EXH. CGP-11CT
DOCKETS UE-240004/UG-240005 et al.
2024 PSE GENERAL RATE CASE
WITNESS: CARA G. PETERMAN

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-240004** **Docket UG-240005** **(*consolidated*)**
In the Matter of the Petition of **PUGET SOUND ENERGY** **For an Accounting Order Authorizing deferred accounting treatment of purchased power agreement expenses pursuant to RCW 80.28.410**	**Docket UE 230810** **(*consolidated*)**

PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF

CARA G. PETERMAN

ON BEHALF OF PUGET SOUND ENERGY

REDACTED VERSION

SEPTEMBER 18, 2024

PUGET SOUND ENERGY

PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF
CARA G. PETERMAN

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PUGET SOUND ENERGY

PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF CARA G. PETERMAN

I. INTRODUCTION

Q. Are you the same Cara G. Peterman who submitted Prefiled Direct Testimony on February 15, 2024 on behalf of Puget Sound Energy ("PSE") in this proceeding?

A. Yes, on February 15, 2024, I filed the Prefiled Direct Testimony of Cara G. Peterman, Exhibit CGP-1CT and nine supporting exhibits (CGP-1CT through CGP-10C).

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to the following cost of capital testimonies:

(i) the Prefiled Direct Testimony of Dr. Randall Wooldridge, Exh. JRW-1T,

(ii) the Prefiled Testimony of David C. Parcell, Exh. DCP-1T,

(iii) the Prefiled Testimony of Michael P. Gorman, Exh. MPG-1T, and

(iv) the Prefiled Testimony of Lance D. Kaufman, Exh. LDK-1T.

Finally, I address certain incorrect credit metric contentions and the vital credit-positive proposals necessary for PSE to meet Clean Energy Transformation Act ("CETA") requirements.

Q. What is your general reaction to the testimonies of Dr. Woolridge, Parcell, Dr. Kaufman, and Gorman?

A. The testimonies make some fundamental errors in their calculations and assumptions that adversely impact PSE's credit metrics and ability to finance CETA compliance. There are four primary issues that I address in my rebuttal:

1. Woolridge, Parcell and Kaufman incorrectly calculate the cost of capital in each of their proposals. I discuss what adjustments need to be made to correct their cost of capital proposals.

2. Intervenors' proposals that PSE maintain its allowed equity ratio of 49 percent ignores the real and immediate financial challenges PSE faces in 2025 and 2026. SB 5295 requires PSE to file *forward-looking* rates, which includes forecasted capital expenditures for the safety and reliability needs of the business, as well as the investments the company has to make to meet the CETA targets of 80 percent clean energy by 2030. The capital structure that the Commission approves should be forward-looking as well. Even though PSE has been able to avoid downgrades in the past, the capital and financing needs of the business have materially changed on a

1 prospective basis. The company needs a capital structure that can properly
2 support the aggressive levels of future investment.[1]

3 3. The cost of capital proposals and other recommendations by Public
4 Counsel, Staff, and AWEC ("Intervenors") result in substantial levels of
5 forgone cash flow that will negatively impact PSE's credit metrics and
6 will not alleviate the credit metric pressures PSE is currently experiencing
7 These proposals will keep PSE in the 4th quartile of key metrics, like
8 equity ratio and ROE, which will make it particularly difficult for PSE to
9 compete for both debt and equity capital on reasonable terms. This is
10 untenable given the significant increase in PSE's capital expenditure
11 program to comply with CETA and continue to provide safe and reliable
12 electric and gas services to customers.

13 4. I also correct other inaccuracies in the cost of capital testimonies regarding
14 rating agency interpretations or other basic calculation errors.

15 Generally, these proposals miss the mark and assume that multiyear rate plans, as
16 a general policy matter, are credit supportive before the potential benefits are even
17 implemented or realized. Having another multiyear rate plan will only be credit
18 supportive if the underlying cash flows and metrics are credit supportive. As
19 Jamie Martin discusses in her Prefiled Rebuttal, Exh. JLM-1CT, PSE has critical

[1] Please see Prefiled Direct Testimony of Dan Doyle, Exh. DAD-1T now adopted by Jamie Martin, as well as my Prefiled Direct Testimony, Exh. CGP-1CT, for the scope and scale of those capital investments.

investments to make over the next five years. These investments require an increase in cash flow, above PSE's historical norm, to support current credit ratings. The proposals from Wooldridge, Parcel, and Gorman rely on historical metrics that barely maintained PSE's credit rating over the recent past. In order for PSE to make the necessary future investments, an improvement in the underlying metrics is necessary. The risks experienced by utilities has changed over the past couple of years and investors are taking note.[2] I discuss later on that Warren Buffet – a prominent investor in U.S. utilities – highlighted these changes in his 2023 letter to Shareholders, which I discuss later in my testimony. PSE's proposed cost of capital and financial mechanisms adequately addresses the recent increased risk in the utility sector. Intervenors do not.

Q. Are the cost of capital proposals in the testimonies of Wooldridge, Parcell, Kaufman, and Gorman credit supportive?

A. No. A common theme among these testimonies is they ignore the need for cash flow, and particularly in the context of CETA. None of their testimonies consider the significant impact CETA has had and will continue to have into the future. They incorrectly base their recommendations on a historical status quo. PSE has put forth several proposals, in addition to the funding of the general operations of

2 *See e.g.*, Exh. CGP-12 (Warren Buffet's 2023 Letter to Shareholders discussed the increased risk and changing environment challenging utilities in what was previously considered a safe market for investors).

1 the company, that will fund vital investments and support PSE's ongoing financial
2 and credit health.

3 Almost every party in this proceeding opposes PSE's requests for CWIP in rate
4 base, accelerated gas depreciation, and returns on certain PPAs and strongly
5 encourage the Commission to completely deny PSE's requests in whole[3] or in
6 part[4]. The testimonies opposing these proposals offer no mechanisms to recover
7 these costs or otherwise address key uncertainties in the market, like wildfires.
8 Nor do these testimonies put forth a quantitative analysis on the credit metric
9 impact of each parties' respective rate proposal. They rely on the historical status
10 quo and ignore the negative credit impacts of their (or respective co-witnesses)
11 recommendations. For example, Public Counsel witness Woolridge and Staff
12 witness Parcell incorporate the potential risk reducing attributes of multi-year rate
13 plans, which could allow for CWIP in rate base, accelerated gas depreciation, and
14 returns on certain PPA's into the determination of their recommended returns on
15 equity. But, both Public Counsel and Staff present witnesses whose testimonies
16 oppose PSE's requests for CWIP in rate base, accelerated gas depreciation, and
17 returns on certain PPA's. It inconsistent to claim risk reducing attributes of CWIP
18 in rate base, accelerated gas depreciation, and returns on certain PPA's as
19 offsetting phenomena to support recommended returns on equity but then
20 challenge and oppose the implementation of these legislative positions in their

[3] Gorman, Exh. MPG-1T; Woolridge, Exh. JRW-1T; McGuire, Exh. CRM-1T; Gehrke, Exh. WAG-1T.

[4] JEA witness Gerke, Exh. WAG-1T supports a portion of accelerated gas depreciation and Staff witness McGuire, Exh. CRM-1T, supports earning a return on certain PPAs based on PSE's cost of debt versus PSE's full rate of return.

1 cases. Should the Commission reject these mechanisms, then it should make
2 appropriate upward adjustments to the return on equity recommendations of
3 Public Counsel witness Woolridge and Staff witness Parcell as it determines
4 PSE's ultimate rate of return across its 2025 and 2026 MYRP proposal.

5 **Q. What is the impact to cash flow from the intervenor's cost of capital**
6 **proposals?**

7 A. Depending on the cost of capital proposals, referred to as weighted-average cost
8 of capital or WACC in the table below, cash flow is reduced between $27 million
9 – $41 million in 2025 and $64 million – $81 million in 2026. Please note, as I
10 discuss later on in my testimony, Dr. Woolridge, Mr. Parcell and Dr. Kaufman
11 each make various errors in their cost of capital recommendations. The cash flow
12 impacts represented below are based on *the corrected* versions of their cost of
13 capital impacts. If I had not made these corrections, cash flow reductions from
14 their proposals would be larger in each case. The detailed results of the
15 intervenors' proposals on cash flow are shown below in Table 1.
16

1

TABLE 1
Total Impact on Cash Flow for Credit Metrics

(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Woolridge		**Parcell**		**Kaufman**	
	2025 RP	**2026 RP**	**2025 RP**	**2026 RP**	**2025 RP**	**2026 RP**
Total Rate Base	$9,990	$10,813	$9,990	$10,813	$9,990	$10,813
WACC Change due to Cost of Debt Correction	0.06%	0.10%	0.05%	0.11%	0.05%	0.10%
WACC Change due to ROE and Equity Ratio Proposal	0.38%	-0.76%	-0.32%	-0.70%	-0.47%	-0.85%
Resulting Cash Flow Impact due to WACC Proposal	**($32)**	**($72)**	**($27)**	**($64)**	**($41)**	**($81)**
Impact of Removing Beaver Creek CWIP in Ratebase Proposal	(22)	3	(22)	3	(22)	3
Impact of Accelerated Gas Depreciation Proposal	(70)	(67)	(70)	(67)	(70)	(67)
O&M Adjustments Proposal	(71)	(73)	(23)	(24)	0	0
Total Impact on Cash Flow for Key Credit Metrics	**($195)**	**($208)**	**($142)**	**($152)**	**($133)**	**($145)**

2

3 **Q. What is the impact from the intervenor's cost of capital proposals which**
4 **reduce cash flow to credit metrics?**

5 A. It is important to remember that credit metrics performance is primarily measured
6 by the levels of cash flow and debt experienced by a company. Therefore, the less
7 cash flow a company has to invest in the business, the lower the credit metrics
8 will be.

9 Since each intervenor proposes reducing PSE's cost of capital and therefore cash
10 flow to the business, credit metrics are forecasted to decline in response.
11 Depending on the cost of capital proposals, forecasted key credit metrics for S&P

1 and Moody's would [REDACTED]

2 [REDACTED]. Again, please note, the cash flow impacts represented below are

3 based on *the corrected* versions of intervenor cost of capital impacts. If I had not

4 made these corrections, cash flow reductions would be *larger* in each case and

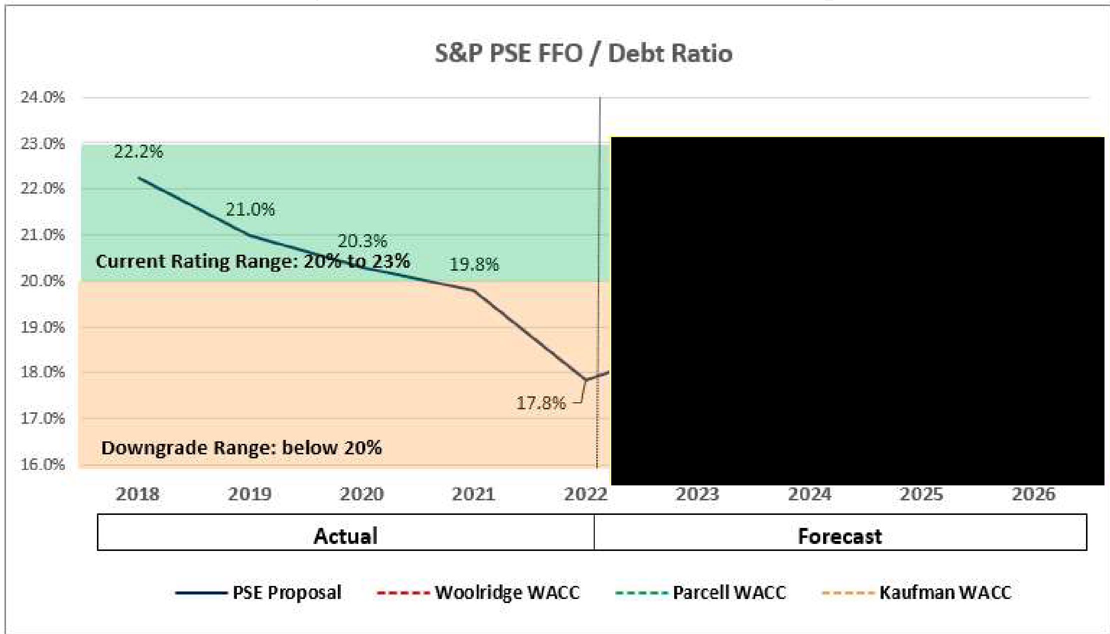
5 credit metrics would be worse. The following figures and table provide the

6 Intervenors' forecasted credit metric performance with their respective cost of

7 capital proposals compared to what PSE has proposed:

8 **FIGURE 1**

9 **S&P Key Credit Metric Based on WACC Proposals**



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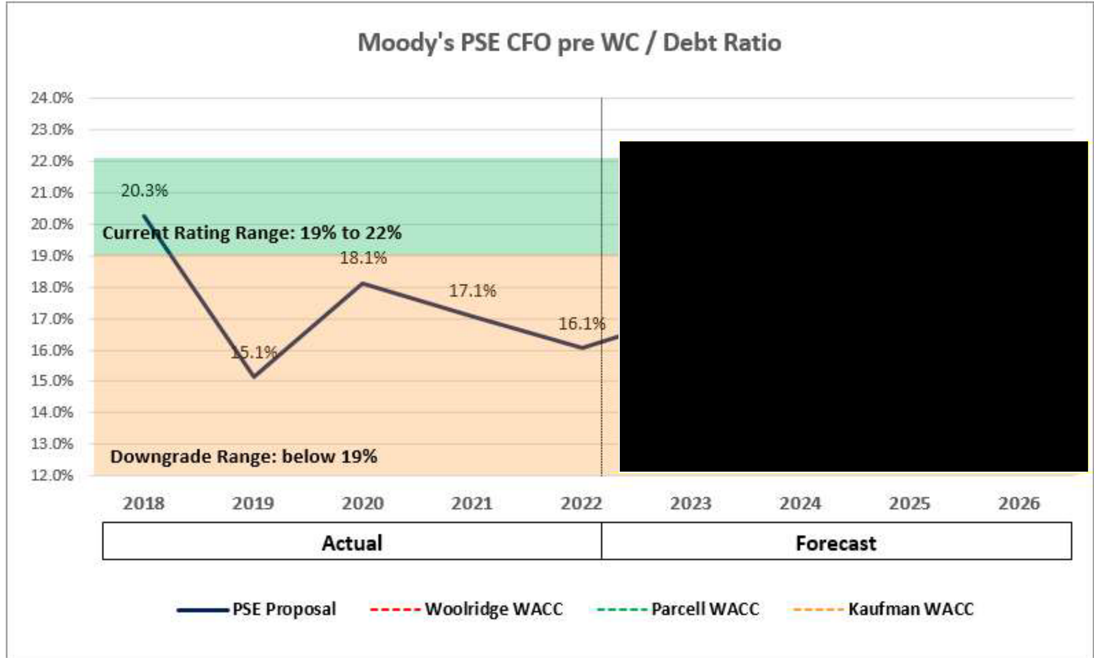
1 **FIGURE 2**
2 **Moody's Key Credit Metrics Based on WACC Proposals**



3

4 **TABLE 2**
5 **Key Credit Metrics for WACC Proposal for MYRP**

(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Woolridge		**Parcell**		**Kaufman**	
	2025 RP	**2026 RP**	**2025 RP**	**2026 RP**	**2025 RP**	**2026 RP**
PSE Key Credit Metrics (PSE Proposal)						
S&P FFO/Debt (*20% downgrade threshold)*						
Moody's CFO pre WC/Debt *(19% downgrade threshold)*						
PSE Key Credit Metrics (WACC Change Only)						
S&P FFO/Debt (*20% downgrade threshold)*						
Moody's CFO pre WC/Debt *(19% downgrade threshold)*						
Key Credit Metrics Variance (BPS) (WACC Change Only)						
S&P FFO/Debt						
Moody's CFO pre WC						

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1 **Q. Will these corrected, recommended cost of capitals improve PSE's cash flow**
2 **in sufficient ways to maintain current credit ratings?**

3 A. Key credit metrics for S&P across all three intervenors [REDACTED]
4 [REDACTED] even if the Commission accepted all of PSE's
5 cash-flow important proposals, like CWIP, accelerated depreciation, O&M, and
6 recovery on certain PPAs. For Moody's, if the Commission adopted intervenors
7 cost of capital recommendations but accepted PSE's cash-flow improving
8 proposals, [REDACTED]
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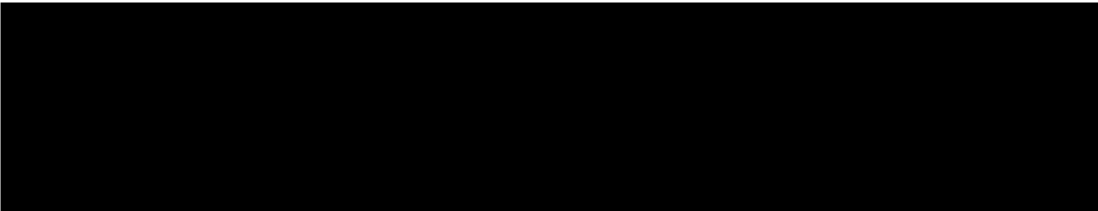
Q. If the necessary corrections to the cost of capital are not done, what would happen to these credit metrics?

A. As I mentioned already, they would be lower than what is represented above.

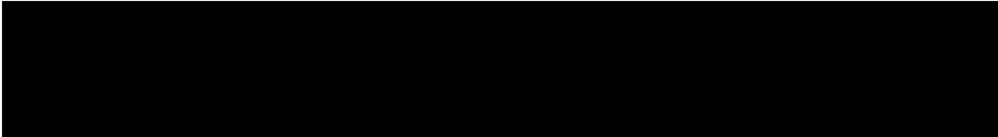
Q. What would happen to credit metrics if other intervenor proposals, such as reductions to O&M, accelerated depreciation, and CWIP in rate base, were layered on top of the cost of capital recommendations?

A. Credit metrics would decline further. Please see Table 1 above for the cash flow impacts of the collective intervenors' proposals and the following graphs to see how the reductions in cash flow impact credit metrics. Both the graphs below demonstrate what the key credit metric forecasts would be if the Commission were to adopt the intervenors cost of capital proposals, *along with* other proposals to deny (1) cost recovery related to O&M, (2) accelerated gas depreciation, and (3) CWIP in rate base associated with Beaver Creek.

Specifically, Table 1 above illustrates that total cash flow from intervernors' proposal in 2025 is forecasted to decline $133 - $195 million and in 2026, cash flow is projected to decline $145 - $208 million from PSE's forecasts. Table 3 below illustrates that this reduction in cash flow will

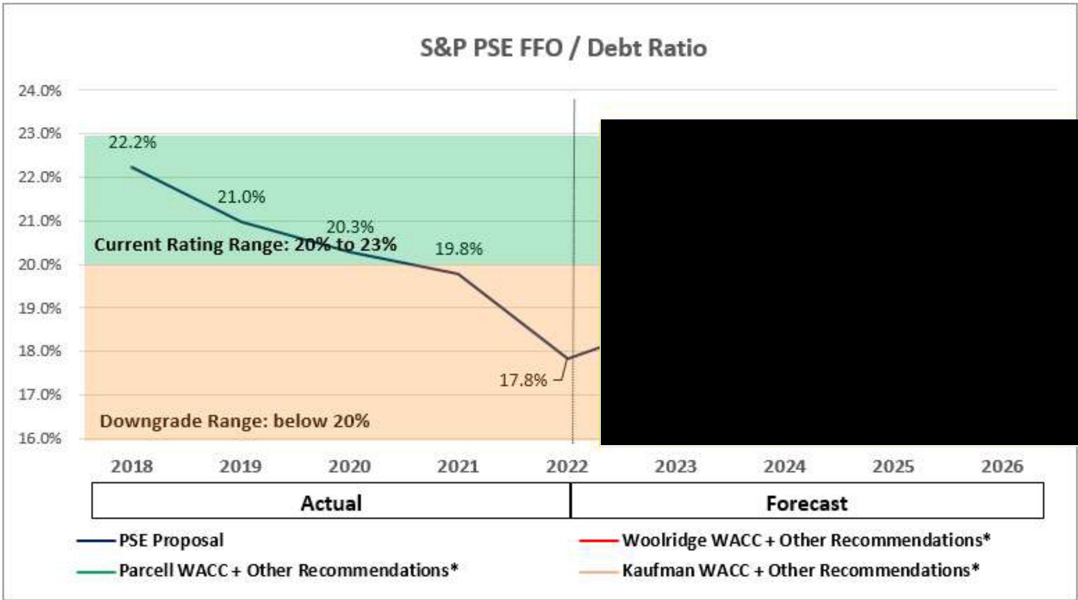


Finally, Figures 3 and 4 illustrate that these collective proposals by intervenors' will result in credit metrics that are



depending on the intervenor proposals).

FIGURE 3
S&P Key Credit Metric Based on WACC and Other Proposals



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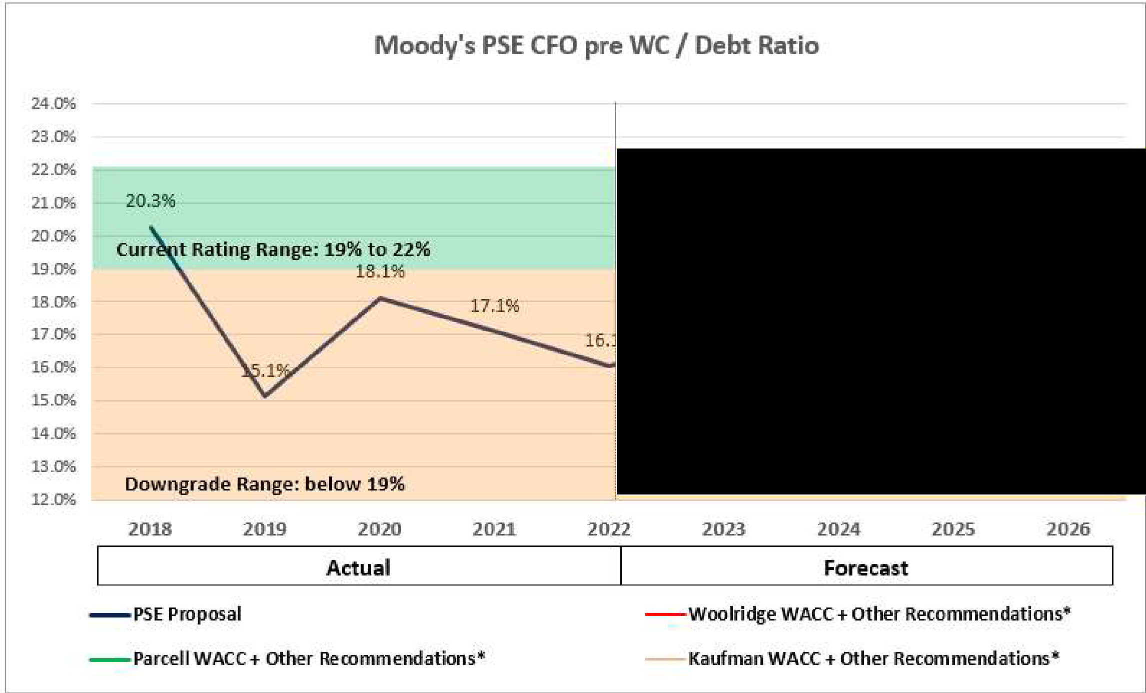
1 **FIGURE 4**
2 **Moody's Key Credit Metric Based on WACC and Other Proposals**



3
4 **TABLE 3**
5 **Key Credit Metrics With WACC and Other Proposals**

(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Woolridge		**Parcell**		**Kaufman**	
	2025 RP	**2026 RP**	**2025 RP**	**2026 RP**	**2025 RP**	**2026 RP**
PSE Key Credit Metrics (PSE Proposal)						
S&P FFO/Debt *(20% downgrade threshold)*						
Moody's CFO pre WC/Debt *(19% downgrade threshold)*						
PSE Key Credit Metrics (WACC Change + Other Recommendations*)						
S&P FFO/Debt *(20% downgrade threshold)*						
Moody's CFO pre WC/Debt *(19% downgrade threshold)*						
KeyCredit Metrics Variance (BPS) (WACC Change + Other Recommendations*)						
S&P FFO/Debt						
Moody's CFO pre WC						

*Other Recommendations include: 1) No CWIB in Ratebase; 2) No accelerated gas depreciation; 3) O&M adjustments

1 **Q. Do you believe these forecasted credit metrics are sufficient to maintain**
2 **current credit ratings?**

3 A. At the forecasted levels above, [redacted]
4 [redacted]
5 [redacted] As PSE witness Shipman notes, rating agencies are focused
6 on both quantitative credit metric performance as well as what the overall GRC
7 order indicates about the supportive nature of the regulatory environment. If the
8 rating agencies assess that the Commission did not take advantage of available
9 tools enabled by recent legislation to support the ongoing financial strength of
10 PSE in the face of growing, substantial CETA-related investments, they may well
11 conclude that the regulatory environment in Washington is not as supportive as
12 previously understood. [redacted]
13 [redacted]
14 [redacted]

15 ## II. REBUTTAL OF DR. WOOLRIDGE

16 **Q. Please describe your rebuttal of Dr. Woolridge testimony.**

17 A. I rebut Dr. Woolridge's proposed capital structure; he incorrectly calculates his
18 proposed capital structure and also omits commitment fees and amortization for
19 reacquired debt for both short-and long-term debt . Then, I rebut his notion that
20 PSE's risk is similar to that of peer utilities because he incorrectly compares PSE,
21 which is an operating company, to that of utility holding companies, which

generally have more leverage than operating companies. Dr. Woolridge's cost of capital recommendations does not recognize or support the *forward-looking* financing needs of the business. His cost of capital recommendations rely on the historical status quo, saying essentially "because it's worked in the past, it'll work for the company in the future". The Commission should not look in the rear-view mirror to determine how to finance the company in the future, particularly given the scope and scale of capital investment PSE needs to make to provide safe and reliable utility services and comply with CETA and its aggressive decarbonization targets.

A. Dr. Woolridge's Cost of Capital is not Properly Calculated

Q. What cost of capital does Public Counsel witness Dr. Woolridge recommend?

A. Dr. Woolridge recommends the following cost of capital:

TABLE 4
Rate Year 1 & 2

Capital Source	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Short-Term Debt	1.55%	4.58%	0.07%
Long-Term Debt	49.45%	4.70%	2.32%
Common Equity	49.00%	9.375%	4.59%
Total	100.00%		6.99%

Q. Does Dr. Woolridge calculate the cost of capital correctly?

A. No, he does not calculate the cost of capital correctly. Specifically, Dr. Woolridge attempts to combine PSE's requested cost of capital for 2025 and 2026 into one

1 cost of capital that will apply across the multi-year rate plan. When he does that,
2 he incorrectly calculates the long-term cost of debt. Rather than taking the
3 average of the long-term debt cost in PSE's 2025 and 2026 cost of capital tables[5],
4 he takes the average of 2025 and 2026 long-term debt cost rate from PSE's tables,
5 *and then* averages that number by the average of 2025 and 2026 short-term debt
6 cost rate. This calculation results in a manufactured "long-term" cost of debt that
7 is far too low. His calculation presents an average long-term debt cost of 4.70
8 percent, when the average of 2025 and 2026 long-term debt cost is actually 5.32
9 percent. In addition, he does not add the commitment fees and amortization of
10 short-term debt issue cost to the weighted short-term debt cost rate as well as
11 amortization of reacquired debt to the weighted long-term debt cost rate. These
12 costs have been approved by the Commission in previous rate cases; there is no
13 reason to disallow these costs and Dr. Woolridge does not provide a reason either.

14 **Q. When you correct the calculation error and the omission of fees, what is the**
15 **correct cost of capital that Mr. Woolridge should be proposing?**

16 A. With the calculation error and omission of fees are corrected, the cost of capital
17 increases from 6.99 percent to 7.32 percent, a difference of 33 basis points. The
18 following table provides the corrected values:

19

[5] First year (2025) long-term debt cost is projected to be 5.27% and second year (2026) long-term debt cost is projected to be 5.36%. This can be found in the Prefiled Direct Testimony of Cara Peterman, CGP-1CT, at 10:15-16 and 11:7-8.

1 **TABLE 5**

Corrected Cost of Capital Rate Year 1 & 2

Capital Source	Capitalization Ratio	Cost Rate	Weighted Cost Rate
Short-Term Debt	1.55%	4.58%	0.09%
Long-Term Debt	49.45%	5.32%	2.64%
Common Equity	49.00%	9.38%	4.59%
Total	Total		7.32%

Weighted short-term debt rate includes commitment and amortization fees. Weighted long-term debt rate includes amortization of reacquired debt.

2 The Commission should use this corrected cost of capital when comparing Public
3 Counsel's recommendations to PSE's requested cost of capital.

4 **B. Public Counsel Asserts Without Support That PSE's Historical Equity Ratio**
5 **Should Continue**

6 **Q. What is Public Counsel's recommendation for PSE's equity ratio?**

7 A. Public Counsel Witness Dr. Woolridge recommends that the Commission approve
8 an equity ratio of 49.0 percent.

9 **Q. Why does Dr. Woolridge recommend maintaining a 49.0 percent equity**
10 **ratio?**

11 A. Dr. Woolridge believes a 49.0 percent equity ratio is adequate. He states: "this
12 common equity ratio is: (1) consistent with the Company's historic capitalization,
13 which PSE has used to finance its operations and maintained its credit ratings; (2)
14 consistent with the Commission past policies on utility capitalizations; and (3)

1 more reflective of the capital structures of proxy groups of electric, combination
2 electric and gas, and gas distribution companies."[6]

3 **Q. Do you agree with Dr. Woolridge's perspectives?**

4 A. No, I do not. PSE manages its average of monthly averages ("AMA") regulated
5 equity ratio to what the Commission allows it to maintain in its capital structure.
6 Since the Commission approved a 49.0 percent equity ratio in the last case, PSE
7 has managed its equity to that level. This has been a fundamental, long-standing
8 component of PSE's financing strategy, which PSE will continue into the future.
9 However, this strategy does not, in and of itself, represent a logical rationale to
10 maintain a 49.0 percent equity component in the capital structure in the future as
11 Dr. Woolridge suggests.

12 Any assertion that historical financing practices should determine future funding
13 allocations would be inappropriate. PSE should manage its financing needs based
14 on the needs of customers inherent in the multi-year rate plan. Too much has
15 changed in the last five years, including the CETA, Senate Bill 5295, House Bill
16 1589, and inflationary pressures, among others, to assert that what was done in the
17 past will be adequate during the multiyear rate plan. PSE must respond to these
18 shifting regulatory requirements and legislative mandates, which are driving more
19 capital investments and financing needs. Additionally, PSE cannot compete for

[6] Woolridge, Exh. JRW-1T at 8:18-9:2.

1 capital on reasonable terms with equity ratios and ROEs that place PSE at or near
2 the bottom quartile and sub-par credit metric performance.[7]

3 The current capital structure with an equity ratio of 49.0 percent has not been
4 sufficient to maintain proper credit health as Dr. Woolridge suggests. Although
5 PSE has not recently received a full credit downgrade, PSE weathered
6 downgrades in rating outlooks (from stable to negative) from both S&P Global
7 Ratings ("S&P")[8] and Fitch Ratings ("Fitch")[9] for almost a year spanning 2020
8 and 2021, including a potentially costly stint on credit watch negative from S&P
9 (an indication of potential credit downgrade). Although the 2022 GRC Order was
10 a positive step and PSE maintained its credit ratings, PSE is currently under
11 earning its allowed rate of return.[10] Accordingly, any suggestion that PSE has
12 experienced clear sailing on the credit ratings front is inaccurate. PSE has
13 experienced significant headwinds on the credit ratings front, which have only
14 subsided due to the *prospect* of a more credit supportive regulatory paradigm
15 arising from the CETA legislation and more recently SB 5295.

16 Further, PSE witnesses Shipman, Doyle[11] and I described in much detail in our
17 prefiled direct testimonies, PSE's current credit metrics remain strained as they
18 hover below downgrade thresholds. The rating agencies await a more credit

[7] Martin, Exh. JLM-1CT, Section II.
[8] *See* Exh. CGP-13 (Standard and Poor's, *S&P Research Update: Puget Energy Inc. And Subsidiary Ratings Placed On CreditWatch Negative Over Regulatory Concerns*, Jul. 23, 2020,)
[9] *See* Exh. CGP-14 (Fitch Ratings, *Rating Action Commentary - Fitch Affirms Puget Energy and Puget Sound Energy; Outlook Revised to Negative*, Jul. 27, 2020).
[10] Martin, Exh. JLM-1CT, Section III.
[11] Shipman, Exh. TAS-1T; Doyle, Exh. DAD-1CT; Peterman, Exh. CGP-1CT.

supportive regulatory outcome that will rebuild credit metric performance and sustainably position PSE's credit performance above downgrade metric thresholds with appropriate margins of safety. Dr. Woolridge's testimony ignores or misinterprets these concerns regarding PSE's credit rating performance.

Q. Does Dr. Woolridge provide data in an attempt to support his recommendations of a capital structure with an equity ratio of 49.0 percent?

A. Dr. Woolridge provides a variety of data for the proxy companies he uses in his ROE analysis, including common equity ratios.[12] He then finds the average for each proxy group and presents that data. These averages ranged from 40.9 percent to 43.2 percent.

Q. Are these proper equity ratio comparisons to PSE?

A. No. These are not proper comparisons for several reasons. First, Dr. Woolridge's data set is not comparable to the capital structure of a stand-alone regulated utility. Some of the companies Dr. Woolridge provides for comparison purposes are parent companies of regulated utilities. Typically, parent companies' financial statements will include the consolidated financial performance of multiple utilities and/or companies, across multiple states and/or countries, and potentially from both regulated and unregulated subsidiaries. Parent companies are in most cases financed differently than a regulated utility with a regulated equity structure, due to the nature, breadth, geographical dispersion, and complexity of their

[12] *See* Woolridge, Exh. JRW-5.

1 consolidated operations. This is further discussed in the Prefiled Rebuttal
2 Testimony of Ann E. Bulkley, Exh. AEB-19T in Section XIII.

3 Second, Dr. Woolridge compares *actual parent* company common equity
4 balances at a specific point in time, rather than calculating them on an AMA basis
5 at the operating company, which is contrary to the calculation of PSE's regulated
6 equity in the capital structure. Since equity ratios vary monthly, an equity ratio in
7 PSE's regulated capital structure in one month can be much different than the
8 equity ratio averaged for the year due to seasonality of earnings and other factors.
9 For this reason, common equity balances at a specific point in time should not be
10 used for proxy and comparative purposes, and it is certainly contrary to the
11 Commission's long-standing practices.

12 Dr. Woolridge's approach serves to compare apples and oranges; parent company
13 capital structures are never appropriate proxies for setting the capital structure of a
14 regulated utility for rate making purposes and actual common equity balances at a
15 point in time should never be compared to AMA regulated equity ratios.

16 **Q. Does Dr. Woolridge rely on the data he provides to support the**
17 **recommendation that the Commission approve a 49.0 percent equity ratio?**

18 A. No, it appears that Dr. Woolridge does not rely on the actual parent company
19 common equity balances he presents in his testimony (40.9 percent to 43.2
20 percent) as the basis of his recommendation. He ignores his own financial
21 analysis and asserts that the 49.0 percent ratio that he recommends is "more

1 reflective of the capital structures of proxy groups of electric, combination electric
2 and gas, and gas distribution companies."[13] It is not clear how Dr. Woolridge
3 transitions his thinking and rationale from a peer equity percent range of 40.9 to
4 43.2 percent to a recommendation of 49.0 percent nor is it clear why 50.0 and
5 51.0 percent are unacceptable to him.

6 **Q. Has Woolridge used this same line of arguments before to argue for his**
7 **proposed equity ratio?**

8 A. Yes. Much of his testimony regarding this matter is similar to his testimony in
9 PSE's 2022 GRC.

10 **Q. Did the commission find Woolridge's arguments persuasive in the 2022**
11 **GRC?**

12 A. No. The Commission did not consider his recommendations in ordering a 49
13 percent equity ratio in PSE's 2022 GRC.[14]

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[13] Woolridge, Exh. JRW-1T at 31:15-23.
[14] 2022 GRC Order, ¶ 126 (the Company's historic capitalization does not represent a persuasive reason to adopt Public Counsel's proposal).

C. Public Counsel's Recommendation Will Negatively Impact PSE's Credit Metrics and Ignores Key Risk Factors.

Q. Did Dr. Woolridge provide an analysis illustrating how his cost of capital proposals will impact PSE's credit metrics?

A. No, he did not. However, I have calculated the credit metric impact based on his *corrected* cost of capital in Table 2. Should the Commission rely on his as-filed cost of capital, these results would be lower. The impacts are represented in Figures 1 and 2 above.

Q. Will Dr. Woolridge's cost of capital proposal, when corrected for the calculation error, enable PSE to improve its credit metrics to above downgrade thresholds?

A. [REDACTED] Dr. Woolridge's proposed cost of capital [REDACTED] Rating agencies expect companies to manage their credit metrics with sufficient cushion, above their downgrade thresholds. This cushion provides the rating agencies comfort that companies can absorb unplanned credit shocks – akin to the January 2024 power cost event – maintain credit metric performance above downgrade thresholds. [REDACTED]

1 **Q. What would happen if PSE were to be downgraded?**

2 A. If PSE were to be downgraded, the cost of borrowing, and the cost to customers
3 would rise.[15] A credit rating is an indication of how risky or safe a company is to
4 financial investors who buy bonds or invest equity. The lower the rating, the
5 riskier the company is and so investors want to be compensated for this higher
6 risk.

7 If PSE were to be downgraded, it would very likely cause short- and long-term
8 debt costs to rise. PSE currently borrows commercial paper to fund the short-term
9 needs of the business. A downgrade will result in unnecessary additional costs.
10 With its current ratings, PSE's commercial paper ("CP") rating is A2/P2. With an
11 overall downgrade of the issuer rating, it would also downgrade our CP rating.
12 The CP market for A3/P3 rate issuers is less reliable, more volatile and investors
13 are more sensitive to macroeconomic tumult. This would likely force PSE to
14 borrow on its credit facility instead, driving up the cost of borrowing. The cost
15 differential between borrowing CP and on the credit facility is approximately 100
16 basis points.[16]

17 The long-term debt costs can be more dramatic due to the size and tenor of long-
18 term debt. A downgrade in the rating will increase the interest rate that investors
19 will demand on future bond issuances.

[15] See 2022 GRC Order at ¶ 127 (the Commission noted a downgrade "may impact the utility's borrowing costs, which ultimately impacts its revenue requirement.").

[16] Peterman, Exh. CGP-6C lines 18 (CP interest rate) and 19 (Credit Facilities interest rate).

1
2
3 In PSE witness Doyle's Prefiled
4 Direct Testimony and repeated in PSE witness Martin's Prefiled Rebuttal
5 Testimony, PSE anticipates issuing
6 to finance the business. If that debt is more expensive as
7 stated above, it could result in an incremental increase of
8 That is a *substantial* cost
9 increase to customers and cash outflow from the business.

10 As Shipman mentions in his rebuttal testimony, if PSE is downgraded, it will be
11 particularly difficult to improve its metrics and increase its rating in the near-term.
12 Rating agencies typically require companies "earn" their way back into an
13 upgrade. That is, companies must perform at the higher level for years to illustrate
14 their stability in metrics performance prior to receiving an upgrade. As such, a
15 downgrade would likely mean that PSE remains there for a significant period of
16 time, increasing customer rates due to higher financing costs right when PSE is
17 expected to spend unprecedented amounts of capital to meet CETA.

18 **Q. Do you have other concerns with Mr. Woolridge's justifications for his**
19 **proposal?**

20 A. Yes, his capital structure completely ignores the needs for increased cash flow,
21 and the historic levels of spending required for CETA. His ROE and equity ratio
22 recommendations keeps PSE in the bottom quartile of credit metrics when

1 unprecedented amounts of debt and equity capital must be raised. To provide safe
2 and reliable utility service to customers and comply with the provisions of CETA
3 and CCA, PSE estimates that over the calendar years 2024 to 2028 that it will
4 invest approximately [REDACTED] in capital expenditures.[17] This is a material
5 increase in capital commitments, relative to historical spending levels, that will
6 affect PSE both financially and operationally. PSE estimates that over the
7 calendar years 2024-2028 it will require incremental financing from the following
8 categories: [REDACTED] of debt securities, [REDACTED] of incremental equity, and
9 retain approximately [REDACTED] of net income and retained earnings and related
10 cash flow from operations.[18]

11 This level of capital expenditure and resulting financing will increase PSE's
12 balance sheet from [REDACTED] In
13 addition, the financing plan set forth above would cause PSE's outstanding debt
14 to increase to [REDACTED] and PSE's
15 outstanding common equity to grow to [REDACTED]
16 [REDACTED] over the calendar years 2024 to 2028.[19]

17 Financing the capital needs for a utility by relying on debt increases the risks of
18 downgrades, which has become more common among utilities in the last six plus
19 years.[20] Given the material financing pressures that PSE faces in the near term to

[17] Doyle, Exh. DAD-1CT at 58:1-8.
[18] *Id.*
[19] Doyle, Exh. DAD-1CT at 14:1-9.
[20] Exh. CGP-10, page 144. *North American Regulated Utilities. Edison Electric Institute 2023 Investor Presentation by S&P Global*

1 fund capital investment in the next five years, Dr. Woolridge's recommendations
2 result in [REDACTED]
3 [REDACTED].

4 Additionally, reliance on the historical status quo is an inappropriate foundation
5 from which to recommend an appropriate capital structure for PSE. Dr.
6 Woolridge errs in this regard. PSE requests that the Commission look to the
7 future and take realistic account PSE's substantially increased financing needs
8 and issue an order that restores and preserves PSE's financial health and profile.

9 **Q. Do you have any other items you'd like to rebut?**

10 A. Yes. Dr. Woolridge states that he is proposing a three-year capital structure even
11 though PSE is specifically requesting a cost of capital structure for its two-year
12 MYRP.[21] Dr. Woolridge also refers to the Company as APCo several times at the
13 beginning of his response testimony. It is unclear what this is in reference to,
14 considering Puget Sound Energy is not the "parent" company to APCo.[22]
15 Accordingly, the commission should ignore any references to APCo.

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[21] *See* Woolridge, Exh. WRT-1T at 8:17.
[22] Woolridge, Exh. WRT-1T at 5-6.

Q. On page 107 Dr. Woolridge claims "recent credit reports" suggest some credit agencies built-in certain risks like the MYRP, wildfires, capital investments, and regulatory risks into their recent evaluations, is that accurate?

A. No. Dr. Woolridge selectively picks references in these reports, some of which are dated and out of context. First, the Fitch April 2020 report missed some significant financial pressures that shortly became relevant. This report was released at the start of the COVID pandemic and prior to PSE's 2020 rate case result in July of 2020. Dr. Woolridge asserts this report reflects ratings agencies have baked in a low ROE before and a low ROE in this case would not threaten PSE's credit. At this time, other economic headwinds were not yet evident, including inflation and interest rate pressure, all while the extent or length of any COVID related downturn was uncertain.

Second, Dr. Woolridge asserts that despite PSE's S&P and Moody's "issuer credit rating … suggest the Company's investment risk is slightly below average" – those below average ratings do not reflect the benefit of the MYRP legislation, Senate Bill 5295. Dr. Woolridge's position assumes that by simply having additional regulatory tools available in the Commission's toolbox is sufficiently credit positive. If the Commission elects not to use the credit supportive tools available and at its disposal, like CWIP in rate base, to support and fund PSE's substantial increase in capital expenditures, ratings agencies will take an

1 unfavorable view of that fact in PSE's credit ratings and in assessing the quality
2 of regulation in Washington state.

3 Third, certain regulatory costs or uncertainties have yet to be considered in these
4 reports, and they remain subject to significant uncertainty: (i) the decarbonization
5 bill (HB 1589) has not been implemented and is on the November 2024 general
6 ballot for appeal, and AWEC has proposed the Commission deny the request for
7 accelerated depreciation; (ii) PSE is still waiting to see the impact the $15
8 million[23] disallowance of deferred equity returns in PSE's recent LNG Order will
9 have on the ratings agencies' perspectives of PSE's rating; (iii) there still exists
10 uncertainty around the implementation of the CCA, particularly on the electric
11 side of the business and the potential financial impacts.[24] Finally, the 2023 Fitch
12 report cited by Dr. Woolridge on page 108 was clear the rating agency expected
13 PSE's credit metrics to *improve* going forward.[25] Mr. Woolridge uses this report
14 to argue if metrics stay the same (which is not what Fitch writes and anticipates),
15 specifically PSE's ROE, Fitch will stay the course. But this ignores the explicit
16 language in the report, which states there are significant risks related to
17 "environmental regulations and aggressive renewable and social objectives, that
18 without appropriate recovery mechanism, can negatively affect credit."[26] Then,

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[23] Martin, Exh. JLM-1CT in Section III.
[24] Staff witness Maguire also proposes to put highly volatile CCA costs into base rates, which would be viewed as credit negative
[25] Peterman, Exh. CGP-9 at 1-2.
[26] Id. at 1.

Dr. Woolridge and Public Counsel, propose the Commission deny the recovery mechanisms PSE proposed in this case.

Q. Are there other risks and uncertainties intervenors' ignore?

A. With respect to CCA, Staff witness McGuire has proposed that the Commission eliminate PSE's gas CCA tracker, otherwise known as Schedule 111, and move cost recovery of PSE's gas CCA costs into base rates. Given the volatility of gas CCA allowance costs in the uncertainty of related decarbonization costs will be viewed as a significant credit negative by the rating agencies. Further McGuire also recommends that the Commission require risk-sharing mechanisms be incorporated into all tracker mechanisms that it allows in the future. All else equal, this will only serve to increase the volatility of PSE's cash flows, earnings, and returns on equity, which PSE predicts will have a chilling effect on PSE's credit ratings and the rating agencies assessment of the quality of regulation in the state of Washington.

PSE is confident this would be the view of the rating agencies because in a November 10, 2023 publication by S&P, titled "North American Utility Regulatory Jurisdictions: Some Notable Developments", S&P writes of Washington:

> [T]he Washington commission issued an order authorizing PSE to implement a nearly $17 million natural gas rate increase to recovery the projected costs of emissions allowances needed to comply with the CCA. The tariffs, the first one approved in Washington, reflects a new revenue requirement for the increase in emissions allowance costs…We believe the approach taken by the commission in approving PSE's natural gas compliance costs is credit supportive as it facilitates financial stability,

> specifically as it pertains to the timeliness of cost recovery and the flexibility of the regulatory construct to recover infrequent costs tied to the new cap and trade program. We anticipate a similar approach to cost recovery could be taken for PSE's electric costs and other IOUs."[27]

Thus, any reversal of the Commission in providing timely recovery of costs PSE incurs for compliance programs or additions of risk-sharing tools in tracker mechanisms will be seen as a reversal of recent credit-supportive actions and detrimental to utility financial stability.

Clearly, there is significant risk and uncertainty that Dr. Woolridge and others simply ignore in the process of making cost of capital recommendations.

Q. How do you summarize your rebuttal to Dr. Woolridge's response testimony for cost of capital?

A. Dr. Woolridge's cost of capital is calculated incorrectly and omits necessary fees associated with debt costs. When corrected for these errors, his true cost of capital proposal should be 7.32 percent. Additionally, I find that Dr. Woolridge's cost of capital proposal is backward looking and does not consider the real and imminent financing pressures that PSE faces to maintain safety and reliability of the electric and gas transmission and distribution systems, as well as comply with CETA. Lastly, his cost of capital proposals [REDACTED] [REDACTED] As such, I respectfully ask that the commission ignore his proposals.

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[27] Peterman, Exh. CGP-10C at 31-32.

1 ## III. REBUTTAL OF PARCELL

2 **Q. Please describe your rebuttal of Parcell**

3 A. I rebut Parcell's calculation of his proposed cost of capital where he incorrectly
4 cites PSE's currently allowed equity ratio as 48.5 percent. In fact, the authorized
5 equity ratio from PSE's 2022 GRC is 49.0 percent.[28] Then, I rebut his notion that
6 PSE's acceptable equity ratio is similar to that of peer utilities because he
7 incorrectly compares PSE equity ratio, which is an operating company, largely to
8 that of utility holding companies, which are financed fundamentally differently
9 than operating companies. Lastly, similar to Dr. Woolridge, Parcell has made cost
10 of capital recommendations that don't recognize or support the forward-looking
11 financing needs of PSE's business.

12 **A. Parcell's Recommended Cost of Capital is Incorrectly Calculated.**

13 **Q. What cost of capital does Parcell recommend?**

14 A. Parcell recommends the following capital structure:

15 **TABLE 6**
Total Cost of Capital Rate Year 1

Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate*
Short-Term Debt	2.04%	5.07%	0.12%
Long-Term Debt	49.46%	5.27%	2.63%
Common Equity	48.50%	9.50%	4.61%
Total Capital	100.00%		7.36%

[28] PSE 2022 GRC Order at ¶ 127.

Total Cost of Capital Rate Year 2

Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate*
Short-Term Debt	1.18%	4.08%	0.06%
Long-Term Debt	50.32%	5.36%	2.71%
Common Equity	48.50%	9.50%	4.61%
Total Capital	100.00%		7.37%

*Weighted short-term debt rate includes commitment and amortization fees. Weighted long-term debt rate includes amortization of reacquired debt.

1 **Q. Does Parcell calculate the cost of capital correctly?**

2 A. No, he does not. Specifically, Mr. Parcell incorrectly states that PSE authorized
3 equity ratio is 48.5 percent even though the Commission authorized an equity
4 ratio of 49.0 percent in the 2022 MYRP.[29] Additionally, when calculating the
5 long-term cost of debt for his 2026 capital structure, he uses an incorrect year-end
6 long-term debt balance, rather than the AMA long-term debt balance, which
7 inaccurately influences the ratio of long-term debt to short-term debt.

8 **Q. When you correct the equity ratio and other minor calculation error, what is**
9 **the correct cost of capital that Mr. Parcell should be proposing?**

10 A. With these two changes, the cost of capital increases from 7.36 percent to 7.38
11 percent in 2025, and from 7.37 percent to 7.39 percent in 2026 a difference of 2
12 basis points in both years. The following tables provides the corrected values:

[29] Dockets UE-220066 et. al., Order24/10 at ¶ 125.

1 **TABLE 7**

Corrected Total Cost of Capital Rate Year 1

Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate*
Short-Term Debt	1.85%	5.07%	0.11%
Long-Term Debt	49.15%	5.27%	2.61%
Common Equity	49.00%	9.50%	4.66%
Total Capital	100.00%		7.38%

Corrected Total Cost of Capital Rate Year 2

Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate*
Short-Term Debt	1.23%	4.08%	0.06%
Long-Term Debt	49.77%	5.36%	2.68%
Common Equity	49.00%	9.50%	4.66%
Total Capital	100.00%		7.39%

*Weighted short-term debt rate includes commitment and amortization fees. Weighted long-term debt rate includes amortization of reacquired debt.

2 The Commission should use the corrected cost of capital when comparing Staff's
3 recommendations to PSE's requested cost of capital.

4 **B. Parcell's Recommendation that PSE's Equity Ratio Should Remain the Same**
5 **is Unsupported.**

6 **Q. What does Parcell propose for PSE's regulated equity ratio?**

7 A. On page 29 of his testimony, Parcell recommends that the commission approve a
8 48.5 percent equity ratio because (1) PSE's actual consolidated capital structure as
9 of December 31, 2023 was 47.8 percent and 48.5 percent appears to be similar,
10 (2) PSE's actual regulated equity ratios have "not increased materially in recent

1 years", and (3) a 48.5 percent matches what the commission has approved for
2 PSE in the recent past (which is incorrect).

3 **Q. Do you agree with Parcell's recommendation?**

4 A. No, I don't agree with his recommendations.

5 **Q. What are your primary concerns?**

6 A. In order to arrive at his recommendation that the Commission grant PSE a 48.5
7 percent equity ratio, Parcell (1) incorrectly cites that this is PSE's current
8 authorized equity ratio when it is in fact 49.0 percent, (2) uses misleading data
9 and reasoning to support his recommendation, and (3) completely ignores a
10 section of my testimony whereby I explain the rationale for why PSE is
11 requesting an increase in equity ratio in this case. Lastly, historical/current capital
12 structure authorizations are one of the reasons why credit metrics are
13 underperforming. It would be imprudent to rely on the historical status quo as the
14 foundation for recommending that the Commission approve PSE's current and
15 historical equity ratio.

16 **Q. What is the first misleading data set that Parcell cites?**

17 A. On page 25 of his testimony, Parcell provides six sets of historical capital
18 structures from 2019-2023 across three corporate views. He provides PSE's
19 regulated utility capital structure, PSE's consolidated capital structure, and Puget

1 Energy's capital structure (improperly labeled throughout his testimony as PH).
2 Furthermore, he provides capital structures with and without short-term debt.

3 Providing *six* different capital structures obscures the fact that the Commission
4 should *only* evaluate PSE's *regulated* capital structure, including short-term debt,
5 for three reasons: (1) PSE's regulated capital structure, as approved by the
6 Commission, has always *included* short-term debt. That is because any analyses
7 that do not include short-term debt financing improperly overstates the equity
8 weightings in the capital structure. (2) PSE owns a small unregulated real-estate
9 arm called Puget Western, Inc. (PWI). PWI and its activities are not overseen by
10 the Commission and its balance sheet and results of operations are excluded from
11 PSE's rate increase request in all GRC proceedings, including this one. Therefore,
12 considering a PSE consolidated capital structure, which includes the balance sheet
13 of PWI is simply incorrect. (3) Lastly, PSE's parent company Puget Energy
14 ("PE") is equally irrelevant in this case as the Commission does not set rates for
15 PE. In fact, PE's capital structure has no bearing on PSE's capital structure.
16 Parcell's use of this data should be disregarded as well.

17 The Commission should utilize PSE's regulated AMA capital structure, including
18 short-term debt, to arrive at the appropriate rate of return for PSE in this
19 proceeding. That capital structure appears in the first column of the table on page
20 26 of Parcell's testimony.

Q. What do the data in that first column[30] show?

A. First, I want to remind the Commission that PSE's authorized equity ratio from 2019-2022 was 48.5 percent. The authorized equity ratio was increased to 49.0 percent in 2023. The data therefore show that PSE has financed the business with a higher level of regulated equity than the commission has granted in four of the last five years. This point is important because PSE is committed to financing the business at the allowed equity levels or greater than what the Commission allows. This track record should reassure the commission that PSE will continue the same practice going forward.

Q. Why did PSE's actual AMA equity ratio fall below the authorized equity ratio in 2019?

A. PSE's actual AMA equity ratio fell below the authorized levels in 2019 due to greatly increased gas prices as a result of the Enbridge pipeline rupture at the end of 2018 and the prolonged effort to restore 100% gas transmission capacity in the pipe. PSE had to fund much of the increased gas costs with incremental debt, driving down the equity ratio.

Q. Does Parcell provide any other misleading analyses?

A. Yes. Parcell presents a second analysis on page 25, lines 19-21, supported by data in Exh. DCP-7 that shows that his proxy group of utilities from 2019-2023 had an

[30] Parcell, Exh. DCP-1T at 25:4-7.

1 average common equity ratio (excluding short-term debt) of 52.0% and Value
2 Line projects that that number will decrease slightly by 2027-2029. Following this
3 table, Parcell writes, "the equity ratios for the proxy group are slightly higher than
4 those of PSE (excluding short-term debt)."[31]

5 This analysis is misleading for two reasons: (1) PSE's approved capital structure
6 by the commission *includes* short-term debt as it is a debt instrument on PSE's
7 books, is charged interest expense, and is usually converted to long-term debt
8 through the issuance of long-term bonds periodically. Excluding short-term debt
9 from a capital structure and equity ratio analysis ignores the fact that there may be
10 material differences in equity ratios amongst the proxy group, and when
11 juxtaposed to a regulated utility capital structure including short-term debt, results
12 in an apples to oranges comparison. (2) However, even ignoring point (1) and
13 using Parcell's "PSE Regulated Utility: excluding S-T Debt" column to calculate
14 the average equity ratio from 2019-2023, PSE's average common equity ratio
15 excluding short-term debt for that time period was 48.96 percent. The proxy
16 group Parcell uses had an average equity ratio of 52.0 percent. Parcell tries to
17 gloss over this 3.04 percent difference (52.0% of the proxy group minus the 48.96
18 percent PSE average) as irrelevant, by summarizing the proxy group as being
19 "slightly higher". A 3.04 percent equity ratio difference would result in an
20 approximately $14.0 million loss of net income in year one and a $16.9 million in
21 year 2 of the multiyear rate plan; in two years, that difference is almost $30.9

[31] Parcell, Exh. DCP-1T 26:1-2.

million. That is a material consideration to PSE's cash flow, earnings, and return on equity that. Parcell disregards as inconsequential.

Q. Does Parcell provide any other comparisons of PSE's authorized equity ratio of 48.5 percent to others in the industry?

A. Yes. Parcell continues his comparative analysis on page 26 by citing the average common equity ratios of U.S. state regulatory electric proceedings. His data and analysis are similarly problematic: he is not consistent in his analysis and math with respect to ensuring that short-term debt is properly and appropriately accounted for in the capital structures that he presents. Here again, the Commission should substitute PSE's capital structure weightings in place of Parcell's.

Q. What other reasoning does Parcell give for supporting a 48.5 percent equity ratio?

A. Like Dr. Woolridge, Parcell claims PSE's actual equity ratios have not increased in recent years. This is true but misses the point. PSE actively manages to the equity ratio targets approved by the Commission to ensure that it does not fall below the authorized regulated levels.

However, this should not suggest that the Company's *future* equity ratio should remain at 48.5 percent because its *historical* equity ratio performance has been maintained to the authorized levels during that time period.

1 **Q. What is Parcell's final line of reasoning to support the 48.5% equity ratio**
2 **recommendation?**

3 A. Parcell states, similar to Dr. Woolridge, that since the Commission has approved a
4 48.5% equity ratio in the past, it should continue doing so. As mentioned in
5 response to Dr. Woolridge's testimony, backward looking decisions in the face of
6 growing financial pressure and financing needs to support the safety, reliability
7 and clean-energy transition of the grid is inconsistent with these demands.

8 **C. Parcell's Recommendation Will Negatively Impact PSE's Credit Metrics and**
9 **Ignores Key Risk Factors.**

10 **Q. Did Parcell provide how his cost of capital proposals will impact PSE's credit**
11 **metrics?**

12 A. No, he did not. However, I have calculated the credit metric impact based on his
13 *corrected* cost of capital in the figures at the beginning of my rebuttal testimony
14 and discussed below.

15 **Q. Will Parcell's cost of capital proposal, when corrected for any calculation**
16 **errors, enable PSE to improve its credit metrics to above downgrade**
17 **thresholds?**

18 A. The answer is the same for Parcell as it was for Dr. Woolridge. Parcell's proposed
19 cost of capital
20
21 which the rating agencies are now focused upon. As

1 shown in Table 1, his cost of capital eliminates $27 million and $64 million of
2 cash flow in 2025 and 2026.
3
4
5
6

7 **Q. What other rationales does Parcell give for why the commission should not**
8 **approve an increase in equity ratio for the MYRP?**

9 A. Parcell first notes that PSE did not request an increase in equity ratio in the prior
10 proceedings.[32] First, this is inaccurate. PSE requested an increase in equity ratio
11 of 50 basis points per year in its first MYRP filed 2022, and secured an increase
12 in equity ratio from 48.5 percent to 49.0 percent in the settlement. Second, for all
13 the reasons stated above in this prefiled rebuttal testimony and PSE's prefiled
14 direct testimony, Parcell simply relies on the historical status quo and ignores the
15 significant financing challenges PSE faces in the context of the dual mandate.
16 His recommended cost of capital is unsupportive, and it should be rejected by the
17 commission.

18 **Q. Does Parcell give any other reasons why 48.5 percent is sufficient?**

19 A. Yes. Parcell suggests that because PSE has a MYRP and performance-based rates
20 ("PBR") that the regulatory environment should be viewed as more favorable at

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[32] Parcell, Exh. DCP-1T at 28.

1 the present time.[33] In doing so, similar to Gorman and Woolridge, Parcell extols
2 the risk reducing virtues of MYRPs and other regulatory tools that have yet to be
3 implemented and are indeed a subject of contention in this proceeding. PSE
4 witnesses Martin and Shipman also rebut these suggestions.

5 **Q. Does Parcell accurately articulate PSE's risk?**

6 A. No. While Parcell is correct that ratings agencies have viewed SB 5295 as a
7 positive regulatory step, the ratings agencies expect the Commission to implement
8 MYRPs in credit supportive ways. Parcell uses the regulatory tools afforded to the
9 Commission in SB 5295 and HB 1589 as risk reducing solution to justify a
10 bottom of the market-determined ROE of 9.5 percent. The MYRP and other risk
11 reducing tools available to the Commission are not yet reducing risk as Parcell
12 argues. Ratings agencies have made clear, SB 5295 is simply a first step, and PSE
13 faces a wide range of other risks. This approach ignores the underlying metrics
14 and results-based approach ratings agencies use to evaluate risk. PSE witness
15 Martin, Shipman and Bulkley also discuss this notion in their respective
16 testimonies.

[33] Parcell, Exh. DCP-1T at 22-23.

1 **Q. Does Parcell try to discredit your testimony on the challenges facing PSE's**
2 **credit ratings, credit metric health?**

3 A. Yes, on pages 60-61 of his response testimony, Parcell, suggests that because the
4 rating agencies viewed the 2022 settlement as favorable, that PSE does not have
5 ratings pressures.

6 **Q. Do you agree with Parcell?**

7 A. No. My prefiled testimony documents the reasons why PSE's metrics have been
8 strained, much of which is due to a deterioration of cash flows over time.
9 Additionally, the credit metrics analysis presented herein illustrate the challenges
10 facing PSE's credit ratings should the Commission adopt much of the intervenors'
11 proposals that reduce PSE's cash flows.

12 **Q. What does Parcell have to say about PSE's stagnation of cash flows and the**
13 **impacts to credit metrics?**

14 A. Parcell tries to ignore and dismiss the very real and serious stagnation of cash
15 flows over time by stating they are caused by "dated" issues. Specifically, Parcell
16 highlights that the TCJA and the 2019 General Rate Case ("GRC") "occurred at
17 least five years ago" and that "PSE's security ratings did not decline subsequent
18 to these two events…" There are several incorrect notions with these two
19 statements. First, as PSE witness Matt Marcelia states in his rebuttal testimony,
20 the TCJA did immediately result in a decline to PSE's cash flows and that those
21 impacts are *still* occurring today. While the TCJA was passed in 2017, it remains

the corporate tax law today and, as such, it continues to have a pernicious impact on PSE's cash flows, contrary to Parcell's contentions.

Secondly, Parcell is incorrect that PSE's ratings were not impacted following the passage of the TCJA and the 2019 GRC. As discussed previously in my testimony and above, S&P placed PSE on credit watch negative following the 2019 GRC order and later revised it to a negative outlook. Fitch similarly placed PSE on negative outlook following the order.[34] PSE was only able to get off the negative outlooks after much work to find additional revenues through various corrections to the 2019 GRC order, the implementation of the IRS ruling on deferred taxes and filing a PCORC in 2020.

Finally, Parcell is incorrect in implying that because PSE has not yet been downgraded that this is not likely to happen in the future. He ignores all the testimony put forth about PSE's forward-looking financing needs. If PSE does not have substantial funding requirements from CETA, it might not be able to sustain credit metric performance.

Q. Do you have other concerns with Parcell's justifications for his proposal?

A. Yes, Parcell states that PSE's bond ratings have been "generally similar" to most electric utilities in the U.S.

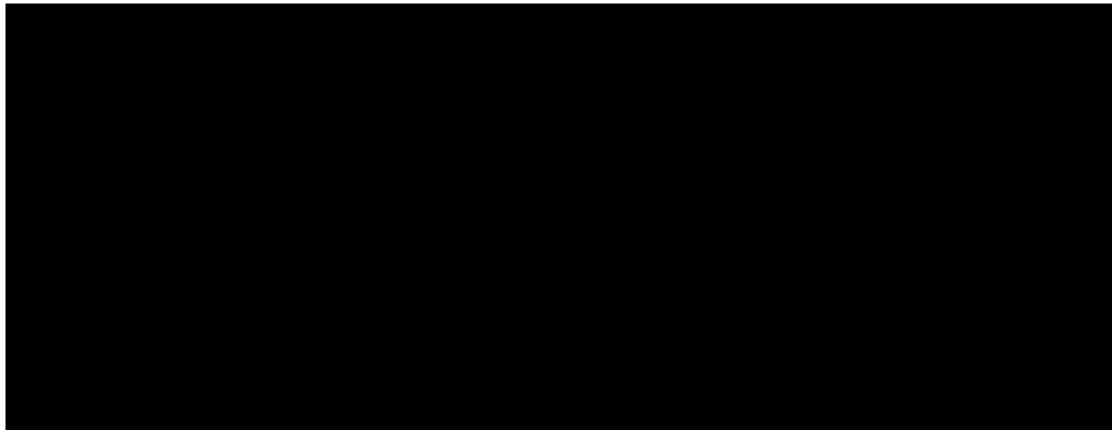
[34] Peterman, Exh. CGP-13, Exh. CGP-14.

1 **Q. Do you agree that PSE's bond ratings are "generally similar" to the proxy**
2 **groups?**

3 A. No. I do not. Parcell is comparing credit ratings of *holding companies* to that of
4 PSE, which is an *operating company*, like Dr. Woolridge. When comparing the
5 operating companies of their peer groups with PSE's issuer rating, one can see
6 that the average credit ratings of utility operating companies is BBB+ S&P rating
7 versus PSE's BBB S&P rating.[35]

8 **Q. Is there a material difference between a rating of A-/BBB+ and PSE's ratings**
9 **of BBB/Baa1?**

10 A. Yes, there is a material difference between these two ratings. As discussed above,



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17 This material difference in interest
18 expense, caused by a one notch rating differential, which does not equate to
19 "generally similar" assessment in my opinion.

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[35] Peterman, Exh. CGP-16 (Parcell Proxy Group Average Ratings).
[36] Peterman, Exh. CGP-15C.

1 **Q. How do you summarize your rebuttal to Parcell?**

2 A. Similar to Dr. Woolridge, I find that Parcell's cost of capital recommendations
3 contain errors and ignore key considerations for the financing challenges that PSE
4 faces today and into the multi-year rate plan. His attempts to wave off real and
5 material changes in laws, regulatory outcomes, peer utility analysis and the like
6 should be equally discounted by the commission because they lead to a proposed
7 cost of capital structure that is not going to help PSE achieve credit metric
8 stability in the 2025-2026 MYRP.

9 **IV. REBUTTAL OF GORMAN**

10 **Q. Do you have concerns with Section II of Public Counsel witness Gorman**
11 **testimony entitled "Financial integrity"?**

12 A. Yes. In similar fashion to staff witness Parcell's testimony, Gorman on page 8
13 relies heavily on the risk reducing and financial stabilizing benefits of MYRPs
14 and erroneously concludes that because PSE's current issuer credit ratings are
15 accompanied by a stable outlook, PSE's risk profile is unaffected by the dual
16 mandate. As Jamie Martin discusses in her rebuttal testimony, PSE did not earn
17 its allowed return on equity in 2023 and on a forecasted basis does not expect to
18 do so in 2024 either. MYRPs are in the nascent developing stages of
19 implementation and are not the risk reducing and financial stabilizing panaceas
20 that Gorman would have us believe. For these reasons Gorman's testimony should
21 be disregarded.

Further, Gorman misuses the concept of rating agencies stable outlooks. They are not a measure of risk or rating agency concern as he asserts, rather they are simply an indication that rating agencies are not aware of any material impacts to a company's current issuer rating that would cause a rating agency to change its current outlook, which could change based on the results of this proceeding. Additionally, it is important to note that rating agencies do not rate companies on backward looking performance. Their ratings analyses and views are based on how a company is performing today and the anticipated performance in the future. Rating agencies make assumptions about rate recovery, return on equity – allowed and actual, equity ratio, the favorability of the regulatory environment, among others. Should the Commission give PSE an outcome that does not support PSE's ability to finance safety, reliability, and its future clean energy mandates, the rating agencies will reassess their projections of PSE's metrics and ratings.

Q. Are there concerns with Mr. Gorman's interpretation of rating agency reports?

A. Yes. Like Mr. Shipman rebuts in his testimony, Mr. Gorman misinterprets or mischaracterizes rating agency comments. On page 9, lines 18-20, Mr. Gorman writes "Fitch notes a positive regulatory environment suggesting regulatory treatment of PSE can support improvement to its current corporate bond rating." This is incorrect. The immediate sentences that follow, Fitch states:

> Puget Energy Inc.'s (PE) ratings are driven by the regulated gas and electric utility operations at subsidiary Puget Sound Energy, Inc. (PSE). PSE is regulated by the Washington Utilities and Transportation

> Commission (WUTC). The approval of PSE's first multiyear rate plan has resulted in improved credit metrics for PE and PSE. *Nonetheless, Fitch considers the WUTC to have a mixed record of credit-supportive decisions.* Additionally, Washington is one of the most progressive states and imposes stringent environmental regulations and aggressive renewable and social objectives than, *without appropriate recovery mechanisms, can negatively affect credit.*[37]

Fitch specifically highlighted that the regulatory climate in Washington has been mixed and without appropriate recovery mechanisms, PSE's credit can be at risk.

Q. Are there other places Gorman misinterprets rating agency reports?

A. Yes, as Shipman rebuts, Gorman uses rating agency comments on pages 12 and 13 to state that rating agencies are concerned about rate affordability and implies that higher rates can negatively impact credit quality. That is not what the rating agencies are saying. The rating agencies are concerned that commissions may depress rate increases on that basis, thereby eroding the ability to earn a fair return on their investment, their cash flow and the credit metrics, which would, in fact, increase rates over time.

Q. Gorman discusses PSE's forecasted credit metric performance on pages 15 - 18. Does Gorman interpret PSE's credit metric performance accurately?

A. No, he does not. On page 15, lines 12-15, Gorman states that PSE's credit metric projections in 2023 and 2024 do not include the implementation of rates based on a multi-year rate plan. That is incorrect. Those credit metric numbers include the

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[37] Peterman, Exh. CGP-9 at 1 (Moody's Investor service, Credit opinion, Puget Sound Energy, Inc. (Sept. 15, 2023)) (emphasis added).

1 rate increases secured through the 2022 GRC, which covers a multi-year rate plan
2 for 2023 and 2024. The 2023 results include actual 2023 performance and 2024
3 was based on projected performance at the time of the 2024 MYRP filing.

4 **Q. Do you agree with Gorman's assertion that credit metric projection in 2023**
5 **and 2024 "reasonably" align with the historical performance?**

6 A. No. [redacted]
7 [redacted] This can be most clearly seen with the S&P metrics he replicates
8 from my testimony on page 14. [redacted]
9 [redacted]
10 Additionally, Gorman does not provide a basis for why credit metric performance
11 [redacted]
12 [redacted] historical performance. PSE's testimony in
13 this regard illustrates that credit metrics [redacted]
14 [redacted]

15 **Q. On page 17-18, Gorman contests that you did not mention how the multiyear**
16 **rate plan would improve PSE's ability strengthen cash flow metrics. Is that**
17 **true?**

18 A. No. Page 35 of my Prefiled Direct Testimony, Exh. CGP-1T, and the figures that
19 forecast the total credit metric improvement on page 39, show the credit metric
20 impact and improvement the company forecasts to see from the increases in the
21 cost of capital, as well as the CWIP in rate base for Beaver Creek.

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1 In any event, I have provided charts at the beginning and conclusion of my
2 rebuttal testimony that illustrate forecasted impact to PSE's credit metrics from
3 intervenors' cost of capital proposals, as well as proposals that deny O&M
4 recovery, CWIP in rate base for Beaver Creek, and accelerated depreciation of the
5 gas assets. These graphs properly show that cost of capital, as well as other
6 requests that result in increased cash flow [REDACTED]
7 [REDACTED] if the Commission accepts intervenors' proposals.

8 **Q. Do you have anything else you would like to rebut related to Gorman's**
9 **testimony?**

10 A. Yes, I'd like to comment on Section XIII, regarding wildfires. Gorman suggests
11 that the costs projected in the wildfire tracker be included in base rates. My
12 Prefiled Direct Testimony at pages 44-47, discuss the importance that the
13 Commission allow PSE to recover 100 percent of the costs incurred (capital,
14 operations and maintenance, and insurance) related to wildfire risk mitigation.
15 Catastrophic losses resulting from wildfires have caught the attention of all
16 investors around the country and investors are looking to commissions to ensure
17 that utilities (1) can recover costs spent to mitigate wildfire risk and (2) remain
18 financially viable should a tragic wildfire occur in that utility's service territory.
19 In fact, wildfire risk and the future of the regulatory construct was a key mention
20 in Warren Buffet's 2023 annual letter to shareholders.[38]

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[38] Peterman, Exh. CGP-12 at 12-13.

1 PSE is proposing a wildfire tracker to provide transparency to the Commission,
2 PSE's customers, the communities in which PSE operates, and the financial
3 community concerning some activities that PSE is undertaking and will undertake
4 to mitigate potential wildfire risk. This transparency and timely recovery of all
5 costs incurred is instrumental in showing to the rating agencies and financial
6 community that PSEand the Commission are taking the threat of wildfire risk
7 seriously and are taking the necessary steps to make sure PSE proactively
8 mitigates this risk.

9 **Q. Does Gorman represent the current trend in PPA-related imputed debt**
10 **correctly?**

11 A. No. On page 25 of his testimony, footnote 23, Gorman states that "PPA debt
12 equivalent decreased from $480 million in 2021 to $305 million in 2023, and is
13 being amortized down toward zero by approximately $65 million per year." There
14 are two issues with this statement.

15 First, in Gorman's workpaper (WP-7), the S&P Capital IQ system records PSE's
16 imputed debt in 2023 as $380 million, not the $305 million that he uses. Second,
17 and far more importantly, it is incorrect and unsubstantiated to imply that imputed
18 debt is "being amortized down toward zero…" When evaluating a company's
19 current rating and credit metrics, S&P also reviews the forecasted credit metrics,
20 including forecasted imputed debt. PSE's imputed debt is ████████
21 ████████████████████
22 ████ ████. In

REDACTED VERSION

1 Doyle's prefiled direct testimony, he highlights that PSE's forecasted imputed
2 debt levels [redacted]
3 [redacted] It is therefore incorrect of Gorman to imply that imputed
4 debt is declining toward zero.

5 V. REBUTTAL OF KAUFMAN

6 **Q. What cost of capital does Dr. Kaufman propose?**

7 A. Dr. Kaufman proposes the following capital structures:

8 **TABLE 8**

Total Cost of Capital Rate Year 1

Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate
Short-Term Debt	1.81%	5.07%	0.09%
Long-Term Debt	49.19%	5.27%	2.59%
Common Equity	49.00%	9.200%	4.51%
Total Capital	100.00%		7.19%

9

Total Cost of Capital Rate Year 2

Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate
Short-Term Debt	1.81%	4.08%	0.07%
Long-Term Debt	49.19%	5.36%	2.64%
Common Equity	49.00%	9.20%	4.51%
Total Capital	100.00%		7.22%

10 **Q. Are these cost of capital proposals calculated correctly?**

11 A. No. While Dr. Kaufman uses PSE short- and long-term debt cost projections, he
12 omits PSE's short- and long-term commitment and amortization fees. These are

1 real fees associated with debt financing that should and have always been
2 included in PSE's authorized capital structure. Omitting them artificially reduces
3 his proposed cost of capital by four basis points in 2025 and two basis points in
4 2026. Also, Dr. Kaufman incorrectly used PSE's short-term debt ratio in rate year
5 1 for rate year 2. However, this does not change the overall cost of capital if
6 correct short-term debt ratio is used in rate year 2.

7 **Q. If corrected for the omission, what should Dr. Kaufman's proposed cost of**
8 **capital structures be for year 1 and 2 of the MYRP?**

9 A. Dr. Kaufman's proposed capital structures should be:

10 **TABLE 9**

Corrected Cost of Capital Rate Year 1

Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate*
Short-Term Debt	1.81%	5.07%	0.11%
Long-Term Debt	49.19%	5.27%	2.61%
Common Equity	49.00%	9.20%	4.51%
Total Capital	100.00%		7.23%

Corrected Cost of Capital Rate Year 2

Capital Source	Capitalization Ratios	Cost Rate	Weighted Cost Rate*
Short-Term Debt	1.81%	4.08%	0.08%
Long-Term Debt	49.19%	5.36%	2.65%
Common Equity	49.00%	9.20%	4.51%
Total Capital	100.00%		7.24%

*Weighted short-term debt rate includes commitment and amortization fees. Weighted long-term debt rate includes amortization of reacquired debt.

1 **Q. Why does Dr. Kaufman propose a 49 percent equity ratio?**

2 A. It is unclear why Dr. Kaufman proposed a 49 percent equity ratio.

3 **Q. Will Dr. Kaufman's cost of capital recommendations enable PSE to improve**
4 **cash flows and credit metric health?**

5 A. No, it would not. Dr. Kaufman's ROE proposal is the lowest of the intervenors'
6 proposals and would result in the least amount of cash flow to the company
7 (accounting for the correction to Dr. Woolridge's cost of debt calculation error).
8 Dr. Kaufman's cost of capital proposals do not ensure that [REDACTED]
9 [REDACTED] Similar to the proposals of Parcell and
10 Woolridge, Kaufman's recommendations keep PSE's ROE and equity ratio at or
11 near the fourth quartile, thereby infringing on the company's ability to attract both
12 debt and equity capital in the face of [REDACTED] over the next
13 five years. Therefore, I respectfully request that the Commission ignore his
14 testimony in this regard.

15

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1 ## VI. SUMMARY OF COST OF CAPITAL REBUTTAL

2 **Q. Please summarize the intervenors' recommended cost of capitals, compared**

3 **to PSE's recommended cost of capital.**

4 A. The following represents the uncorrected cost of capital proposals as originally

5 presented by Dr. Woolridge, Parcell, and Dr. Kaufman, compared to PSE's

6 recommended cost of capital for the two rate years.

TABLE 10
Uncorrected Intervenors' Versus PSE's Cost of Capital

	Rate Year 1			
	PSE Proposal*	Woolridge	Parcell*	Kaufman
Weighted Cost of Debt	2.67%	2.39%	2.75%	2.68%
ROE	9.95%	9.375%	9.50%	9.20%
Equity Ratio	50.00%	49.00%	48.50%	49.00%
Weighted Cost of Equity	4.98%	4.59%	4.61%	4.51%
Weighted Cost of Capital (WACC)	7.65%	6.99%	7.36%	7.19%
	Rate Year 2			
	PSE Proposal*	Woolridge	Parcell*	Kaufman
Weighted Cost of Debt	2.63%	2.39%	2.77%	2.71%
ROE	10.50%	9.375%	9.50%	9.20%
Equity Ratio	51.00%	49.00%	48.50%	49.00%
Weighted Cost of Equity	5.36%	4.59%	4.61%	4.51%
Weighted Cost of Capital (WACC)	7.99%	6.99%	7.37%	7.22%

*Weighted cost of debt includes commitment/amortization fees and amortization of reacquired debt.

7

1 **Q. Please provide the intervenors' recommended cost of capital proposals *with***
2 ***the corrected calculations,* as compared to PSE's recommended cost of**
3 **capital.**

4 A. The following tables present all three intervenors' cost of capital proposals that
5 have been updated for the correct calculations of cost of debt (Woolridge,
6 Parcell), inclusion of commitment and amortization fees (Woolridge and
7 Kaufman), and correction to PSE's current authorized equity ratio (Parcell). I
8 request that the Commission use these cost of capital structures when evaluating
9 each intervenors' proposal.

TABLE 11
Corrected Intervenors' Versus PSE's Recommended Cost of Capital

	Rate Year 1			
	PSE Proposal	Woolridge	Parcell	Kaufman
Weighted Cost of Debt*	2.67%	2.73%	2.72%	2.72%
ROE	9.95%	9.375%	9.50%	9.20%
Equity Ratio	50.00%	49.00%	49.00%	49.00%
Weighted Cost of Equity	4.98%	4.59%	4.66%	4.51%
Weighted Cost of Capital (WACC)	7.65%	7.32%	7.38%	7.23%
	Rate Year 2			
	PSE Proposal	Woolridge	Parcell	Kaufman
Weighted Cost of Debt*	2.63%	2.73%	2.74%	2.73%
ROE	10.50%	9.375%	9.50%	9.20%
Equity Ratio	51.00%	49.00%	49.00%	49.00%
Weighted Cost of Equity	5.36%	4.59%	4.66%	4.51%
Weighted Cost of Capital (WACC)	7.99%	7.32%	7.39%	7.24%

*Weighted cost of debt includes commitment/amortization fees and amortization of reacquired debt.

1 **Q. What are PSE's forecasted credit metrics with these corrected intervenor**
2 **cost of capital recommendations?**

3 A. Table 2 on page 9 of this testimony provides a forecast of 2025-2026 key credit
4 metrics would be if the Commission were to adopt the intervenors' corrected
5 proposals. That forecast includes 100 percent cost recovery of all other PSE-
6 requested proposals.

7 **Q. Will these corrected, recommended cost of capitals improve PSE's cash flow**
8 **in sufficient ways to maintain current credit ratings?**

9 A. ████████ As I discussed in my summary and in my rebuttal to Dr.
10 Woolridge, the intervenors' corrected cost of capitals (even if the Commission
11 accepted all of PSE's cash-flow important proposals, like CWIP, accelerated
12 depreciation, and recovery on certain PPAs), ████████
13 ████████
14 ████████ Key credit metrics for S&P
15 across all three intervenors ████████
16 For Moody's, if the Commission adopted intervenors' cost of capital
17 recommendations but accepted PSE's cash-flow improving proposals, key credit
18 metrics would ████████
19 ████████ it is unclear how
20 the individual rating agencies would respond to these projections – ████████
21 ████████
22 ████████ Any denial of the cash-flow improving

1 proposals under these lower cost of capital proposals would be impactful, and
2 rating agencies would need to take the totality of the case, including quantitative
3 and qualitative impacts, into account.

4 That said, these cost of capital proposals do not put PSE in a strong position to
5 argue that [REDACTED] few reasons:
6 (1) the ROEs and equity ratios in these corrected, recommended costs of capital
7 keep the company the fourth quartile of peer utilities, (2) PSE has a hard time
8 earing near its authorized earned ROE, which is important in a ratings analysis,
9 (3) the key credit metrics [REDACTED]
10 [REDACTED]
11 [REDACTED], and (4) this forecast view
12 assumes PSE receives 100% of all other requests sought in this case. Should those
13 proposals not come to fruition, these metrics will be lower.

14 **Q. If the necessary corrections to the cost of capital are not done, what would**
15 **happen to these credit metrics?**

16 A. They would be lower than what is represented above.

17 **Q. What would happen to credit metrics if other intervenor proposals, such as**
18 **reductions to O&M expense, accelerated depreciation, and CWIP in rate**
19 **base, were layered on top of the cost of capital recommendations?**

20 A. Key credit metrics would decline further. Figure 3 on page 12, Figure 4 on page
21 13, and Table 3 on page 13 of this rebuttal testimony, demonstrate what the credit

1 metric forecasts would be if the Commission were to adopt the intervenors cost of
2 capital proposals, *along with* other proposals to deny (1) cost recovery related to
3 O&M expense, (2) accelerated gas depreciation, and (3) CWIP in rate base
4 associated with Beaver Creek.
5
6

7 **Q. Do you believe these forecasted credit metrics are sufficient to maintaining**
8 **current credit ratings?**

9 A.
10
11 As PSE witness Shipman notes, rating agencies are focused
12 on both quantitative credit metric performance as well as what the overall GRC
13 order indicates about the supportive nature of the regulatory environment. If the
14 rating agencies assess that the Commission did not take advantage of available
15 tools enabled by recent legislation to support the ongoing financial strength of
16 PSE in the face of growing, substantial CETA-related investments, they may well
17 conclude that the regulatory environment in Washington is not as supportive as
18 previously understood.
19
20

21

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1 **CONCLUSION**

2 **Q. What are your primary concerns in your cost of capital rebuttal?**

3 A. PSE puts forward a cost of capital proposal that is geared toward stabilizing the
4 utility with the financial strength to tackle the regulatory requirements and clean
5 energy goals of this state. PSE's proposal should be viewed holistically, in the
6 context of its entire case, which puts forth various mechanisms, like CWIP,
7 accelerated depreciation, and returns on certain PPA's that are essential to the
8 financial health of the utility. Intervenors on the other hand, take a piecemeal
9 approach. If the Commission accepts their proposed cost of capital and adopts
10 their limited revenue proposals, the utility will struggle to meet these ambitious
11 goals. PSE will instead
12
13

14 The legislature, this Commission, and (at times) intervenors require PSE to make
15 dramatic investments in clean energy, equity, safety, reliability and otherwise
16 transition the utility toward a cleaner future. To do this, PSE needs the financial
17 tools and support to even have a chance at making this transition. The financing
18 and cost of capital should reflect these requirements.

19 **Q. Does that conclude your prefiled rebuttal testimony?**

20 A. Yes, it does.

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