

**EXHIBIT NO. ___(DEG-9)
DOCKET NO. UE-11___/UG-11___
2011 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-11___
Docket No. UG-11___**

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

JUNE 13, 2011

IMPACT OF SETTING RATES ON LESS EQUITY THAN EXISTS

(\$ in millions)

1	(a)	(b)	(c)	(d)	(e)	(d)	(f)
2							
3	CAPITAL STRUCTURE FOR RATE SETTING PURPOSES (46% EQUITY):						
4						Capital	
5		Rates				Components	
6		Capital	Cost	Weighted	After	Rate Base of	Dollar
7		<u>Structure</u>	<u>Rate</u>	<u>Cost</u>	<u>Tax</u>	<u>\$6,563</u>	<u>Cost</u>
8	Short-term Debt	3.95%	2.47%	0.10%	0.06%	\$259	\$6
9							
10	Long-term Debt	50.05%	6.70%	3.35%	2.18%	\$3,285	\$220
11							
12	Common Equity	46.00%	10.10%	4.65%	4.65%	\$3,019	\$305
13							
14	Total	100.0%		8.10%	6.89%	\$6,563	
15							
16							
17	Rate Base						\$6,563
18	After-tax weighted cost of capital						6.89%
19	Operating Income						\$452
20	Gross up for income taxes						65%
21	Operating Revenue						\$696
22							
23	less: Income tax						(\$164)
24	Interest expense						(\$226)
25							
26	Net Income						\$305
27	Common Equity						\$3,019
28	ROE						10.10%
29							
30	ACTUAL CAPITAL STRUCTURE (48% EQUITY):						
31						Capital	
32		Actual				Components	
33		Capital	Cost	Weighted	After	Rate Base of	Dollar
34		<u>Structure</u>	<u>Rate</u>	<u>Cost</u>	<u>Tax</u>	<u>\$6,563</u>	<u>Cost</u>
35	Short-term Debt	3.95%	2.47%	0.10%	0.06%	\$259	\$6
36							
37	Long-term Debt	48.05%	6.70%	3.22%	2.09%	\$3,154	\$211
38							
39	Common Equity	48.00%	10.10%	4.85%	4.85%	\$3,150	\$318
40							
41	Total	100.0%		8.16%	7.00%	\$6,563	
42							
43	Operating Revenue (from line 21 above)						\$696
44							
45	less: Income tax						(\$167)
46	Interest expense						(\$218)
47							
48	Net Income						\$311
49	Common Equity						\$3,150
50	ROE						9.86%
51							
52	ROE Under-earning						0.24%

COST OF INCREMENTAL 2 PERCENT (2%) EQUITY

(\$ in millions)

	(a)	(b)	(c)	(d)	(e)	(d)
1						
2						
3	CAPITAL STRUCTURE - 46% Equity					
4						Capitall
5						Components
6		Capital	Cost	Weighted	After	Rate Base of
7		Structure	Rate	Cost	Tax	\$6,563
8	Short-term Debt	3.95%	2.47%	0.10%	0.06%	\$259
9						
10	Long-term Debt	50.05%	6.70%	3.35%	2.18%	\$3,285
11						
12	Common Equity	46.00%	10.10%	4.65%	4.65%	\$3,019
13						
14	Total	100.0%		8.10%	6.89%	\$6,563
15						
16						
17	Rate Base					\$6,563
18	After-tax weighted cost of capital					6.89%
19	Operating Income					\$452
20	Gross up for income taxes					65%
21	Operating Revenue					\$696
22						
23						
24	CAPITAL STRUCTURE - 48% Equity					
25						Capitall
26						Components
27		Capital	Cost	Weighted	After	Rate Base of
28		Structure	Rate	Cost	Tax	\$6,563
29	Short-term Debt	3.95%	2.47%	0.10%	0.06%	\$259
30						
31	Long-term Debt	48.05%	6.70%	3.22%	2.09%	\$3,154
32						
33	Common Equity	48.00%	10.10%	4.85%	4.85%	\$3,150
34						
35	Total	100.0%		8.16%	7.00%	\$6,563
36						
37						
38	Rate Base					\$6,563
39	After-tax weighted cost of capital					7.00%
40	Operating Income					\$460
41	Gross up for income taxes					65%
42	Operating Revenue					\$707
43						
44						
45	Incremental cost to customers of 2% more equity					\$12