EXHIBIT NO. ___(RAM-23)
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**

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

AUGUST 23, 2006

BEFORE THE
PUBLIC SERVICE COMMISSION OF MARYLAND

IN THE MATTER OF THE APPLICATION OF BALTIMORE GAS AND ELECTRIC COMPANY FOR REVISIONS IN ITS GAS BASE RATES	)))))	CASE NO. 9036

Direct Testimony and Exhibits of

Michael Gorman

On behalf of

ISG Sparrows Point LLC

Project 8434
August 15, 2005

BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

Q. WHAT DID YOU USE AS AN ESTIMATE OF THE MARKET RISK-FREE RATE?

A. I used Blue Chip Financial Forecast's projected 20-year Treasury bond yield of 5.2% (Blue Chip Financial Forecast, August 1, 2005 at 2).

Q. WHY DID YOU USE LONG-TERM TREASURY BOND YIELDS AS AN ESTIMATE OF THE RISK-FREE RATE?

A. Treasury securities are backed by the full faith and credit of the United States government. Therefore, long-term Treasury bonds are considered to have negligible credit risk. Also, long-term Treasury bonds have an investment horizon similar to that of common stock. As a result, investor-anticipated long-run inflation expectations are reflected in both common stock required returns and long-term bond yields. Therefore, the nominal risk-free rate (or expected inflation rate and real risk-free rate) included in a long-term bond yield is a reasonable estimate of the nominal risk-free rate included in common stock returns.

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

Q. WHAT BETA DID YOU USE IN YOUR ANALYSIS?

A. I relied on the group average beta estimate for the proxy group. Group average beta is more reliable than a single company beta. A group average beta has stronger statistical parameters that better describe the systematic risk of the group, than does an individual company beta. For this reason, a group average beta will produce a more reliable return estimate.

I relied on The Value Line Investment Survey published beta for each of the companies in my comparable group. The average beta for my proxy utility group is 0.78 as shown on my Exhibit MPG-11 ( ).

Q. HOW DID YOU DERIVE YOUR MARKET PREMIUM ESTIMATE?

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

The forward-looking estimate was derived by estimating the expected return on the market (S&P 500) and subtracting the risk-free rate from this estimate. I estimated the expected return on the S&P 500 by adding an expected inflation rate to the long-term historical arithmetic average real return on the market. The real return on the market represents the achieved return above the rate of inflation.

The Ibbotson and Associates' Stocks, Bonds, Bills and Inflation 2005 Year Book estimates the historical arithmetic average real market return over the period 1926-2004 as 9.2%. A current five-year consensus analyst inflation projection, as measured by the Consumer Price Index, is 2.5% (Blue Chip Financial Forecasts, March 10, 2005 at 15). Using these estimates, the expected market return is 11.9%. The market premium then is the difference between the 11.9% expected market return, and my 5.2% risk-free rate estimate, or 6.7%.

The historical estimate of the market risk premium was also estimated by Ibbotson and Associates in the Stock, Bonds, Bills and Inflation, 2005 Year Book. Over the period 1926 through 2004, Ibbotson's study estimated that the arithmetic average of the achieved total return on the S&P 500 was 12.4%, and the total return