

**EXHIBIT NO. ___(EMM-5C)
DOCKET NO. UE-07___/UG-07___
2007 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-07___
Docket No. UG-07___**

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

**REDACTED
VERSION**

DECEMBER 3, 2007

1 **PSE RETURN ON EQUITY**
2 **2002 THROUGH 2008**
3 **(\$ presented in thousands)**

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Actual Results						Forecast		
ATTACHMENT D TO BENCH REQUEST NO. 001								
2002	2003	2004	12ME 9/05	2005	2006	2007	2008	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
\$ 290,986	\$ 295,659	\$ 285,258	\$ 303,778	\$ 299,525	\$ 328,747	XXXXXX	XXXXXX	
3,657,685	3,533,438	3,560,831	3,692,823	3,725,109	4,041,911	XXXXXX	XXXXXX	
7.96%	8.37%	8.01%	8.23%	8.04%	8.13%	XXXXXX	XXXXXX	
33.02%	37.46%	39.81%	40.55%	40.06%	42.92%	XXXXXX	XXXXXX	
1,207,768	1,323,626	1,417,567	1,497,440	1,492,279	1,734,889	XXXXXX	XXXXXX	
4.71%	4.41%	4.19%	4.11%	4.20%	3.93%	XXXXXX	XXXXXX	
172,277	155,825	149,199	151,775	156,455	159,035	XXXXXX	XXXXXX	
7,193	9,434	7,921	7,525	6,301	3,010	XXXXXX	XXXXXX	
111,516	130,401	128,138	144,478	136,769	166,702	XXXXXX	XXXXXX	
1,207,768	1,323,626	1,417,567	1,497,440	1,492,279	1,734,889	XXXXXX	XXXXXX	
9.23%	9.85%	9.04%	9.65%	9.17%	9.61%	XXXXXX	XXXXXX	
13.33%	11.75%	11.05%	10.91%	11.05%	10.32%	XXXXXX	XXXXXX	
4.09%	1.89%	2.01%	1.26%	1.89%	0.71%	XXXXXX	XXXXXX	
11.00%	11.00%	11.00%	10.59%	10.42%	10.30%	10.40%	10.40%	
40.0%	40.0%	40.0%	41.8%	42.5%	43.0%	43.96%	44.00%	

(NOTE 1)
The allowed equity ratios and returns on equity reflected in columns (d), (e) and (f) represent blended amounts to accommodate the new authorized ROE which became effective during the year based on the Commission Order in WUTC Docket No. UG-040640 (consolidated), et al.

(NOTE 2)
Net Operating Income for columns include the after-tax affects of the Tenaska disallowance

REDACTED
VERSION

1 **ATTACHMENT A TO PSE RESPONSE TO BENCH REQUEST NO. 001**
 2 **COMPARISON OF RETURNS ON EQUITY (ROE)**

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 4 **2002 THROUGH 2005**
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		2002 (a)	2003 (b)	2004 (c)	12ME 9/05 (d)	2005 (e)	
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11							
12	ROE Calculation: VALDMAN	Attachment B	7.51%	7.70%	8.02%	9.38%	8.20%
13	ROE Calculation: RUSSELL	Attachment C	9.22%	10.19%	9.57%	10.15%	9.77%
14	ROE Calculation: RUSSELL with PSE Corrections	Attachment D	9.23%	9.85%	9.04%	9.65%	9.17%
15							
16							
17	Allowed Return on Equity (NOTE 1)		11.00%	11.00%	11.00%	10.59%	10.42%
18	Leveraged ROE (NOTE 2)		13.33%	11.75%	11.05%	10.91%	11.05%

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 23 **(NOTE 1)**

24 The allowed returns on equity reflected in columns (d) and (e) represent blended amounts to accommodate the authorized ROE
 25 which became effective during the year based on the Commission Order in WUTC Docket No. UG-040640 (consolidated), et al.

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 27 **(NOTE 2)**

28 Staff's calculation of equity, using the Company's actual equity ratio, does not reflect the financial support the Commission granted to the
 29 Company in WUTC Docket No. UE-011570, (consolidated) by setting rates on an equity ratio in excess of the actual equity ratio.

1 **ATTACHMENT B TO PSE RESPONSE TO BENCH REQUEST NO. 001**
2 **CALCULATION OF RETURN ON EQUITY PER VALDMAN FOR FINANCIAL COMMUNITY**
3 **2002 THROUGH 2005**
4 **(\$ presented in thousands)**

	2002	2003	2004	12ME 9/05	2005
	(a)	(b)	(c)	(d)	(e)
11 Net Income per Books (NOTE 1)	\$101,117	\$114,735	\$126,192	\$149,704	146,769
12 Equity per Books (Financial Community Average Calculation)	\$1,346,888	\$1,490,795	\$1,573,951	\$1,596,723	1,789,527
13 Consolidated Return On Equity (L11 / L12)	7.51%	7.70%	8.02%	9.38%	8.20%
14 Allowed Return on Equity (NOTE 2)	11.00%	11.00%	11.00%	10.59%	10.42%
15 Under-earning of Return on Equity (L14-L13)	3.49%	3.30%	2.98%	1.22%	2.22%

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20 **(NOTE 1)**

21 Net Income for columns (c), (d) and (e) include the after-tax affects of the Tenaska disallowance in the amounts of \$28.2 million, \$3.0 million, \$2.8 million, respectively.

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25 **(NOTE 2)**

26 The allowed returns on equity reflected in columns (d) and (e) represent blended amounts to accommodate for the authorized ROE which became effective during the year based on the Commission Order in WUTC Docket No. UG-040640 (consolidated), et al.

1 ATTACHMENT C TO PSE RESPONSE TO BENCH REQUEST NO. 001
2 CALCULATION OF RETURN ON EQUITY AS
3 PRESENTED IN EXHIBIT NO. 525 (JMR-5) AND IN EXHIBIT NO. 521 (JMR-1T) PAGE 22 LINE 15
4 2002 THROUGH 2005
5 (\$ presented in thousands)

	2002 (a)	2003 (b)	2004 (c)	12ME 9/05 (d)	2005 (e)
12 Net Operating Income (NOTE 2)	\$ 290,986	\$ 295,659	\$ 285,258	\$ 303,778	\$ 299,525
13 Ratebase	3,657,685	3,533,438	3,560,831	3,692,823	3,691,944
14 Rate of Return (L12 / L13)	7.96%	8.37%	8.01%	8.23%	8.11%
17 % Equity per Books (AMA)	33.02%	37.46%	39.81%	40.55%	40.06%
18 Equity Related to Ratebase (L13*L17)	1,207,768	1,323,626	1,417,567	1,497,440	1,478,993
20 Weighted Interest Cost	4.91%	4.55%	4.20%	4.11%	4.20%
21 Interest Recovery per Rates (L13*L20)	179,592	160,771	149,555	151,775	155,062
22 Tax Benefit of Interest					
23 Net Income (L12-L21-L22)	111,394	134,888	135,703	152,003	144,463
24 Equity Related to Ratebase (L18)	1,207,768	1,323,626	1,417,567	1,497,440	1,478,993
25 Earned Return on Equity for Utility (L23 / L24)	9.22%	10.19%	9.57%	10.15%	9.77%
26 Leveraged ROE (L29*L30/L17)	13.33%	11.75%	11.05%	10.91%	11.05%
27 Under-earning of Return on Equity (L26-L25)	4.10%	1.56%	1.48%	0.75%	1.28%
29 Allowed Return on Equity (NOTE 1)	11.00%	11.00%	11.00%	10.59%	10.42%
30 Allowed Equity Ratio (NOTE 1)	40.0%	40.0%	40.0%	41.8%	42.5%

34 (NOTE 1)

35 The allowed equity ratios and returns on equity reflected in columns (d) and (e) represent blended amounts to accommodate
36 the new authorized ROE which became effective during the year based on the Commission Order in
37 WUTC Docket No. UG-040640 (consolidated), et al.

40 (NOTE 2)

41 Net Operating Income for columns (c), (d) and (e) include the after-tax affects of the Tenaska disallowance in the amounts of \$28.2
42 million, \$3.0 million, \$2.8 million, respectively.

1 **ATTACHMENT D TO PSE RESPONSE TO BENCH REQUEST NO. 001**
2 **PSE CORRECTIONS MADE TO THE RETURN ON EQUITY**
3 **PRESENTED IN EXHIBIT NO. 525 (JMR-5) AND IN EXHIBIT NO. 521 (JMR-1T) PAGE 22 LINE 15**
4 **2002 THROUGH 2005**
5 **(\$ presented in thousands)**

	2002	2003	2004	12ME 9/05	2005
	(a)	(b)	(c)	(d)	(e)
12 Net Operating Income (NOTE 2)	\$ 290,986	\$ 295,659	\$ 285,258	\$ 303,778	\$ 299,525
13 Ratebase	3,657,685	3,533,438	3,560,831	3,692,823	3,725,109
14 Rate of Return (L12 / L13)	7.96%	8.37%	8.01%	8.23%	8.04%
17 % Equity per Books (AMA)	33.02%	37.46%	39.81%	40.55%	40.06%
18 Equity Related to Ratebase (L13*L17)	1,207,768	1,323,626	1,417,567	1,497,440	1,492,279
20 Weighted Interest Cost	4.71%	4.41%	4.19%	4.11%	4.20%
21 Interest Recovery per Rates (L13*L20)	172,277	155,825	149,199	151,775	156,455
22 Tax Benefit of Interest ((Actual Interest minus L21) * 35%)	7,193	9,434	7,921	7,525	6,301
24 Net Income (L12-L21-L22)	111,516	130,401	128,138	144,478	136,769
25 Equity Related to Ratebase (L18)	1,207,768	1,323,626	1,417,567	1,497,440	1,492,279
26 Earned Return on Equity for Utility (L24 / L25)	9.23%	9.85%	9.04%	9.65%	9.17%
27 Leveraged ROE (L30*L31/L17)	13.33%	11.75%	11.05%	10.91%	11.05%
28 Under-earning Regulated Return on Equity (L27-L26)	4.09%	1.89%	2.01%	1.26%	1.89%
30 Allowed Return on Equity (NOTE 1)	11.00%	11.00%	11.00%	10.59%	10.42%
31 Allowed Equity Ratio (NOTE 1)	40.0%	40.0%	40.0%	41.8%	42.5%

34 **(NOTE 1)**

35 The allowed equity ratios and returns on equity reflected in columns (d) and (e) represent blended amounts to accommodate
36 the new authorized ROE which became effective during the year based on the Commission Order in
37 WUTC Docket No. UG-040640 (consolidated), et al.

40 **(NOTE 2)**

41 Net Operating Income for columns (c), (d) and (e) include the after-tax affects of the Tenaska disallowance in the amounts of \$28.2
42 million, \$3.0 million, \$2.8 million, respectively.

2008 Forecasted Regulatory Lag
(\$ in millions except per share amounts)

(a)	(b) After-tax Amounts	(c) EPS
<u>2008 Regulatory Lag:</u>		
1 Rate Base Lag (line 9)	XXXX	XXXX
2 O&M Lag (line 13)	XXXX	XXXX
3 Depreciation Lag (line 17)	<u>XXXX</u>	<u>XXXX</u>
4 Total Regulatory Lag	XXXX	XXXX

Calculations:

Rate Base Lag:

5 Allowed Rate Base (Adjusted for Load)	XXXX
6 Invested Rate Base	<u>XXXX</u>
7 Rate Base not in Rates	XXXX
8 After Tax WACC	7.10%
9 Rate Base Lag	(\$25)

O&M Lag:

10 O&M Recovered in Rates	XXXX
11 Actual O&M	<u>XXXX</u>
12 O&M Lag	XXXX
13 O&M Lag (After-tax)	XXXX

Depreciation Lag:

14 Depreciation Recovered in Rates	XXXX
15 Actual Depreciation	<u>XXXX</u>
16 Depreciation Lag	XXXX
17 Depreciation Lag (After-tax)	XXXX

REDACTED
VERSION