EXHIBIT NO. ___(RAM-24)
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**

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

AUGUST 23, 2006

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of THE DETROIT EDISON COMPANY to increase rates, amend its rate schedules governing the distribution and supply of electric energy, implement Power Supply Cost Recovery plans, factors and reconciliations in its rate schedules for jurisdictional sales of electricity and for miscellaneous accounting authority and regulatory asset recovery.	)	MPSC Case No. U-13808

QUALIFICATIONS

AND

DIRECT TESTIMONY

OF

ROGER A. MORIN

Line No.

stock to the yield on short-term instruments. This is because short-term rates, such as the yield on 90-day Treasury Bills, fluctuate widely, leading to volatile and unreliable equity return estimates. Moreover, yields on 90-day Treasury Bills typically do not match the equity investor's planning horizon. Equity investors generally have an investment horizon far in excess of 90 days.

As a conceptual matter, short-term Treasury Bill yields reflect the impact of factors different from those influencing the yields on long-term securities such as common stock. For example, the premium for expected inflation embedded into 90-day Treasury Bills is likely to be far different than the inflationary premium embedded into long-term securities yields. On grounds of stability and consistency, the yields on long-term Treasury bonds match more closely with common stock returns.

The level of 30-year U.S. Treasury long-term bond yields prevailing in April 2003 was 5.0%, which is my estimate of the risk-free rate component of the CAPM.

Q. How did you select the beta for your CAPM analysis?

A. A major thrust of modern financial theory as embodied in the CAPM is that perfectly diversified investors can eliminate the company-specific component of risk, and that only market risk remains. The latter is

technically known as "beta", or "systematic risk". The beta coefficient measures change in a security's return relative to that of the market. The beta coefficient states the extent and direction of movement of the rates of return to a stock with those of the market as a whole. Therefore, it indicates the change in the rate of return on a stock associated with a one percentage point change in the rate of return on the market. The beta coefficient thus measures the degree to which a particular stock shares the risk of the market as a whole. Modern financial theory has established that beta incorporates several economic characteristics of a corporation which are reflected in investors' return requirements.

Technically, the beta of a stock is a measure of the covariance of the return on the stock with the return on the market as a whole. Accordingly, it measures dispersion in a stock's return which cannot be reduced through diversification. In abstract theory for a large diversified portfolio, dispersion in the rate of return on the entire portfolio is the weighted sum of the beta coefficients of its constituent stocks.

Of course, as a subsidiary of DTE Energy, DECo is not publicly traded, and therefore, proxies must be used. I examined two proxies for DECo's beta: the average beta for the electric utility industry as reported by Value Line and the average beta of a group of natural gas distribution utilities. As displayed in Exhibit A-12, Schedule D4-1, line 68, the average beta for the

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electric utility industry is currently 0.72, as reported in the April 2003 edition of the Value Line Investment Survey ("VLIS").

It is reasonable to postulate that a substantial portion of the Company's electric utility operations possesses an investment risk at least as large as today's natural gas distribution utility business. Natural gas distribution utilities are reasonable, if not conservative, proxies for the electric utility industry's wires operations at this time. Natural gas utility companies possess economic characteristics similar to those of electric utilities. They are both involved in the transmission-distribution of energy services products at regulated rates in a cyclical and weather-sensitive market. They both employ a capital-intensive network with similar physical characteristics. They are both subject to rate of return regulation and have enjoyed virtually identical allowed rates of return, attesting to their risk comparability.

For my second proxy group of companies, I have therefore examined the betas of natural gas distribution utilities contained in Value Line's natural gas distribution universe with a market value in excess of $500 million. The group is shown in Exhibit A-12, Schedule D4-2. The average beta for the group is 0.72 currently (line 14), identical to that of the electric utility average.

Q. Are the historical betas of electric utilities biased in any way?