

**EXHIBIT NO. \_\_\_(DEG-12)  
DOCKET NO. UE-060266/UG-060267  
2006 PSE GENERAL RATE CASE  
WITNESS: DONALD E. GAINES**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-060266  
Docket No. UG-060267**

**FIFTH EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED REBUTTAL TESTIMONY OF  
DONALD E. GAINES  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**AUGUST 23, 2006**

1 **COST OF 2% MORE EQUITY IN CAPITAL STRUCTURE**

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4	(A)	(B)	(C)	(D)	(E)
5	<b>Capital Structure with 43% Equity</b>				<b>After-tax</b>
6		<b>Capital</b>	<b>Cost</b>	<b>Weighted</b>	<b>Weighted</b>
7		<b>Structure</b>	<b>Rate</b>	<b>Cost</b>	<b>Cost</b>
8	Short-term Debt	2.67%	6.22%	0.17%	0.11%
9	Long-term Debt	49.88%	6.64%	3.31%	2.15%
10	Hybrid/Trust Preferred	0.70%	8.54%	0.06%	0.04%
11	Preferred Stock	3.75%	7.61%	0.29%	0.29%
12	Common Equity	<u>43.00%</u>	11.25%	<u>4.84%</u>	<u>4.84%</u>
13	<b>Total</b>	<b>100.00%</b>		<b>8.67%</b>	<b>7.43%</b>

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16 **Puget Sound Energy - Direct Testimony**

17 Exhibit \_\_\_\_ (DEG-6C)

18		<b>Capital</b>	<b>Cost</b>	<b>Weighted</b>	<b>After-tax</b>
19		<b>Structure</b>	<b>Rate</b>	<b>Cost</b>	<b>Weighted</b>
20					<b>Cost</b>
20	Short-term Debt	2.67%	6.22%	0.17%	0.11%
21	Long-term Debt	47.88%	6.64%	3.18%	2.07%
22	Hybrid/Trust Preferred	0.70%	8.54%	0.06%	0.04%
23	Preferred Stock	3.75%	7.61%	0.29%	0.29%
24	Common Equity	<u>45.00%</u>	11.25%	<u>5.06%</u>	<u>5.06%</u>
25	<b>Total</b>	<b>100.00%</b>		<b>8.76%</b>	<b>7.57%</b>

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28	Change in After-tax Weighted Cost of Capital				0.14%
29	Rate Base assumed by Mr. Hill (in millions)			x	<u>\$4,200</u>
30	Impact of 2% change			=	\$5.880
31	Tax Impact (1 - 35% Corporate tax rate)			/	<u>65%</u>
32	<b>Correct Pre-tax Revenue Impact (in millions)</b>			=	<b>\$9.046</b>

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35 **Mr. Hills Calculation (Exhibit \_\_\_\_ (SGH-1T, page 31)**

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37	Rate Base assumed by Mr. Hill (in millions)				\$4,200
38	Change in common equity ratio			x	2.00%
39	Cost of Equity			x	<u>11.25%</u>
40	Erroneous impact of 2% change			=	\$9.450
41	Tax Impact (1 - 34% Erroneous Corporate tax rate)			/	<u>66%</u>
42	<b>Mr. Hill's Erroneous Impact (in millions) (1)</b>			=	<b>\$14.318</b>

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44 Over-statement of impact by Mr. Hill - in dollars (line 42 - line 32) \$5.272

45 Over-statement of impact by Mr. Hill - in percent (line 44 / line 32) 58%

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48 (1) Exhibit \_\_\_\_ (SGH-1T), page 31, lines 15-20)

1 **COST OF 5% MORE EQUITY IN CAPITAL STRUCTURE**

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4	(A)	(B)	(C)	(D)	(E)
5	<b>Capital Structure with 40% Equity</b>				<b>After-tax</b>
6		<b>Capital</b>	<b>Cost</b>	<b>Weighted</b>	<b>Weighted</b>
7		<b>Structure</b>	<b>Rate</b>	<b>Cost</b>	<b>Cost</b>
8	Short-term Debt	2.67%	6.22%	0.17%	0.11%
9	Long-term Debt	52.88%	6.64%	3.51%	2.28%
10	Hybrid/Trust Preferred	0.70%	8.54%	0.06%	0.04%
11	Preferred Stock	3.75%	7.61%	0.29%	0.29%
12	Common Equity	<u>40.00%</u>	11.25%	<u>4.50%</u>	<u>4.50%</u>
13	<b>Total</b>	<b>100.00%</b>		<b>8.53%</b>	<b>7.22%</b>

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16 **Puget Sound Energy - Direct Testimony**

17 Exhibit \_\_\_\_ (DEG-6C)

18		<b>Capital</b>	<b>Cost</b>	<b>Weighted</b>	<b>After-tax</b>
19		<b>Structure</b>	<b>Rate</b>	<b>Cost</b>	<b>Weighted</b>
20					<b>Cost</b>
20	Short-term Debt	2.67%	6.22%	0.17%	0.11%
21	Long-term Debt	47.88%	6.64%	3.18%	2.07%
22	Hybrid/Trust Preferred	0.70%	8.54%	0.06%	0.04%
23	Preferred Stock	3.75%	7.61%	0.29%	0.29%
24	Common Equity	<u>45.00%</u>	11.25%	<u>5.06%</u>	<u>5.06%</u>
25	<b>Total</b>	<b>100.00%</b>		<b>8.76%</b>	<b>7.57%</b>

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28	Change in After-tax Weighted Cost of Capital				0.35%
29	Rate Base assumed by Mr. Hill (in millions)			x	\$4,200
30	Impact of 5% change			=	\$14.700
31	Tax Impact (1 - 35% Corporate tax rate)			/	<u>65%</u>
32	<b>Correct Pre-tax Revenue Impact (in millions)</b>			=	<b>\$22.615</b>

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35 **Mr. Hills Calculation (Exhibit \_\_\_\_ (SGH-1T, page 31))**

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37	Rate Base assumed by Mr. Hill (in millions)				\$4,200
38	Change in common equity ratio			x	5.00%
39	Cost of Equity			x	<u>11.25%</u>
40	Erroneous impact of 5% change			=	\$23.625
41	Tax Impact (1 - 34% Erroneous Corporate tax rate)			/	<u>66%</u>
42	<b>Mr. Hill's Erroneous Impact (in millions) (1)</b>			=	<b>\$35.795</b>

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44 Over-statement of impact by Mr. Hill - in dollars (line 42 - line 32) \$13.180

45 Over-statement of impact by Mr. Hill - in percent (line 44 / line 32) 58%

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48 (1) Exhibit \_\_\_\_ (SGH-1T), page 31, lines 10-14)