

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-121697 and UG-121705
Puget Sound Energy, Inc. and NW Energy Coalition
Joint Petition for Approval of a Decoupling Mechanism**

PUBLIC COUNSEL DATA REQUEST NO. 055

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Re: Testimony of Dr. Michael J. Vilbert, Exhibit No. MJV-1T, p. 11, II. 5-8.

Please provide any available support from the financial literature that revenue decoupling and the subsequent reduction of revenue volatility only affects diversifiable risk.

Response:

The question misrepresents the Prefiled Direct Testimony of Dr. Michael J. Vilbert, Exhibit No. ____ (MJV-1T). Dr. Vilbert has not claimed that revenue decoupling only affects diversifiable risk. The referenced quotation provides a possible explanation for why the empirical test on the effect on cost of capital from the adoption of decoupling did not result in a statistically significant coefficient.

Dr. Vilbert is not aware of academic literature in applied finance specifically addressing the empirical question of the effect of revenue decoupling on diversifiable risk. There is, however, a large body of finance literature recognizing that the cost of capital is not affected by risks that can be diversified. For example, this concept is covered in *The Principles of Corporate Finance*, 10th Edition, 2011, by Brealey, Myers and Allen, Chapter 7, "Introduction to Risk and Return".