

10 December 2009

Commissioners,
Utilities and Transportation Commission
State of Washington
Olympia, Washington

Subject: Proposed PSE Rate Increases, Docket Nos. UE-090704 and UG-090705

Dear Commissioners:

I urge the Commission to reject PSE's proposed increases in gas and electric service rates because their proposed rate of return on equity capital is excessive, leading to unjustified increases in their annual revenues from electric and gas service.

Contrary to the testimony submitted by a witness on behalf of the Commission, there is considerable research available in the public domain that confirms that long-term geometric equity risk premiums are on the order of 3.5% to 4%. Indeed recent studies by researchers at New York University and the Yale School of Management indicate that a reasonable estimate for the present time period is approximately 4%. If the economy continues to improve, geometric equity risk premiums may approach 3.5% in near-term outyears. Here are two references that have recent information on estimates of equity risk premiums:

1. Damodaran, Aswath: "Equity Risk Premiums (ERP): Determinants, Estimation and Implications - A post-crisis Update." New York University, Stern School of Business; October 2009.
2. Goetzmann, W. M., and R. G. Ibbotson: "History and the Equity Risk Premium." Yale University, Yale School of Management; October 18, 2005.

I urge the Commission to obtain additional independent expert testimony on this issue before making a decision on PSE's two proposals.

Sincerely yours,


David F. Plummer

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