

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-090704 and UG-090705
Puget Sound Energy, Inc.'s
2009 General Rate Case**

PUBLIC COUNSEL DATA REQUEST NO. 538

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Reference Mr. Markell rebuttal testimony, Exhibit No. EMM-5T, p. 5, ll. 11-1.

- a. With the Company's depreciation-related cash flow at levels substantially below its capital investment requirements, please explain in detail why Puget Sound Energy elected to double its dividend payout following the acquisition by Macquarie.
- b. Does increasing the dividend payout reduce the cash flow available for capital investment? If not, please explain why not; if so, please explain why.

Response:

- a. On page 5, lines 11-1 of the Prefiled Rebuttal Testimony of Eric M. Markell, Exhibit No. EMM-5T, Mr. Markell highlights Puget Sound Energy, Inc.'s ("PSE") actions to invest in facilities to serve its customers. Such actions are illustrated by the substantial level of investment in the transmission and distribution system in excess of the level of depreciation cash flow from such facilities currently being recovered in rates. Mr. Markell states later that PSE has presently elected to endeavor to maintain this level of investment despite the under-earnings such investment causes, "Thus, the Company is investing approximately three times its internal cash flow to improve its distribution system and related facilities."

Such investments are a key determinant of the under recovery of operating expense and the associated under earnings shown in Exhibit No. EMM-6C, which is an updated calculation of the Company's regulated return on equity, authorized return on equity and resulting under earnings from year-end 2002 through the 12 months ended September 30, 2009.

Contrary to the assertion in Public Counsel Data Request No. 538, PSE has not "elected to double its dividend payout." Indeed, PSE's Board of Directors has adopted no long-term dividend pay out policy in part because the capital requirements of the business are subject to on-going changes in public policy that cannot now be clearly ascertained. During the twelve months ended December 31, 2009, PSE paid \$183 million in dividends to Puget Energy, Inc. ("PE") as compared

to \$146 million in dividends for the same twelve month period in 2008. PSE dividends paid in 2009 included \$32.4 million paid to PE's previous public shareholders. The PSE Board of Directors considers its dividend actions each quarter in light of then existing facts and circumstances of the business, including its need to reinvest cash in the business. Dividends are declared from and paid from retained earnings.

- b. No; the internally generated cash flow of the business is a result of the overall performance of its business operations. Many factors determine cash flow from operations, but dividend declarations are not among them. PSE funds its capital expenditures from among other sources of cash, cash flow related to depreciation expense included in rates, funds derived from the sale of PSE debt and equity growth.