

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q. WHAT IS YOUR OCCUPATION?**

5 **A.** I am a consultant in the field of public utility regulation and a managing principal of
6 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 **A.** These are set forth in Exhibit No. ____ (MPG-2).

10 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

11 **A.** I am appearing on behalf of the Industrial Customers of Northwest Utilities (“ICNU”).

12 **Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

13 **A.** I will recommend a fair return on common equity and overall rate of return for Puget
14 Sound Energy, Inc. (“PSE” or the “Company”).

15 **Summary**

16 **Q. PLEASE SUMMARIZE YOUR RETURN ON EQUITY**
17 **RECOMMENDATIONS.**

18 **A.** Based on my proposed capital structure, I recommend the Washington State Utilities
19 and Transportation Commission (the “Commission”) award PSE a return on common
20 equity of either 9.50% or 9.70%. I recommend a return on equity (“ROE”) of 9.50%
21 if the Company’s proposed Conservation Savings Adjustment (“CSA”) mechanism is
22 adopted. However, if the Commission does not adopt the CSA mechanism, then I
23 recommend a 9.70% ROE, which is approximately at the midpoint of my estimated
24 range of 9.50% to 9.85%. A 9.70% ROE would reduce PSE’s revenue requirement

1 increase by \$55.0 million and a 9.50% ROE would reduce PSE's revenue requirement
2 increase by \$65.5 million.

3 I recommend an overall rate of return of 7.83% for PSE, as shown in Exhibit
4 No.__(MPG-3), which would reduce PSE's revenue requirement increase by \$67.6
5 million. This is based on my 9.70% ROE and 46% common equity ratio. The 46%
6 common equity ratio adjustment alone would reduce PSE's revenue requirement
7 increase by \$12.6 million and \$11.5 million at a 9.70% ROE and a 9.50% ROE,
8 respectively.

9 I demonstrate that my recommended ROE and proposed capital structure will
10 provide PSE with an opportunity to realize cash flow financial coverages and balance
11 sheet strength that conservatively support PSE's current bond rating. Consequently,
12 my recommended return on equity represents fair compensation for PSE's investment
13 risk, and it will preserve the Company's financial integrity and credit standing.

14 **Q. WHY SHOULD THE COMMISSION ADOPT A LOWER RETURN ON**
15 **EQUITY IF THE PROPOSED CSA MECHANISM IS ADOPTED?**

16 **A.** The Company's proposed CSA mechanism is a unique type of decoupling mechanism
17 that will materially reduce PSE's operating risk. As a result, risk is shifted to PSE's
18 customers. This lower operating risk should be reflected in a reduced return on equity

19 **Q. DO YOU BELIEVE THE PROPOSED CSA MECHANISM LOWERS PSE'S**
20 **RISK MORE THAN A STANDARD DECOUPLING MECHANISM?**

21 **A.** Yes. As outlined in PSE witness Tom De Boer's testimony, decoupling mechanisms
22 are traditionally based on lost revenue adjustment mechanisms, decoupling true-up
23 plans or straight fixed variable rate ("FVR") designs. Exhibit No.__(TAD-1T) at 7.
24 These types of mechanisms either decouple revenue from sales and ensure the utility