EXHIBIT NO. ___(RAM-1T)
DOCKET NO. UE-121697/UG-121705
DOCKET NO. UE-130137/UG-130138
WITNESS: DR. ROGER A. MORIN

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.	DOCKET NOS. UE-121697 and UG-121705 (*consolidated*)
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.	DOCKET NOS. UE-130137 and UG-130138 (*consolidated*)

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
DR. ROGER A. MORIN
ON BEHALF OF PUGET SOUND ENERGY, INC.

NOVEMBER 5, 2014

REVISED
FEBRUARY 5, 2015

To derive the CAPM risk premium estimate, three quantities are required: the risk-free rate (R_F), beta (β), and the MRP, (R_M - R_F).

Q. How did you arrive at the risk-free rate estimate of ~~5.0~~4.6% in the CAPM and risk premium analyses?

A. To implement the CAPM and risk premium methods, an estimate of the risk-free return is required as a benchmark. I relied on noted economic forecasts, which call for a rising trend in interest rates in response to the recovering economy, renewed inflation, and record high federal deficits.

Q. Why did you rely on long-term bonds instead of short-term bonds?

A. The appropriate proxy for the risk-free rate in the CAPM is the return on the longest term Treasury bond possible. This is because common stocks are very long-term instruments more akin to very long-term bonds rather than to short-term Treasury bills or intermediate-term Treasury notes. In a risk premium model, the ideal estimate for the risk-free rate has a term to maturity equal to the security being analyzed. Since common stock is a very long-term investment because the cash flows to investors in the form of dividends last indefinitely, the yield on the longest-term possible government bonds, that is the yield on 30-year Treasury bonds, is the best measure of the risk-free rate for use in the CAPM. The expected common stock return is based on very long-term cash flows, regardless of an individual's holding time period. Moreover, utility asset investments generally have very long-term useful lives and should correspondingly be matched with very long-term maturity financing instruments.