

EXHIBIT NO. _____ (CJB-14)
DOCKET NO. _____
2003 POWER COST ONLY RATE CASE
WITNESS: CHARLES J. BLACK

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. _____

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

Exhibit CJB-14

Economic Assumptions for New Electric Generating Resources, August 2003 Least Cost Plan Update¹ (p. III-15)

New AURORA Resources

A key driver in the Aurora model is the expected return on capital invested in new generation assets for the Western Power Market. This expected return is derived through estimates of the future developer mix, the developers' respective capital structure, and their average cost of equity and debt over the forecast period.

Aurora requires an input assumption regarding who will develop future plants in the region. PSE has assumed that these plants will be developed by publicly owned utilities (Public), investor owned utilities (IOUs), independent power producers (IPPs), or independent power producers with power purchase agreement(s) in place with an IOU (IPP/IOU). PSE's assumption for the relative contribution from each developer type is outlined in the table below.

Developer Mix

Asset Type	Public	IOUs	IPPs	IPP/IOU
CCCT	20%	30%	20%	30%
SCCT	20%	30%	20%	30%
Wind	20%	30%	20%	30%
Coal	20%	35%	10%	35%

These allocations are reasonable estimates for future developer mix and assume that in the near term, continued weakness in the IPP credit market will require IOUs to self-build to meet load growth demands. Additionally, as credit markets recover, financing will be easier for IPPs that have signed long term PPAs with credit worthy counterparties, such as IOUs. Pure merchant IPPs will still be present in the market, but their market share of new projects is expected to be far smaller than previously experienced. This approach is consistent with the view of the future development of the Western Power Market of Navigant Consulting, Inc.

The capital structure for these four developer types are identified in the following table. Capital structure for the IPP/IOU developer has been estimated at 70/30 debt/equity, and reflects the potential for increased leverage on projects with credit worthy counter-parties.

Capital Structure

Asset Type	Public	IOUs	IPPs	IPP/IOU
Debt	100%	55%	50%	70%
Equity	0%	45%	50%	30%

The cost of capital for these four developer types are identified below. The expected returns on debt and equity for IPP/IOU developers have been estimated at 7.5% and 17% respectively, and appear valid given the returns identified for other developers. The cost of debt at 7.5% mirrors that of an IOU and is based on the assumption that the ultimate counterparty risk lies with the power purchaser or IOU. However, the equity return for an IPP/IOU would not be expected to match that of an IOU, since the risk profile for an IOU investor will differ from that of an IPP/IOU investor. In addition, IPP/IOU investors are likely to demand a higher rate of return to offset the greater risk associated with a highly leveraged investment.

Cost of Capital

Asset Type	Public	IOUs	IPPs	IPP/IOU
Debt	6.5%	7.5%	8.7%	7.5%
Equity	0%	11.5%	20%	17%

¹ Source: August 2003 Least Cost Plan Update, Chapter III, p. 14-16