

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NOS. UE-060266/UG-060267

ICNU'S RESPONSE TO PSE'S DATA REQUEST NO. 26

Data Request No. 26:

- a) Has Mr. Gorman assessed the degree to which the revisions to the Power Cost Adjustment ("PCA") mechanism proposed by Puget Sound Energy, Inc. ("PSE") would alter PSE's earnings volatility? If not, why not?
- b) Has Mr. Gorman assessed the degree to which the revisions to the PCA mechanism proposed by PSE would alter Mr. Gorman's recommended return on common equity for PSE? If not, why not?
- c) If the Commission were to adopt the revisions to the PCA mechanism proposed by PSE, would that change Mr. Gorman's assessment of relative risk, or the cost of equity, of PSE? If so, by how much? Please provide any and all evidence and references supporting such assessment.

Response to Data Request No. 26:

- a) Mr. Gorman's estimated return on equity for PSE is based on its current operating and financial risk. To the extent PSE implements regulatory mechanisms which decrease its business risk, Mr. Gorman's return on equity would overstate a fair return for PSE. In his assessment of a fair return on equity for PSE, Mr. Gorman considered S&P's business profile score for PSE, and the groups included in this comparable sample. S&P's business profile score considers business risk, including regulatory risk and regulatory mechanisms in assessing the utility's overall business risk.
- b) Generally speaking, Mr. Gorman believes that a mechanism that significantly reduces earnings volatility by passing on fuel cost volatility to customers will have a meaningful reduction to the utility's operating risk. The impact on the return on equity regarding a PCA mechanism is largely judgmental, and Mr. Gorman typically recommends at least a one-half percentage point reduction to the return on equity to reflect this risk reduction to the utility and transfer of risk to utility customers via greater rate instability.
- c) Yes. See responses to a) and b) above.

Date: August 11, 2006
Respondent: Michael Gorman
Witness: Michael Gorman