

**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. 545**

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Reference Dr. Morin rebuttal testimony, Exhibit No. RAM-19T, p. 55, l. 13.

Dr. Morin reports his Risk Premium Electric result as 10.64%.

- a. What is the risk premium used to calculate that result?
- b. What is the basis of the risk premium used to calculate that result?
- c. What is the yield to which that risk premium is added, and what is the reason for selecting that yield?
- d. In his Direct Testimony, Dr. Morin calculated an historical risk premium using long-term Treasury yields as well as utility bond yields, and used only the result produced by the utility bond yield analysis in reporting his cost of equity estimates (Morin Direct, p. 55). Please provide the current results of Dr. Morin's historical risk premium electric analysis using T-Bond yields and utility bond yields, and please provided the supporting data for each analysis.
- e. Please explain why Dr. Morin changed his analysis.

**Response:**

- a., b. & c. The average risk premium over the period was 4.1% over historical long-term utility bond returns and 4.5% over long-term utility bond yields. Given that the current yield on Baa-rated utility bonds is 6.24%, and using the historical estimate of 4.1%, the implied cost of equity for the average risk utility from this particular method is  $6.24\% + 4.10\% = 10.34\%$  without flotation costs and 10.64% with the flotation cost allowance.
- d. For reasons stated in Puget Sound Energy, Inc.'s ("PSE") Response to Public Counsel Data Request No. 545(e), below, and in the Prefiled Direct Testimony of Dr. Roger A. Morin, Exhibit No. RAM-1T, the yield on Treasury bonds is no longer the appropriate yield on which to base a risk premium estimate.
- e. Given the current state of the capital markets at this time, a historical risk premium analysis using government bond yields is no longer appropriate. Trends in utility cost of capital are directly reflected in their cost of debt and are

not directly captured by a risk premium estimate tied to government bond yields. Because a utility's cost of capital is determined by its business and financial risks, it is reasonable to surmise that its cost of equity will track its cost of debt more closely than it will track the government bond yield. Therefore, in contrast to past testimonies, Dr. Morin no longer performs his historical risk premium analysis using government bond yield, but relies on utility bond yields instead.