**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**

**Docket Nos. UE-130137 and UG-130138**
**Puget Sound Energy, Inc. Expedited Rate Filing**

**PUBLIC COUNSEL DATA REQUEST NO. 107**

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**Re: Dr. Michael J. Vilbert Rebuttal Testimony, Exhibit No. MJV-19.**

With regard to the methodological differences between the Brattle Group studies, please respond to the following:

a. Please explain why Dr. Vilbert did not list the new Brattle electric utility study that ends in 2012 (one of the two new studies provided in his Direct Testimony in this proceeding).

b. Is it true that the cost of equity in the original Brattle decoupling study was based on a standard DCF (using projected earnings growth rates) and in the updates the DCF results were based on a two-stage model that used GDP growth as the final stage? If not, please explain why not. If so, please explain why this was not listed as a methodological change in the Exhibit No. MJV-19.

c. Is it true that the Brattle Group March 2014 electric utility study companies that had true-up decoupling at the outset of the study period, 2006, were excluded from the study? If not, please explain why not.

d. Is it true that the gas utility study includes companies that, at the beginning of the study period, did have decoupling in place? If not, please explain why not.

e. Is it correct to understand that the only difference between the decoupling analysis in the March 2014 electric study and the first updated electric study (the one that ends at year-end 2012) is the use of a multi-stage DCF to estimate the cost of equity rather than the single-stage DCF used to estimate the cost of equity in the March 2014 study? If not, please explain in detail what other differences exist between those two studies.

**Response:**

a. First, Dr. Vilbert does not consider the electric study regression ending in 2012 Quarter 4 to be a different study. Second, the Exhibit No. ___(MJV-19) listed five categories to show the changes and the similarities in the original and the updated version (October 2014) of the electric utility study and the original and updated (October 2014) gas study. In the category Study Period, the updated electric study, in the bottom row, was described as extending 38 quarters, out to 2014 Quarter 2. This cell did omit the dates of the shorter regression, ending in 2012 Quarter 4 and extending 32 quarters. This omission was inadvertent. The study period quarters used for this second regression were plainly described in the Prefiled Direct Testimony of Dr. Michael J. Vilbert, Exhibit No. ___(MJV-1T), at page 28, lines 7-16. Moreover, the other four categories are identical for the updated and original electric regressions, as was discussed in the above cited description in the direct testimony.

b. Not correct. The original gas local distribution company ("LDC") study used the multistage discounted cash flow ("DCF") return on equity ("ROE") estimates. The only study to use the single stage DCF estimates was the original electric utility study.

c. Some electric utility holding companies with decoupling in place prior to the beginning of the study period for their subsidiaries were excluded from the study period. They were excluded for two reasons. The first and primary reason was that the purpose of the study was to investigate the change in the cost of capital from the adoption of decoupling. Therefore, all holding companies with no change were excluded whether they had decoupling in place prior to the start of the study period or not. Secondly, we had to estimate an entirely new set of quarterly values for the cost of capital and decoupling indexes, so including electric holding companies with no change in decoupling was determined to be an unneeded use of resources.

d. The question is misstated. The issue is not whether decoupling was in place for some gas subsidiaries at the beginning of the study period. The issue is whether all the subsidiaries had the same decoupling status all during the study period. It is true that two gas holding companies had the same subsidiaries decoupled and not decoupled during the entire new gas study period, October 2005 to May 2012 This is different from the electric study discussed in the response to subpart c. above. The difference reflects the difference in data availability at the start of the study. As explained in the Prefiled Direct Testimony of Dr. Michael J. Vilbert, Exhibit No. ___(MJV-1T), at page 17, lines 4-9, The Brattle Group had a well-defined gas LDC sample with publicly available cost of capital estimates available over a number of years. The Brattle Group used this data in conjunction with data on decoupling in the gas LDC study. The electric study did not start with such a data set so we focused only on those holding companies with a change in decoupling status for at least one of their subsidiaries.

To provide insight on the study results, I have rerun the natural gas decoupling regression removing the two holding companies mentioned above that had no change in any subsidiary's decoupling policy during the study period (Laclede and Northwest Natural Gas). The result is that the decoupling coefficient falls slightly but remains *statistically insignificant*, as shown in the table below.

| Case | Decoupling Index Coefficient (basis points) | 1 Sided p-value (significant if < 0.05) |
|---|---|---|
| **October 2014 Gas Study - 12 Holding Cos.** | -8.7 | 0.373 |
| **October 2014 Gas Study - Removing 2 HCs with No Decoupling Policy Change** | -13.6 | 0.323 |

The details of the regression results, including the values in the bottom row of the table, are shown in Attachment A to Puget Sound Energy, Inc.'s Response to Public Counsel Data Request No. 107.

e. Dr. Vilbert presented all of the differences between the original versions of the decoupling studies for both the electric utility industry and the gas local distribution company industry in Exhibit No. ___(MJV-19) and Exhibit No. ___(MJV-20). See also the response to subpart a. above.