

**EXHIBIT NO. JKP-26  
DOCKET NOS. UE-090704/UG-090705  
2009 PSE GENERAL RATE CASE  
WITNESS: JANET K. PHELPS**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-090704  
Docket No. UG-090705**

**FIRST EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED REBUTTAL TESTIMONY OF  
JANET K. PHELPS  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**DECEMBER 17, 2009**

**Hypothetical Example**  
**Impact of Revenue Deficiency Calculation on Revenue to Cost Ratios and Class Rates of Return**

|                               | Rates | Table A1 (Watkins' Table 2) |          |          | Table A2 |          |          |
|-------------------------------|-------|-----------------------------|----------|----------|----------|----------|----------|
|                               |       | Class A                     | Class B  | Total    | Class A  | Class B  | Total    |
| Rate Base                     |       | \$ 1,000                    | \$ 1,000 | \$ 2,000 | \$ 1,000 | \$ 1,000 | \$ 2,000 |
| Revenues at Current Rates     |       | \$ 800                      | \$ 1,000 | \$ 1,800 | \$ 800   | \$ 1,000 | \$ 1,800 |
| Expenses (O&M, Deprec., etc.) |       | \$ 800                      | \$ 800   | \$ 1,600 | \$ 800   | \$ 800   | \$ 1,600 |
| Income Tax                    |       | \$ 30                       | \$ 30    | \$ 60    | \$ 30    | \$ 30    | \$ 60    |
| Operating Income              |       | \$ (30)                     | \$ 170   | \$ 140   | \$ (30)  | \$ 170   | \$ 140   |
| Income Requirement            |       | \$ 80                       | \$ 80    | \$ 160   | \$ 80    | \$ 80    | \$ 160   |
| Interest Expense              | 2.5%  |                             |          |          | \$ 25    | \$ 25    | \$ 50    |
| Taxable Income                |       |                             |          |          | \$ 55    | \$ 55    | \$ 110   |
| Income Tax Requirement        | 40%   |                             |          |          | \$ 37    | \$ 37    | \$ 73    |
| Income Deficiency (Excess)    |       | \$ 110                      | \$ (90)  | \$ 20    | \$ 110   | \$ (90)  | \$ 20    |
| Revenue Conversion Factor     |       | 0.6                         | 0.6      | 0.6      |          |          |          |
| Revenue Deficiency (Excess)   |       | \$ 183                      | \$ (150) | \$ 33    | \$ 117   | \$ (83)  | \$ 33    |
| Revenue Requirement           |       | \$ 983                      | \$ 850   | \$ 1,833 | \$ 917   | \$ 917   | \$ 1,833 |
| Revenue to Cost Ratio         |       | 81%                         | 118%     | 98%      | 87%      | 109%     | 98%      |

|                            | Rates | Table B1 (Watkins' Table 3) |           |             | Table B2  |           |             |
|----------------------------|-------|-----------------------------|-----------|-------------|-----------|-----------|-------------|
|                            |       | Class A                     | Class B   | Total       | Class A   | Class B   | Total       |
| Revenue at Cost of Service |       | \$ 983.33                   | \$ 850.00 | \$ 1,833.33 | \$ 916.67 | \$ 916.67 | \$ 1,833.33 |
| Expenses                   |       | \$ 800.00                   | \$ 800.00 | \$ 1,600.00 | \$ 800.00 | \$ 800.00 | \$ 1,600.00 |
| Interest Expense           | 2.5%  | \$ 25.00                    | \$ 25.00  | \$ 50.00    | \$ 25.00  | \$ 25.00  | \$ 50.00    |
| Taxable Income             |       | \$ 158.33                   | \$ 25.00  | \$ 183.33   | \$ 91.67  | \$ 91.67  | \$ 183.33   |
| Income Tax at 40%          | 40%   | \$ 63.33                    | \$ 10.00  | \$ 73.33    | \$ 36.67  | \$ 36.67  | \$ 73.33    |
| Operating Income           |       | \$ 120.00                   | \$ 40.00  | \$ 160.00   | \$ 80.00  | \$ 80.00  | \$ 160.00   |
| Rate Base                  |       | \$ 1,000                    | \$ 1,000  | \$ 2,000    | \$ 1,000  | \$ 1,000  | \$ 2,000    |
| Rate of Return             |       | 12.00%                      | 4.00%     | 8.00%       | 8.00%     | 8.00%     | 8.00%       |

|                        | Table C1 (Watkins' Table 4) |          |          | Table C2 |          |          |
|------------------------|-----------------------------|----------|----------|----------|----------|----------|
|                        | Class A                     | Class B  | Total    | Class A  | Class B  | Total    |
| Revenue Requirement    | \$ 983                      | \$ 850   | \$ 1,833 | \$ 917   | \$ 917   | \$ 1,833 |
| Expenses               | \$ 800                      | \$ 800   | \$ 1,600 | \$ 800   | \$ 800   | \$ 1,600 |
| Allocated Income Taxes | \$ 37                       | \$ 37    | \$ 73    | \$ 37    | \$ 37    | \$ 73    |
| Operating Income       | \$ 147                      | \$ 13    | \$ 160   | \$ 80    | \$ 80    | \$ 160   |
| Rate Base              | \$ 1,000                    | \$ 1,000 | \$ 2,000 | \$ 1,000 | \$ 1,000 | \$ 2,000 |
| Return on Rate Base    | 14.67%                      | 1.33%    | 8.00%    | 8.00%    | 8.00%    | 8.00%    |

Assumptions:  
Income taxes allocated on rate base  
Capital structure of 50% equity, 50% debt; 5% cost of debt; 11% cost of equity  
Tax rate of 40% with no gross receipts taxes or uncollectible expense