EXH. CGP-10
DOCKETS UE-22___/UG-22___
2022 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-22____ Docket UG-22____

NINTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF

CARA G. PETERMAN

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 31, 2022

MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
17 July 2020

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

Puget Energy, Inc.

Domicile	Bellevue, Washington, United States
Long Term Rating	Baa3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Source: Moody's Investors Service

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Puget Sound Energy, Inc.

Puget Sound Energy's rate case outcome is credit negative

On 8 July 2020, Puget Sound Energy, Inc. (PSE) received a final order from the Washington Utilities and Transportation Commission (WUTC) on electric and gas general rate cases initially filed by the utility in June 2019. The WUTC authorized an electric revenue increase of $29.5 million or 1.6% but 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%. PSE had 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.

The desire to limit customer rate increases in light of the uncertain economic environment caused by the coronavirus pandemic was an important driver of the WUTC's decisions. Nevertheless, the rate case outcome is credit negative for PSE and parent Puget Energy, Inc. (Puget) because it will constrain cash flow growth which, together with higher debt to help fund about $2 billion of capital investments over the last two years, will pressure credit metrics.

Without any management actions to mitigate the negative cash flow impact of the rate case outcome, we estimate that PSE and Puget's credit metrics will remain on the weak end of our expected range for the credit, with operating cash flow before working capital changes (CFO pre-WC) to debt ratios in the high teens at PSE and around 11-12% at Puget over the next two years.

Both PSE and Puget have seen their debt coverage metrics deteriorate steadily since a favorable multi-year rate plan ended in 2017. The companies' credit metrics were particularly low in 2019 because of the adverse effects of an Enbridge Inc. (Baa2 positive) 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. Still, even after adjusting for the purchased gas receivable, PSE's and Puget's 2019 credit metrics were lower than historical levels, with estimated CFO pre-WC to debt ratios of approximately 18% and 11%, respectively, compared with 20.3% and 12.9% in 2018 and 24% and 14.6% in 2017.

Although PSE's regulatory proceedings since 2017 have been characterized by some contention, we had expected Washington's Clean Energy Bill, passed in May 2019, to result in more credit supportive outcomes for the utility. The clean energy legislation 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. 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. The bill’s application by the WUTC will ultimately determine its benefits to utilities. However, given current economic conditions, the WUTC's focus was on mitigating the economic impact of the coronavirus pandemic on PSE’s customers.

Other notable provisions of the rate case order include:

» Rejection of PSE’s attrition adjustment proposal as not in the public interest at this time.

» To help mitigate regulatory lag, approval of an end of period rate base valuation and approval of certain pro-forma capital additions such Get to Zero investments to improve 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 rate case order is still within the adjudicative process where PSE can file for reconsideration by the WUTC and petition a Washington Superior Court to review the order.

REPORT NUMBER 1237958

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

Rating Action: Moody's affirms the ratings of Puget Energy and Puget Sound Energy; outlooks stable

25 Aug 2020

Approximately $6 billion of debt securities affected

New York, August 25, 2020 -- Moody's Investors Service, ("Moody's") today affirmed the Baa3 Issuer Rating and Baa3 senior secured rating of Puget Energy, Inc. (Puget) and the Baa1 Issuer Rating, A2 senior secured rating and Prime-2 short-term rating for commercial paper of its subsidiary Puget Sound Energy, Inc. (PSE). The outlooks for Puget and PSE remain stable. A complete list of ratings is included at the end of this press release.

RATINGS RATIONALE

"Although PSE's unfavorable July 2020 rate case outcome will delay needed cash flow recovery, the rating affirmations and stable outlooks at both Puget and PSE acknowledge the Washington Utilities and Transportation Commission's (WUTC) stated objective to limit the customer rate impact in the currently uncertain economic environment caused by the coronavirus pandemic" stated Nana Hamilton, Moody's analyst. "As a result, we expect Puget's and PSE's debt coverage metrics to be weak for their respective ratings over the next two years but anticipate that Puget's management will take some mitigating actions to limit a deterioration of the company's debt coverage metrics until the utility files its next rate case," added Hamilton. The stable outlook reflects our expectation that this financial weakness will be temporary and that regulatory support for the utility will improve once the pandemic passes and the economy recovers.

Since the end of a credit supportive multi-year rate plan in 2017, the results of PSE's regulatory proceedings have been inconsistent, leading to slow cash flow growth. A combination of higher debt to fund significant capital expenditures, increased regulatory lag and federal tax reform have resulted in a steady decline in PSE's and Puget's debt coverage metrics since 2017.

Despite recent challenging regulatory proceedings, we had expected Washington's Clean Energy Transformation Act (CETA), passed in May 2019, to result in more credit supportive outcomes for the utility. The clean energy legislation 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. 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 clean energy public interest objectives.

The utility's July 2020 rate case outcome was again unpredictable, contrary to our expectations following of the new legislation, and will continue to exacerbate regulatory lag. However, we understand that the outcome was heavily influenced by the coronavirus-driven economic instability. On 31 July 2020, following a motion for clarification filed by PSE, the WUTC corrected errors related to Excess Deferred Income Taxes (EDIT) and power costs to authorize an effective total electric and gas revenue increase of $38.7 million [1]. The revenue increase reflects reductions for riders and EDIT and the extension of the amortization of certain regulatory assets.

The commission had initially authorized an effective rate increase of $2.2 million on 8 July 2020, well below the utility's requested revenue increase of $204 million. The WUTC also authorized a below industry average return on equity (ROE) of 9.4%, equity capitalization of 48.5% and rejected PSE's approximately $40 million attrition adjustment proposal to mitigate regulatory lag as not in the public interest at this time [2].

We continue to view the CETA as potentially credit positive, if the supportive provisions contained in the legislation are implemented, and the outcome of PSE's next regulatory proceeding will be important to both issuers' credit profiles. In the near-term, we expect Puget's management to take actions to mitigate the negative cash flow impact of the recent rate case outcome through a combination of O&M, capital expenditure and dividend reductions. Nevertheless, PSE's and Puget's credit metrics will remain weak for their ratings over the next two years, with operating cash flow before working capital changes (CFO pre-WC) to debt ratios of around 17%-19% and 11%-13% at PSE and Puget, respectively.

The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not consider the impact of the coronavirus outbreak to be a material credit driver for Puget given PSE's rate regulated business model. Nevertheless, we are watching for electricity usage declines, utility bill payment delinquency and the regulatory response to counter these effects on earnings and cash flow.

Environmental, social and governance considerations incorporated into our credit analysis for PSE and Puget are primarily related to carbon regulations and social risks related to demographic and societal trends, as well as customer and regulatory relations. PSE has moderate carbon transition risk within the regulated utility sector as some of its energy is generated by fossil fuels. However, with the retirement of units 1 and 2 of the Colstrip coal power plant at the end of 2019 and the pending sale of unit 3, PSE's owned coal generation capacity will be substantially lower, down to about 6% of total owned generation capacity, reducing the utility's carbon transition risk.

The stable outlook reflects our view that the outcome of PSE's recent rate case was largely driven by the unexpected economic circumstances caused by the coronavirus pandemic and that PSE will be granted more credit supportive rate relief and more timely cash flow recovery in its next rate case. If this occurs, we would expect credit metrics to recover to above 19% and above 13% for PSE and Puget, respectively in 2022, and beyond.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

What Could Change the Rating -- Up

A rating upgrade for Puget could be considered if Puget sustains a CFO pre-WC to debt ratio of 16% or higher or if PSE's rating is upgraded.

A rating upgrade could be considered for PSE 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 and if leverage at the holding company is reduced.

What Could Change the Rating -- Down

The ratings of both Puget and PSE could be downgraded if decisions by the WUTC continue to be inconsistent and unsupportive of credit quality, particularly with regard to the utility's next rate case, further exacerbating regulatory lag. A downgrade could also occur if there is a material change in financial policies including extraordinary shareholder dividends.

Puget's ratings could be downgraded if CFO pre-WC to debt is sustained below 13% or if PSE's rating is downgraded. PSE's rating could be downgraded if CFO pre-WC to debt is sustained below 19% or if Puget's rating is downgraded.

Affirmations:

..Issuer: Forsyth (City of) MT, Rosebud County

....Senior Secured PC Revenue Refunding Bonds, Affirmed A2

..Issuer: Puget Energy, Inc.

.... Issuer Rating, Affirmed Baa3

....Senior Secured Global Notes, Affirmed Baa3

..Issuer: Puget Sound Energy, Inc.

.... Issuer Rating, Affirmed Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Secured Notes, Affirmed A2

....Senior Secured Shelf, Affirmed (P)A2

....Senior Unsecured Commercial Paper, Affirmed P-2

..Issuer: Puget Sound Energy, Inc. (Old)

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Secured Medium-Term Notes, Affirmed A2

....Underlying Senior Secured Medium-Term Notes, Affirmed A2

....Senior Secured Notes, Affirmed A2

..Issuer: Washington Natural Gas Company

....Senior Secured First Mortgage Bonds, Affirmed A2

Outlook Actions:

..Issuer: Puget Energy, Inc.

....Outlook, Remains Stable

..Issuer: Puget Sound Energy, Inc.

....Outlook, Remains Stable

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1072530 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004 .

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

REFERENCES/CITATIONS

[1] https://www.utc.wa.gov/_layouts/15/CasesPublicWebsite/CaseItem.aspx?item=document&id=00204&year=2019&docketNumber=190529&resultSource=&page=1&query=UE190529&refiners=&isModal=false&omItem=false&doItem=false 31-Jul-2020.

[2] https://www.utc.wa.gov/_layouts/15/CasesPublicWebsite/CaseItem.aspx?item=document&id=00010&year=2019&docketNumber=190274&resultSource=&page=1&query=UE190274&refiners=&isModal=false&omItem=false&doItem=false 08-Jul-2020.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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S&P Global
Ratings

Research

Research Update:

Puget Energy Inc. And Subsidary Ratings Placed On CreditWatch Negative Over Regulatory Concerns

July 23, 2020

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Rating Action Overview

- Bellevue, Wash.-based Puget Sound Energy Inc.'s (PSE's) recent rate order from the Washington Utilities and Transportation Commission (WUTC) was less than credit supportive, effectively negating a rate increase over the next two years. The order substantially reduced a requested rate increase to mitigate the economic effects of the COVID-19 pandemic on customers.
- S&P Global Ratings expects this development to significantly affect parent Puget Energy Inc.'s (PE's) consolidated financial measures, with funds from operations to debt declining below our downgrade threshold of 13%; however, we expect the company could take steps to offset this weakness.
- In addition, we view the WUTC's decision as a potential shift in the company's regulatory construct that increases business risk for both PSE and PE.
- As a result, we are placing the ratings on PE and PSE on CreditWatch with negative implications.
- The CreditWatch placement reflects the increased probability we could lower the ratings in the next three months.

Rating Action Rationale

The CreditWatch placement reflects the increased possibility of a downgrade over the next three months. The order was significantly weaker than expected in that the company requested a nearly $200 million rate increase and only received $2 million. The commission also denied the company's request for an attrition adjustment of roughly $39 million, which increases the company's regulatory lag. The WUTC's decision raises concerns regarding the company's regulatory construct and increases the business risk for PSE and PE. We will be focusing on future rate cases in the state, particularly, PacifiCorp, whose rate order is expected by November 2020, to give us additional information on whether the regulatory environment for the utilities to operate has materially weakened. This could result in a downward revision of PE and PSE's business risk profile.

We also expect the company to take steps to protect financial measures and will reevaluate the ratings impact of any potential improvement as we get that information. If the company is unable to offset the weakness in its financial metrics or if business risk further deteriorates further, we would lower the ratings.

Our ratings on PE are lower by one notch to reflect our negative comparative ratings analysis modifier. This is in line with our view of both the company's financial and business risk profiles that we view as consistently reflecting the lower end of the range for their categories. Looking forward, PSE may be more susceptible to regulatory lag and unfavorable regulatory decisions, which dims our view of the company's overall management of regulatory risk in the state.

CreditWatch

We expect to resolve the CreditWatch in the coming months when we receive additional information regarding any actions the company takes to mitigate the weakness in financial measures along with additional information around regulatory actions in the state. Additional information around the company's action plan or the regulatory construct in the state could prompt rating actions, including a rating affirmation. We would also expect to lower the ratings if in our view the regulatory construct in the state materially weakens.

Ratings Score Snapshot

BBB-/CreditWatch Negative/--

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 from the SACP)

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
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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
- General Criteria: Methodology: Industry Risk, 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; CreditWatch

	To	From
Puget Energy Inc.		
Issuer Credit Rating	BBB-/Watch Neg/--	BBB-/Negative/--
Puget Sound Energy Inc.		
Issuer Credit Rating	BBB/Watch Neg/A-2	BBB/Negative/A-2

Ratings Affirmed; CreditWatch; Recovery Rating Unchanged

	To	From
Puget Sound Energy Inc.		
Senior Secured	A- /Watch Neg	A-
Recovery Rating	1+	1+
Puget Energy Inc.		
Senior Secured	BBB-/Watch Neg	BBB-

Puget Sound Energy Inc.

Commercial Paper	A-2/Watch Neg	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

S&P Global
Ratings

RatingsDirect®

Research Update:

Puget Energy Inc., Pugent Sound Energy Inc. Ratings Affirmed; Off CreditWatch On Clarification Order; Outlook Negative

August 21, 2020

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Rating Action Overview

- Bellevue, Wash.-based Puget Sound Energy Inc. (PSE) recently received a clarification order from the Washington Utilities and Transportation Commission (WUTC) regarding the General Rate Case order issued in July. The clarification order increased PSE's annual revenue requirement by clearing up errors in the deferred income tax calculation and power cost recoveries.
- As a result, we expect financial measures to marginally improve.
- We are affirming the ratings on Puget Energy Inc. (PE) and PSE and removing them from CreditWatch where we placed them with negative implications on July 23, 2020. Our rating outlook is negative.
- The negative outlooks on PE and PSE reflects our expectation of PE's consolidated funds from operations (FFO) to debt of about 13%, indicating minimal financial cushion at the current rating level and broader uncertainty about the company's ability to effectively mitigate regulatory lag.

Rating Action Rationale

The removal of the ratings from CreditWatch reflects the WUTC's clarification order and the company's marginally improving financial measures. The clarification order increases PSE's annual revenue requirement to about $39 million from the previous rate order of about $2 million. As a result, we expect financial measures to marginally improve, somewhat lowering the probability of a downgrade.

The negative outlook reflects PE's minimal financial cushion and the possibility of our reassessing our view of the regulatory construct in the state of Washington. Washington State passed legislation in 2019 that allowed the WUTC to approve multiyear rate plans and allow recovery for some utility investments deemed useful up to 48 months after rates are approved. We expected these measures would be implemented in the near term, reducing regulatory lag, and allowing Washington's utilities to effectively manage regulatory risk. Additionally, our assessment of the PE and PSE's business risk profiles incorporates our expectations that these measures would take hold, supporting credit quality. However, PSE's last rate order, even after incorporating the clarification order, only provides for a modest rate increase and does not allow for attrition adjustments. This decision is inconsistent with our current assessment and should the company continue to exhibit substantial regulatory lag, we would likely revise our assessment of the company's business risk profile downward.

We will also continue to monitor PacifiCorp's filed stipulation. Should the WUTC materialy deviate from the proposed settlement, it could be indicative of a more negative trend of increasing regulatory lag and the possibility of a more difficult regulatory environment in Washington than previously expected.

Our base case assumes very gradual improvement to the financial measures. We expect that the company will proactively take steps to improve PE's consolidated financial measures. This includes cost reductions and successful future rate case filings that will reduce the regulatory lag and allow the company to more consistently earn closer to its allowed return on equity.

Outlook

The negative outlook on Puget Energy Inc. reflects our expectation FFO to debt of about 13%, indicating minimal financial cushion at the current rating level and broader uncertainty about the company's ability to effectively mitigate regulatory lag.

Downside scenario

We could lower the ratings on PE and PSE over the next 12 months if the group credit profile weakens or the company's business risk erodes as a result of further deterioration in the regulatory construct in Washington, inhibiting the utilities' abilities to earn close to their authorized return on equity. We could also lower the ratings if PE's consolidated financial measures weaken, reflecting FFO to debt of consistently less than 13%.

Upside scenario

We could revise the outlook to stable over the next 12 to 18 months if the group credit profile does not weaken and PE's FFO to debt is consistently greater than 13%, PE consistently improves its management of regulatory risk by reducing regulatory lag reflecting a regulatory construct in Washington that is not weakening and demonstrates improved cash flow consistency and predictability.

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Negative/--

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
- 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

- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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
- General Criteria: Methodology: Industry Risk, 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 List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Puget Energy Inc.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Watch Neg/--
Puget Sound Energy Inc.		
Issuer Credit Rating	BBB/Negative/A-2	BBB/Watch Neg/A-2
Issue-Level Ratings Affirmed; Off CreditWatch; Recovery Ratings Unchanged		
Puget Sound Energy Inc.		
Senior Secured	A-	A-/Watch Neg
Recovery Rating	1+	1+
S&P Published Underlying Rating	A-	A-/Watch Neg
Senior Secured	A-	A-/Watch Neg
Recovery Rating	1+	1+
Issue-Level Ratings Affirmed; Off CreditWatch		
Puget Sound Energy Inc.		
Senior Secured	A-	A-/Watch Neg
Commercial Paper	A-2	A-2/Wach Neg
Puget Energy Inc.		
Senior Secured	BBB-	BBB-/Watch Neg

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Puget Energy and Puget Sound Energy; Outlook Revised to Negative

Mon 27 Jul, 2020 - 5:01 PM ET

Fitch Ratings - New York - 27 Jul 2020: Fitch Ratings has affirmed Puget Energy Inc.'s (PE) Long-Term Issuer Default Rating (LT IDR) at 'BBB-' and Puget Sound Energy, Inc.'s (PSE) LT IDR of 'BBB+'. The Rating Outlook for both entities has been revised to Negative from Stable.

PSE's recent rate case order will significantly impair PE's consolidated credit metrics, raising FFO leverage to be approximately 6.0x through 2021, exceeding the downgrade guideline ratio of 5.5x. PE and PSE could be downgraded if mitigating actions are not forthcoming or insufficient to strengthen their credit metrics. Sustained lack of constructive regulatory relationship will also be a catalyst for a downgrade.

KEY RATING DRIVERS

Negative Rate Case:

On July 8, 2020, PSE received a final order from the Washington Utilities and Transportation Commission (WUTC) approving a $186.3 million combined revenue requirement for both electric and gas segments, compared with requested $205 million. After adjustments related to riders and excess deferred income taxes (EDIT), revenue requirement was reduced to approximately $66 million.

However, in an effort to mitigate impact of rate increase during the pandemic, WUTC extended the amortization of certain regulatory assets, the deferrals of the electric decoupling and of the purchased gas cost, further reducing rate increase to $2.2 million.

WUTC denied PSE's request for an attrition adjustment which could have added $23.9 million for electric and $11.7 million for natural gas. PSE will refund $51.7 million unprotected EDIT in three years versus the requested four years. WUTC also requested that PSE refund the 2019-2020 protected-plus EDIT within 12 months starting July 20, 2020. PSE will defer recovery of return on Advanced Metering Infrastructure investment until installation is complete and customer's benefits can be evaluated. The authorized ROE is 9.4%, which is slightly below sector average. The 48.5% equity capitalization remains the same as previously authorized in the last rate case.

Credit Metrics:

Absent any mitigating actions, Fitch estimates that PE's consolidated FFO leverage will exceed 6.0x in 2020 and be near 6.0x in 2021, exceeding the downgrade guideline ratio of 5.5x. Fitch will update our projections when PE's mitigation plans are forthcoming. PSE's credit metrics will remain consistent with its current rating. However, as Fitch intends to maintain the existing two-notch IDR differential between PSE and PE, PE's consolidated credit metrics is the primary rating driver for PSE.

Parent-Subidiary Linkage:

Fitch applies a bottom-up approach in rating PSE and PE. PSE's ratings reflect its standalone credit profile, as well as its linkage with PE, while PE's ratings reflect a consolidated credit profile. Fitch typically limits PSE's IDR to a maximum of two notches above PE's IDR. Currently, the notching differential is two notches.

Fitch generally considers PSE to be stronger than PE due to its lower leverage and lower operating risks as a regulated utility. A high level of parent-only debt (approximately 30%) results in weaker credit metrics at PE. While operational and strategic ties are strong, a prescribed regulatory capital structure provides reasonable protection, allowing PSE to be notched above PE.

The notching differential also reflects the ring-fencing measures in place as conditions to receive Washington commission's approval of PE's 2009 buyout by a consortium of investors. They include a nonconsolidation opinion and a requirement that at least one of PSE's directors is an independent director. Without the unanimous vote of all directors, including the independent director, PSE will not consent to the institution of bankruptcy proceedings or the inclusion of PSE in any bankruptcy proceeding by PE or its affiliates. PSE is prohibited from lending or pledging utility assets to PE or upstream owners without the permission of the commission and there will be no cross-subsidization by PSE customers for unregulated activities. PSE is prohibited from making upstream distributions if the common equity ratio is less than 44%. Dividends are also restricted if PSE's issuer rating is below investment grade. If PSE is downgraded below investment grade, while its EBITDA interest coverage is equal to or greater than 3.0x on an annualized basis, PSE is allowed to distribute dividends only up to an amount sufficient to service debt at PE, and to satisfy financial covenants in PE's credit facilities. Under this scenario, PE is prohibited from distributing to its equity owners.

DERIVATION SUMMARY

PE's peers include Cleco Corporate Holdings, LLC (Cleco, BBB-/Stable), IPALCO Enterprises, Inc. (BBB-/Stable) and DPL Inc. (BB/Negative), 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 both Cleco's and DPL's 60%.

PSE operates an electric and gas utility with a much larger customer base and higher gross revenue than Cleco Power LLC (BBB/Stable), 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, a primary credit concern.

PE's credit metrics weakened in recent years due to capex, mixed rate case results and tax reform. Incorporating the July 2020 rate case order, FFO Leverage is expected hover around 6x through 2021, similar to that of Cleco, stronger than DPL but weaker than IPALCO. Similar to Cleco Power, DP&L and IPL, PSE's standalone credit metrics remain consistent with its current rating, but it is upward-restricted by PE's ownership.

KEY ASSUMPTIONS

--Rate case implemented;

--Certain mitigation scenarios have been incorporated in Fitch's projection.

RATING SENSITIVITIES

PE:

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--PE's Outlook can be stabilized if FFO Leverage improves to below 5.5x on a sustained basis after taking sufficient mitigation measures.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--PE could be downgraded if mitigating actions are not forthcoming or insufficient to strengthen the credit metrics to below FFO leverage above 5.5x on a sustained basis;

--Sustained lack of constructive regulatory relationship and continued regulatory lag will also be catalysts for a downgrade;

--A downgrade at PSE could lead to the same at PE.

PSE:

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--PSE's Outlook can be stabilized if PE's Outlook is stabilized.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A downgrade at PE could lead to a downgrade at PSE;

--If PSE's FFO leverage sustains above 4.8x, negative rating pressure could mount.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Puget Sound Energy, Inc.	LT IDR	BBB+ Rating Outlook Negative	Affirmed
	ST IDR	F2	Affirmed
• senior secured	LT	A	Affirmed
• senior unsecured	ST	F2	Affirmed
Puget Energy Inc.	LT IDR	BBB- Rating Outlook Negative	Affirmed

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage (pub. 27 Sep 2019)

Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019) (including rating assumption sensitivity)

Corporate Hybrids Treatment and Notching Criteria (pub. 11 Nov 2019)

Corporate Rating Criteria (pub. 01 May 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Puget Energy Inc.	EU Endorsed
Puget Sound Energy, Inc.	EU Endorsed

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Corporate Finance Utilities and Power North America United States

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: 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
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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+	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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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.

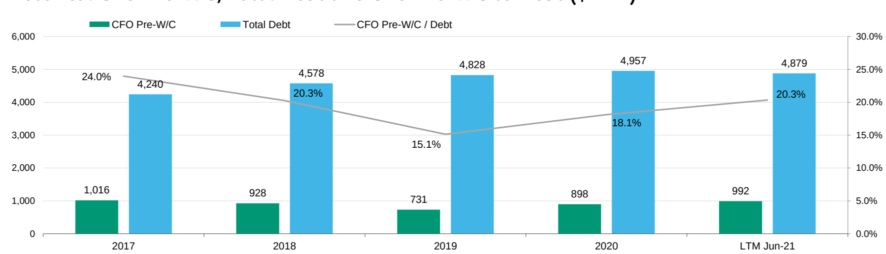
Update to credit analysis

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]

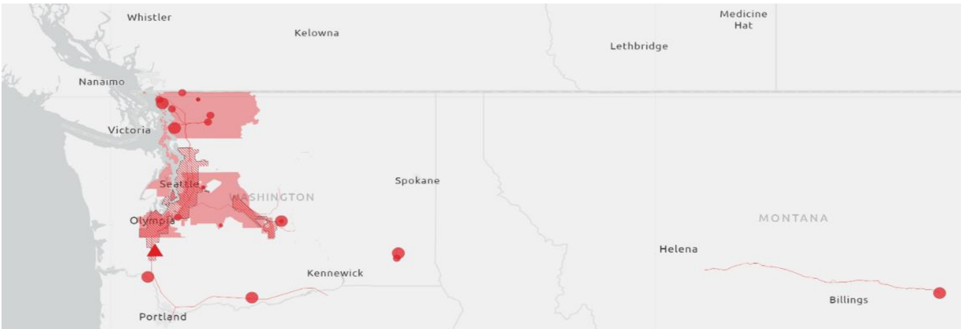
	Dec-17	Dec-18	Dec-19	Dec-20	LTM Jun-21
CFO Pre-W/C + Interest / Interest	5.4x	4.8x	3.9x	4.5x	4.9x
CFO Pre-W/C / Debt	24.0%	20.3%	15.1%	18.1%	20.3%
CFO Pre-W/C – Dividends / Debt	18.5%	16.5%	11.7%	15.1%	17.3%
Debt / Capitalization	48.5%	49.9%	49.3%	49.0%	47.4%

[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.

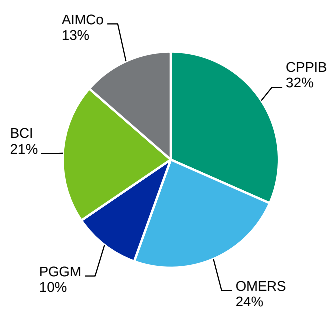
Exhibit 3
Puget's service territory in the Puget Sound Region of Western Washington



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).

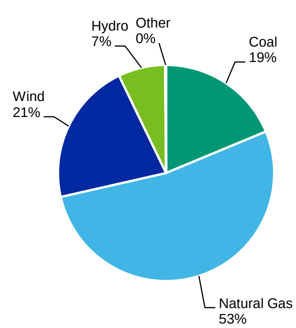
The more recently passed SB 5295 (enacted on 3 May 2021) followed the clean energy bill and aims at reforming the regulatory framework for utilities in the state by paving the way for multiyear rate plans (MYRP) and performance based ratemaking (PBR). We view the bill as credit positive as it could enhance 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

REPORT NUMBER 1298755

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

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms PE and PSE; Outlooks Revised to Stable

Tue 01 Jun, 2021 - 12:47 PM ET

Fitch Ratings - New York - 01 Jun 2021: Fitch Ratings has affirmed Puget Energy Inc.'s (PE) Long-Term Issuer Default Rating (LT IDR) at 'BBB-' and Puget Sound Energy, Inc.'s (PSE) LT IDR at 'BBB+'. The Rating Outlook for both entities has been revised to Stable from Negative.

PE and PSE's Rating Outlooks improved as a result of the Senate Bill 5295, which was signed into law in May 2021. The legislation allows for multi-year rate plans, reducing regulatory lag. Certain rate adjustments and mitigating actions after the July 2020 rate order are expected to stabilize FFO leverage at around 5.5x in the next two years. FFO leverage could further improve to below 5.5x assuming Washington Utilities and Transportation Commission (WUTC) implements the legislation in a credit-supportive manner in the next rate case.

KEY RATING DRIVERS

New Legislation Reduces Regulatory Lag

Feedback

On May 3, 2021, Washington Governor Jay Inslee signed into law the Senate Bill 5295 to transform utility regulation into multi-year rate plan and performance-based rate-making. Fitch believes that the legislation is largely positive, but it is subject to interpretation and implementation by the WUTC.

Under the law, beginning Jan. 1, 2022, utilities will file multi-year rate plans between two to four years in length, which would reduce regulatory lag and provide greater certainties on earnings and cash flow going forward. Rates after the first year can be based on forecast data. This is 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 year three and four. Utilities must also defer refund for earnings exceeding 0.5% above the authorized returns. The commission must, in approving a multiyear rate plan, determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan. Fitch expects PSE to file a multi-year rate case in early 2022 with an order to follow 11-month later.

Favorable Rate Adjustments

PSE received an unfavorable rate order in July 2020. Since then, PSE has secured some positive rate adjustments. WUTC increased the revenue requirement for the rate order to $27.8 million from $2.2 million, primary due to errors related to EDIT and power costs. New rates took effect on Oct. 1, 2020.

Puget began to recover certain deferred power and gas costs totaling $124 million in late 2020 and secured revenue decoupling revenue of $36.4 million in 2021.

In April 2021, a settlement was reached for the 2020 power cost only rate case (PCORC). The settlement would result a revenue increase of $65.3 million or 3.1%. Pending approval by the Washington Commission, the increase is expected to be effective June 2021.

Credit Metrics Expected to Improve

PSE's and PE's credit metrics in 2019 and 2020 have been negatively affected by mixed rate case outcomes, fuel cost deferral and cash recoveries and refunds due to tax reform. In the next two years, FFO leverage could decline to mid-5x. Assuming a reasonable rate case outcome, Fitch expects FFO leverage to improve to low 5x by 2023.

Parent-Subsidiary Linkage

Fitch applies a bottom-up approach in rating PSE and PE. PSE's ratings reflect its standalone credit profile, as well as its linkage with PE, while PE's ratings reflect a consolidated credit profile. Fitch typically limits PSE's IDR to a maximum of two notches above PE's IDR. Currently, the notching differential is two notches.

Fitch generally considers PSE to be stronger than PE due to its lower leverage and lower operating risks as a regulated utility. A high level of parent-only debt (approximately 30%) results in weaker credit metrics at PE. While operational and strategic ties are strong, a prescribed regulatory capital structure provides reasonable protection, allowing PSE to be notched above PE.

The notching differential also reflects the ring-fencing measures in place as conditions to receive Washington commission's approval of PE's 2009 buyout by a consortium of investors. They include a non-consolidation opinion and a requirement that at least one of PSE's directors is an independent director. Without the unanimous vote of all directors, including the independent director, PSE will not consent to the institution of bankruptcy proceedings or the inclusion of PSE in any bankruptcy proceeding by PE or its affiliates.

PSE is prohibited from lending or pledging utility assets to PE or upstream owners without the permission of the commission and there will be no cross-subsidization by PSE customers for unregulated activities. PSE is prohibited from making upstream distributions if the common equity ratio is less than 44%. Dividends are also restricted if PSE's issuer rating is below investment grade. If PSE is downgraded below investment grade, while its EBITDA interest coverage is equal to or greater than 3.0x on an annualized basis, PSE is allowed to distribute dividends only up to an amount sufficient to service debt at PE, and to satisfy financial covenants in PE's credit facilities. Under this scenario, PE is prohibited from distributing to its equity owners.

PE's ability to pay upstream dividends is limited by the merger order issued by WUTC. Pursuant to the merger order, PE may not declare or make a distribution unless on such date PE's ratio of consolidated EBITDA to consolidated interest expense for the four most recently ended fiscal quarters prior to such date is equal to or greater than 2x.

DERIVATION SUMMARY

PE's peers include Cleco Corporate Holdings, LLC (Cleco; BBB-/Stable), IPALCO Enterprises, Inc. (BBB-/Stable) and DPL Inc. (BB/Negative), 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 both 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), 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, a primary credit concern.

Feedback

PE's credit metrics weakened in recent years due to capex, mixed rate case results, fuel cost deferrals and tax reform. PE's FFO leverage is likely to hover around 5.5x in the next two years, modestly stronger than that of Cleco and DPL but weaker than IPALCO. Similar to Cleco Power, DP&L and IPL, PSE's standalone credit metrics remain consistent with its current rating, but it is upward-restricted by PE's ownership.

KEY ASSUMPTIONS

--$3.1 billion capex from 2021 to 2023;

--PCORC implemented per settlement in April 2021;

--Certain assumptions were made regarding future rate cases;

--Certain management mitigation actions were assumed.

RATING SENSITIVITIES

PE

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Given the uncertainty of implementing a multi-year rate plan, an upgrade is unlikely in the near to intermediate term. Nevertheless, if PE's FFO leverage declines to below 4.2x, and/or there is a track record of constructive rate case proceedings, PE could be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--PE will be downgraded if the 2022 rate case is unfavorable, causing FFO leverage to exceed 5.5x on a sustained basis;

--A downgrade at PSE could lead to the same at PE.

PSE

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Given the uncertainty of implementing a multi-year rate plan, an upgrade is unlikely in the near to intermediate term. Nevertheless, if PE is upgraded, PSE could be upgraded.

Feedback

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A downgrade at PE could lead to a downgrade at PSE;

--FFO leverage sustained above 4.8x.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

ISSUER PROFILE

PE is an energy services holding company and substantially all of its operations are conducted through its regulated and integrated utility PSE. PSE provides electric and natural gas service principally in the Puget Sound region. PE also has a wholly-owned nonregulated subsidiary, named Puget LNG LLC, which owns, develops and finances the non-regulated activity of a liquefied natural gas (LNG) facility at the Port of Tacoma, Washington.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Feedback

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Puget Sound Energy, Inc.	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Negative

ENTITY/DEBT	RATING			PRIOR
	ST IDR	F2	Affirmed	F2
• senior secured	LT	A	Affirmed	A
• senior unsecured	ST	F2	Affirmed	F2

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Parent and Subsidiary Linkage Rating Criteria (pub. 26 Aug 2020)

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

Corporate Rating Criteria (pub. 21 Dec 2020) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 30 Apr 2021)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Puget Energy Inc.	EU Endorsed, UK Endorsed
Puget Sound Energy, Inc.	EU Endorsed, UK Endorsed

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