

**EXHIBIT NO. ___(EMM-4C)
DOCKET NO. UE-09___/UG-09___
2009 PSE GENERAL RATE CASE
WITNESS: ERIC M. MARKELL**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-09___
Docket No. UG-09___**

**THIRD EXHIBIT (CONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
ERIC M. MARKELL
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

MAY 8, 2009

PSE RETURN ON REGULATORY EQUITY

1 **2003 THROUGH 2009**

2 **(\$ presented in thousands)**

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REDACTED
VERSION

	Actual Results						Forecast
	2003 (a)	2004 (b)	2005 (c)	2006 (d)	2007 (e)	2008 (f)	2009 (g)
Net Operating Income	\$ 295,659	\$ 285,258	\$ 299,525	\$ 323,497	\$ 377,402	\$ 343,162	XXXXXXXXXX
Ratebase	3,533,438	3,560,831	3,725,109	3,982,588	4,630,446	5,245,659	XXXXXXXXXX
Rate of Return (L7 / L8)	8.37%	8.01%	8.04%	8.12%	8.15%	6.54%	XXXXXXXXXX
% Equity per Books (AMA)	37.46%	39.81%	40.06%	42.92%	40.68%	44.67%	XXXXXXXXXX
Equity Related to Ratebase (L8*L12)	1,323,626	1,417,567	1,492,279	1,709,426	1,883,666	2,343,236	XXXXXXXXXX
Weighted Interest Cost	4.41%	4.19%	4.20%	3.93%	3.91%	3.56%	XXXXXXXXXX
Interest Recovery per Rates (L8*L15)	155,825	149,199	156,455	156,701	181,050	186,745	XXXXXXXXXX
Tax Benefit of Interest ((Actual Interest minus L16) * 35%)	9,434	7,921	6,301	3,827	9,926	7,645	XXXXXXXXXX
Net Income (L7-L16-L17)	130,401	128,138	136,769	162,969	186,425	148,772	XXXXXXXXXX
Average Equity Related to Ratebase (L13)	1,323,626	1,417,567	1,492,279	1,709,426	1,883,666	2,343,236	XXXXXXXXXX
Earned Return on Average Equity for Utility (L19 / L20)	9.85%	9.04%	9.17%	9.53%	9.90%	6.35%	XXXXXXXXXX
Leveraged ROE (L25*L26/L12)	11.75%	11.05%	11.05%	10.32%	11.23%	10.28%	XXXXXXXXXX
Under-earning Regulated Return on Equity (L22-L24)	1.89%	2.01%	1.89%	0.79%	1.34%	3.93%	XXXXXXXXXX
Allowed Return on Equity (NOTE 1)	11.00%	11.00%	10.42%	10.30%	10.40%	10.36%	XXXXXXXXXX
Allowed Equity Ratio (NOTE 1)	40.0%	40.0%	42.5%	43.0%	43.96%	44.33%	XXXXXXXXXX

(NOTE 1)
The allowed equity ratios and returns on equity reflected in columns (d) and (e) are blended rates for those years when the authorized ROE and/or authorized equity ratio changed in general rates.

**PSE RETURN ON REGULATORY EQUITY
Supporting Calculations
(\$ presented in thousands)**

2008 (f)	<u>2008</u>
2008 Electric Net Operating Income (per 2009 GRC)	230,573
2008 Gas Net Operating Income (per 2009 GRC)	<u>111,350</u>
Total 2008 Net Operating Income	341,924
Total 2008 Net Operating Income	341,924
Plus: Mint Farm Deferral Equity Return & Carrying Costs (After- PSE Adjusted Operating Income	<u>1,239</u> 343,162
2008 Electric Ratebase (per 2009 GRC)	3,771,253
2008 Gas Ratebase (per 2009 GRC)	<u>1,474,406</u>
Total 2008 Ratebase	5,245,659
2009 (g)	<u>2009</u>
Net Operating Income	364,730
Plus: Mint Farm Deferral Equity Return & Carrying Costs (After- Less: PWI & HEDC Net Earnings	19,349 <u>2,910</u>
PSE Adjusted Operating Income	381,169
2009 Ratebase per Model Reports	5,601,561
Less: Adjustments in Model	<u>58,129</u>
2009 Ratebase	5,543,433
Tax Benefit of Interest Calculation	<u>2009</u>
Actual Interest Expense	215,596
Less: Allowed Interest Expense	<u>200,518</u>
Difference	15,078
Actual Less Allowed Interest Expense	15,078
Tax Rate	<u>35.0%</u>
Tax Benefit of Interest	5,277