

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. 056

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Re: Testimony of Dr. Michael J. Vilbert, Exhibit No. MJV-1T, p. 15.

- a) Please explain why, if decoupling “clearly” benefits debt-holders it does not also benefit stockholders. For example, if decoupling strengthens a firm’s ability to pay debt expense, wouldn’t it also strengthen that firm’s ability to pay dividends?
- b) Has the Brattle Group examined the impact of decoupling on the cost of debt for electric utility companies? If not, please explain why not.

Response:

- a) Please refer to Puget Sound Energy, Inc.’s Response to Public Counsel Data Request No. 054 for the effect of decoupling on the volatility of revenues. Decoupling does not “strengthen a firm’s ability to pay debt expense” because the average cash flow available to pay interest and principal or dividends is not increased. Credit ratings estimate the probability that debt investors will receive the promised interest and principal payments in a timely manner. Companies default on debt when there are large changes (decreases) in cash flows over a prolonged period relative to expectations. To the extent that decoupling reduces the variation in cash flows, decoupling would reduce the probability of default which would benefit debt investors.
- b) No. Dr. Vilbert believes that estimating the effect of decoupling on the cost of capital for debt is likely to be impossible for many reasons:
 - (i) Unlike equity, most companies have multiple issues of debt, each with their own indenture, meaning that the provisions for repayment of the debt vary. Some debt is secured by real property while other issues rely on the full faith and credit of the issuing company. Some debt is convertible to equity or preferred stock and some carries a sinking fund for repayment. The

term or maturity of debt varies. Each of these differences affects the market price of the debt issue.

- (ii) Even if all of the debt for a company had identical indentures, not all debt of a company is publicly traded. Market prices are required to estimate changes in the cost of capital.

There are other difficulties, but these two reasons alone make the investigation of the effect of decoupling on debt unlikely to be fruitful.