

**EXHIBIT NO. ___(RAM-22)
DOCKET NO. UE-060266/UG-060267
2006 PSE GENERAL RATE CASE
WITNESS: ROGER A. MORIN**

**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**

**SEVENTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
ROGER A. MORIN
ON BEHALF OF PUGET SOUND ENERGY, INC.**

AUGUST 23, 2006

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	Docket No. UE-050684
)	
vs.)	Docket No. UE-050412
)	
PACIFICORP d/b/a PACIFIC POWER &)	<i>(consolidated)</i>
LIGHT COMPANY)	
)	
Respondent.)	

DIRECT TESTIMONY OF

MICHAEL P. GORMAN

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

November 3, 2005

1 Treasury bond yields, however, do include risk premiums related to unanticipated
2 future inflation and interest rates. Therefore, a Treasury bond yield is not a risk-free rate.
3 Risk premiums related to unanticipated inflation and interest rates are systematic or
4 market risks. Consequently, for companies with betas less than one, using the Treasury
5 bond yield as a proxy for the risk-free rate in the CAPM analysis can produce an
6 overstated estimate of the CAPM return.

7 **Q. WHAT BETA DID YOU USE IN YOUR ANALYSIS?**

8 **A.** I relied on the group average beta estimate for the comparable group. The group average
9 beta is more reliable than a single company beta and will, therefore, produce a more
10 reliable CAPM estimate.

11 A group average beta has stronger statistical parameters that better describe the
12 systematic risk of the group than does an individual company beta. For this reason, a
13 group average beta will produce a more reliable return estimate.

14 The betas for the individual companies were based on The Value Line Investment
15 Survey published beta for each of the companies in my comparable group.

16 The betas for each of my comparable group companies are shown on Exhibit
17 No. ____ (MPG-13). The range of betas is 0.77.

18 **Q. HOW DID YOU DERIVE YOUR MARKET PREMIUM ESTIMATE?**

19 **A.** I derived two market premium estimates, a forward-looking estimate and one based on a
20 long-term historical average.

21 The forward-looking estimate was derived by estimating the expected return on
22 the market (S&P 500) and subtracting the risk-free rate from this estimate. I estimated
23 the expected return on the S&P 500 by adding an expected inflation rate to the long-term