE are primarily related to carbon regulations. Puget and PSE are strongly positioned for carbon transition in the regulated utility sector with strategies and plans in place that substantially mitigate its carbon transition exposure. Following the retirement of Colstrip units 1 and 2, PSE's owned coal generation capacity was reduced considerably, reducing the utility's carbon transition risk. In addition, the state of Washington's clean energy transition legislation provides a legal and regulatory framework to reduce carbon exposure risks. Moody's framework for assessing carbon transition risk is discussed in "Carbon transition risk for power generation varies widely by issuer" (2 December 2020).

Social

Social risks are primarily related to demographic trends, safety, customer and regulatory relations. Similar to other utility peers, PSE has annual distribution and transmission capital expenditures that focus on electric and gas system safety, reliability and resiliency. The utility has a program aimed at improving the customer experience and is also investing in advanced metering infrastructure. These efforts help to manage social risks.

Governance

From a corporate governance perspective, including financial and risk management policies, are key to managing the company's environmental and social risk. Dividend policy is an important consideration from a governance perspective particularly given Puget's private ownership. PSE's dividend payout ratio averaged approximately 61% over the last five years. The company's owners have demonstrated a willingness to limit dividends in times of high capex and/or constrained cash flow.

Liquidity Analysis

PSE will maintain adequate liquidity for the next 12-18 months. The company's internal liquidity consists of cash flow from operations, which we expect to be close to $1 billion through 2022. We project that the company will be free cash flow negative over the next twelve months after spending approximately $900 million in capex and paying dividends to Puget (dividends were around $146 million, a 34% payout ratio, for the twelve months ended 30 June 2021). PSE's negative free cash flow will be funded with a balanced mix of debt and equity.

PSE's external liquidity consists of a five-year $800 million unsecured revolving credit facility that matures in October 2023. The facility, which includes an accordion feature that can increase its total size to $1.4 billion upon bank approval, is used for short-term liquidity needs and as a backstop to the utility's commercial paper program. As of 30 June 2021, no amounts were outstanding under PSE's credit facility and $231 million was outstanding under the commercial paper program.

The credit facility has a $75 million sublimit for same day borrowings and the does not require a material adverse event representation for new money borrowings. The credit agreement also contains a financial covenant, for which debt to capitalization cannot exceed 65%. As of 30 June 2021, PSE was in compliance with all applicable covenants. Additionally, Puget has an $800 million senior secured credit facility due in October 2023.

The company's next debt maturity is $17 million of first mortgage bonds due in 2025, followed by $300 million of senior secured notes due in 2027.

Structural considerations

The stronger credit profile at PSE relative to its parent, Puget, reflects the structural subordination that exists at Puget and dividend limitations imposed by the WUTC. As of 30 June 2021, Puget had approximately $2.4 billion of standalone debt at the parent company, representing about 34% of total consolidated balance sheet debt, which includes a new issuance to refinance its September 2021 maturity. We expect parent company debt to return to 30% after repayment of this debt in September.

Due to the significant level of debt residing at Puget and with PSE being the sole source of cash flow to support Puget's debt service, regulatory protections and credit insulation are an important aspect in PSE's credit analysis.

Key among the ringfence-like mechanisms established when the WUTC approved the change in ownership in 2009 are: a required "golden share" vote to address concern about potential substantive consolidation of PSE in any parent bankruptcy or any voluntary filing by PSE; minimum required levels of PSE common equity to be maintained; and limits on PSE and parent distributions under certain circumstances. For example, dividend restrictions would apply if PSE's common equity ratio, calculated on a regulatory basis, is 44% or below (except to the extent a lower equity ratio is ordered by the WUTC) or if PSE's issuer rating falls below investment grade. If PSE's credit rating is below investment grade, PSE's ratio of EBITDA to interest expense, for the four most recently ended fiscal quarters prior to such date, must be equal to or greater than 3.0x.

Methodology and Scorecard

Exhibit 6
Methodology Scorecard Factors
Puget Sound Energy, Inc.

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 6/30/2021		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.4x	Baa	4.5x - 4.8x	A
b) CFO pre-WC / Debt (3 Year Avg)	17.9%	Baa	18% - 20%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	14.5%	Baa	14% - 17%	Baa
d) Debt / Capitalization (3 Year Avg)	48.8%	Baa	48% - 50%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching				
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
[2] As of 6/30/2021(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Financial Metrics

Appendix

Exhibit 7

Peer Comparison Table {1}

	Puget Sound Energy, Inc. Baa1 (Stable)			Indianapolis Power & Light Company Baa1 (Stable)			Cleco Power LLC A3 (Stable)			Avista Corp. (P)Baa2 (Stable)			PacifiCorp A3 (Stable)		
(In US millions)	FYE Dec-19	FYE Dec-20	LTM Jun-21	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-19	FYE Dec-20	LTM Jun-21	FYE Dec-19	FYE Dec-20	LTM Mar-21
Revenue	3,401	3,326	3,558	1,451	1,482	1,353	1,168	1,032	1,066	1,346	1,322	1,364	5,068	5,341	5,377
CFO Pre-W/C	731	898	992	419	408	377	316	182	153	355	381	361	1,470	1,481	1,549
Total Debt	4,828	4,957	4,879	1,846	1,847	1,886	1,598	1,791	1,851	2,372	2,492	2,577	8,004	8,879	8,882
CFO Pre-W/C + Interest / Interest	3.9x	4.5x	4.9x	7.2x	5.5x	5.2x	4.8x	3.3x	2.9x	4.3x	4.6x	4.4x	4.6x	4.4x	4.5x
CFO Pre-W/C / Debt	15.1%	18.1%	20.3%	22.7%	22.1%	20.0%	19.8%	10.2%	8.3%	15.0%	15.3%	14.0%	18.4%	16.7%	17.4%
CFO Pre-W/C – Dividends / Debt	11.7%	15.1%	17.3%	14.9%	13.4%	12.1%	18.5%	10.2%	8.3%	10.6%	10.9%	9.6%	16.2%	16.7%	17.4%
Debt / Capitalization	49.3%	49.0%	47.4%	52.2%	51.9%	52.0%	40.5%	42.3%	42.9%	49.2%	48.7%	48.9%	42.3%	43.0%	42.6%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Exhibit 8

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-17	Dec-18	Dec-19	Dec-20	LTM Jun-21
As Adjusted					
FFO	**1,120**	**982**	**951**	**997**	**1,080**
+/- Other	-103	-54	-221	-99	-88
CFO Pre-WC	**1,016**	**928**	**731**	**898**	**992**
+/- ΔWC	105	81	-107	-58	-75
CFO	**1,122**	**1,008**	**623**	**841**	**917**
- Div	232	174	165	149	146
- Capex	994	1,023	919	878	888
FCF	**-105**	**-188**	**-460**	**-186**	**-117**
(CFO Pre-W/C) / Debt	24.0%	20.3%	15.1%	18.1%	20.3%
(CFO Pre-W/C - Dividends) / Debt	18.5%	16.5%	11.7%	15.1%	17.3%
FFO / Debt	26.4%	21.5%	19.7%	20.1%	22.1%
RCF / Debt	20.9%	17.7%	16.3%	17.1%	19.1%
Revenue	3,460	3,346	3,401	3,326	3,558
Interest Expense	232	242	254	256	258
Net Income	320	242	272	258	411
Total Assets	11,872	12,263	12,610	13,024	13,206
Total Liabilities	8,235	8,598	8,612	8,854	8,846
Total Equity	3,637	3,665	3,998	4,170	4,360

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Period are Financial Year-end unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Ratings

Exhibit 9

Category	Moody's Rating
PUGET SOUND ENERGY, INC.	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Commercial Paper	P-2
PARENT: PUGET ENERGY, INC.	
Outlook	Stable
Issuer Rating	Baa3
Senior Secured	Baa3
PUGET SOUND ENERGY, INC. (OLD)	
Outlook	No Outlook
First Mortgage Bonds	A2
Senior Secured	A2
WASHINGTON NATURAL GAS COMPANY	
Outlook	No Outlook
Bkd First Mortgage Bonds	A2

Source: Moody's Investors Service

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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