EXHIBIT NO. ______ (CJB-13)
DOCKET NO. ____________
2003 POWER COST ONLY RATE CASE
WITNESS: CHARLES J. BLACK

**BEFORE THE**

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

| | |
|---|---|
| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,<br><br>Complainant,<br><br>v.<br><br>PUGET SOUND ENERGY, INC.,<br><br>Respondent. | Docket No. ____________ |

**DIRECT TESTIMONY OF**
**CHARLES J. BLACK**
**ON BEHALF OF PUGET SOUND ENERGY, INC.**

Exhibit CJB-13

Economic Assumptions for New Electric Generating Resources, April 2003 Least Cost Plan[1]

*Cost of Capital*

The company expects that the spread between the return for debt and equity for the IOU's should be four to five percent, consistent with recent practice. The debt/equity ratio and the corresponding rates of return were used to determine a weighted cost of capital for each developer segment. For the IPP's the model uses the higher rates for years 2004 and 2005.

**PSE Cost of Capital Assumptions**

| Cost of Capital | | | |
|---|---|---|---|
| Return % | Public | IOU's | IPP's |
| Debt | 6.5 | 7.5 | 10 to 8.5 |
| Equity | 0 | 11.5 | 30 to 17 |
| **Debt/Equity Ratio** | | | |
| Debt | 100 | 55 | 40 |
| Equity | 0 | 45 | 60 |
| **Total Cost (%)** | | | |
| Weighted | 6.5 | 9.3 | 22.0 to 14 |

*New Resource Development*

The second set of assumptions focus on which entities will be building new generation for each technology over the next 20 years. PSE used the developer mix assumptions made by the NPPC listed in the following table.

[1] Source: April 2003 Least Cost Plan, Appendix K, p. 4-5

**NPPC Developer Mix Assumptions**

| | Developer Mix (%) | | | Mix Weighted Cost of Capital |
|---|---|---|---|---|
| Technology | Public | IOUs | IPPs | PSE |
| CCCT | 15 | 15 | 70 | **17.8 to 11.9** |
| SCCT | 40 | 40 | 20 | **10.7 to 9.0** |
| Wind | 20 | 20 | 60 | **16.4 to 11.3** |
| Coal | 25 | 25 | 50 | **15.0 to 10.8** |
| Solar | 50 | 25 | 25 | **11.1 to 9.0** |

The developer mix percentages were applied to the weighted cost of capital for each developer segment (i.e. 6.5 percent, 9.3 percent, 13.6 percent) to produce a mix weighted cost of capital (values in bold font under PSE) for each technology. The mix-weighted cost of capital was then applied to the investment costs shown in Exhibit CJB-10.