

**PUGET SOUND ENERGY
 COST OF EQUITY IMPACT OF A 41 TO 49 BASIS POINT REDUCTION IN ATWACC**

I. ESTIMATED INITIAL AFTER-TAX WEIGHTED AVERAGE COST OF CAPITAL (ATWACC)

Type	Percent	Cost	Wt. Cost	ATWACC
Equity	60.00%	9.00%	5.40%	5.40%
Debt	40.00%	5.00%	<u>2.00%</u>	<u>1.30%</u>
			7.40%	6.70%

II: A 41 BASIS POINT REDUCTION IN ATWACC

Type	Percent	Cost	Wt. Cost	ATWACC
Equity	60.00%	8.32%	4.99%	4.99%
Debt	40.00%	5.00%	<u>2.00%</u>	<u>1.30%</u>
			6.99%	6.29%

Cost of Equity Reduction = 9.00% - 8.32% = 0.68%

III: A 49 BASIS POINT REDUCTION IN ATWACC

Type	Percent	Cost	Wt. Cost	ATWACC
Equity	60.00%	8.18%	4.91%	4.91%
Debt	40.00%	5.00%	<u>2.00%</u>	<u>1.30%</u>
			6.91%	6.21%

Cost of Equity Reduction = 9.00% - 8.18% = 0.82%

- Assumptions:
- 1) Tax Rate = 35%
 - 2) Market Value Capital Structure = 60% Equity, 40% Debt
 - 3) Equity Cost = 9.00%
 - 4) Debt Cost = 5.00%