

**EXH. MDM-7T
DOCKETS UE-190529/UG-190530
UE-190274/UG-190275
2019 PSE GENERAL RATE CASE
WITNESS: MATTHEW D. MCARTHUR**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Docket UE-190529
Docket UG-190530 (*Consolidated*)**

In the Matter of the Petition of

PUGET SOUND ENERGY

**For an Order Authorizing Deferral
Accounting and Ratemaking Treatment
for Short-life IT/Technology Investment**

**Docket UE-190274
Docket UG-190275 (*Consolidated*)**

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

MATTHEW D. MCARTHUR

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 15, 2020

PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
MATTHEW D. MCARTHUR**

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PUGET SOUND ENERGY

**PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF
MATTHEW D. MCARTHUR**

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1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**
3 **MATTHEW D. MCARTHUR**

4 **I. INTRODUCTION**

5 **Q. Are you the same Matthew D. McArthur who submitted prefiled direct**
6 **testimony on June 20, 2019, on behalf of Puget Sound Energy (“PSE”) in this**
7 **proceeding?**

8 A. Yes. On June 20, 2019, I filed the Prefiled Direct Testimony of Matthew D.
9 McArthur, Exh. MDM-1T, and five supporting exhibits, Exh. MDM-2 through
10 Exh. MDM-6, on behalf of PSE.

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. This testimony updates the overall cost of capital requested by PSE to reflect the
13 revised return on equity of 9.5 percent proposed in the Prefiled Rebuttal
14 Testimony of Dr. Roger A. Morin, Exh. RAM-12T.

15 **II. PSE’S PROPOSED COST OF CAPITAL**

16 **A. PSE Proposes No Change in the Requested Capital Structure**

17 **Q. Is PSE revising its proposed capital structure in this proceeding?**

18 A. No. PSE continues to propose the following capital structure in this proceeding:
19 (i) 2.3 percent of short-term debt,¹ (ii) 49.2 percent of long-term debt,² and

¹ See McArthur, Exh. MDM-5, at 1:7.

² See McArthur, Exh. MDM-5, at 1:11.

1 (iii) 48.5 percent of common equity.³ Each of Commission Staff and Public
2 Counsel has accepted and adopted PSE's proposed capital structure.⁴

3 **B. PSE Proposes to Update the Marginal Short-Term Debt Rate in Its**
4 **Compliance Filing to Reflect the One-Month LIBOR Rate in Effect as**
5 **of the Date the Commission Issues Its Final Order in this Proceeding**

6 **Q. Will PSE update its proposed marginal short-term debt cost rate in this**
7 **proceeding?**

8 A. Yes. As discussed below, PSE proposes to update the marginal short-term debt
9 cost rate in its compliance filing to reflect the current one-month London
10 Interbank Offered Rate (LIBOR) in effect as of the date that the Commission
11 issues its final order in this proceeding.

12 **Q. What marginal short-term debt cost rate did PSE propose in its direct filing**
13 **in this proceeding?**

14 A. In its direct filing in this proceeding, PSE proposed a marginal short-term debt
15 cost rate of 4.18 percent.⁵ This marginal short-term debt cost rate, when combined
16 with the applicable commitment fees and amortization of short-term debt issue
17 cost, results in a weighted average cost of short-term debt of 0.13 percent.⁶

³ See McArthur, Exh. MDM-5, at 1:15.

⁴ See Parcell, Exh. DCP-1T, at 3:12-19 (adopting PSE's proposed capital structure on behalf of Commission Staff); Woolridge, Exh. JRW-1T, at 17:8-9 (adopting PSE's proposed capital structure on behalf of Public Counsel).

⁵ See McArthur, Exh. MDM-5, at 1:7.

⁶ See McArthur, Exh. MDM-5, at 1:10.

1 Commission Staff combines the marginal short-term debt cost rate and the
2 applicable commitment fees and amortization of short-term debt issue cost into a
3 single short-term cost rate of 5.65 percent, which also results in a weighted
4 average cost of short-term debt of 0.13 percent.⁷

5 Public Counsel proposes a slightly lower short-term debt cost rate (2.38 percent)
6 than does PSE and Commission, and Public Counsel's proposal results in a
7 weighted average cost of short-term debt of 0.08 percent.⁸

8 **Q. Does PSE agree with Public Counsel's suggestion that short-term rates have**
9 **declined since PSE filed its direct case in this proceeding on June 20, 2019?**

10 A. Yes. As discussed above, Public Counsel proposed a short-term debt cost rate of
11 2.38 percent that was lower than the short-term debt cost rate of 4.18 percent
12 proposed by PSE in its direct filing on June 20, 2019. Since PSE made its direct
13 filing on June 20, 2019, the Federal Reserve has cut the federal fund rate three
14 times. As a result of these cuts, short-term interest rates, including the one-month
15 LIBOR used by PSE's credit facilities, have declined since June of 2019.

16 **Q. Does PSE agree with the method used by Public Counsel to determine a**
17 **short-term debt cost rate?**

18 A. Yes. Public Counsel used the same methodology and schedule as PSE to calculate
19 the short-term debt cost rate. The short-term debt cost rate can be quickly updated
20 and validated at any time using current LIBOR projections from Moody's.

⁷ See Parcell, Exh. DCP-1T, at 2.

⁸ See Wooldridge, Exh. JRW-5, at 1:Panel B.

1 **Q. Will PSE agree to update its proposed short-term debt cost rate in this**
2 **proceeding?**

3 A. Yes. The calculation of the marginal short-term debt cost rate is formulaic, and
4 PSE proposes to use the most current LIBOR rates available at the time the
5 Commission issues its order in this proceeding.

6 **Q. Why does PSE propose to use the most current LIBOR rates available at the**
7 **time the Commission issues its order in this proceeding to establish the**
8 **marginal short-term debt cost rate?**

9 A. Short-term interest rates can be very volatile. Using interest rates available at the
10 time the Commission issues its order in this proceeding will protect the customer
11 and PSE from fluctuations in short-term rates that may occur between the time
12 PSE makes this filing and the time the Commission issues its order in this
13 proceeding.

14 **Q. How does PSE propose that the Commission identify the most current**
15 **LIBOR rates available to establish the marginal short-term debt cost rate?**

16 A. PSE proposes to update the marginal short-term debt cost rate in its compliance
17 filing for this proceeding to reflect the one-month LIBOR rate in effect as of the
18 date the Commission issues its final order in this proceeding. Because PSE can
19 make this update in its compliance filing, it has not updated the cost of short-term
20 debt in this rebuttal filing.

1 **C. No Party Opposes PSE's Proposed Long-Term Debt Cost Rate**

2 **Q. Has any party opposed PSE's proposed long-term debt cost rate in this**
3 **proceeding?**

4 A. No. PSE proposes a long-term debt cost rate of 5.51 percent in this proceeding,⁹
5 and no party disagrees with this long-term debt cost rate. This long-term debt cost
6 rate, when combined with amortization of reacquired debt, results in a weighted-
7 average long-term debt cost rate of 2.74 percent.¹⁰

8 Commission Staff combines the long-term debt cost rate and the amortization of
9 reacquired debt into a single cost rate of 5.57 percent, which also results in a
10 weighted average cost of long-term debt of 2.74 percent.¹¹

11 Public Counsel adopts PSE's proposed long-term debt cost rate of 5.51 percent
12 and weighted-average long-term debt cost rate of 2.74 percent.¹²

13 **D. PSE Proposes to Reduce Its Requested Return on Equity from**
14 **9.8 Percent to 9.5 Percent**

15 **Q. Is PSE revising its requested return on equity in this testimony?**

16 A. Yes. Dr. Morin has lowered his recommended return on equity (from 9.8 percent
17 to 9.5 percent) to reflect decreased interest rates and other macroeconomic
18 factors. Please see the Prefiled Rebuttal Testimony of Dr. Roger A. Morin,

⁹ See McArthur, Exh. MDM-5, at 1:11.

¹⁰ See McArthur, Exh. MDM-5, at 1:13.

¹¹ See Parcell, Exh. DCP-1T, at 2.

¹² See Wooldridge, Exh. JRW-5, at 1:Panel B.

1 Exh. RAM-12T, for a discussion of this revision. PSE adopts Dr. Morin's revised
2 recommended return on equity of 9.5 percent for purposes of this proceeding.

3 **III. PSE'S PROPOSED RATE OF RETURN**

4 **Q. What overall rate of return is PSE requesting?**

5 A. PSE is requesting an overall rate of return 7.48 percent in this proceeding, as
6 provided in Table 1 below:

7 **Table 1. Overall Rate of Return Requested by PSE**

Components of Rate of Return	Capital Structure	Cost Rate	Weighted Cost
Marginal Short-Term Debt Rate	2.3%	4.18%	0.10%
Commitment Fees			0.02%
Amortization of Short-Term Debt Issue Cost			0.01%
Weighted Short-Term Debt Rate			0.13%
Marginal Long-Term Debt Rate	49.2%	5.51%	2.71%
Amortization of Reacquired Debt			0.03%
Weighted Long-Term Debt Rate			2.74%
Total Debt	51.5%		2.87%
Common Equity	<u>48.5%</u>	<u>9.50%</u>	<u>4.61%</u>
Overall Rate of Return	100.0%		7.48%

8 Please see the First Exhibit to the Prefiled Rebuttal Testimony of Matthew D.
9 McArthur, Exh. MDM-8, for the calculation of the overall rate of return request
10 by PSE. As discussed in the Prefiled Rebuttal Testimony of Susan E. Free,
11 Exh. SEF-17T, PSE calculated the revenue requirement in this proceeding before
12 the revised return on equity of 9.5 percent proposed in the Prefiled Rebuttal
13 Testimony of Dr. Roger A. Morin, Exh. RAM-12T. Accordingly, please see the

1 Second Exhibit to the Prefiled Rebuttal Testimony of Matthew D. McArthur,
2 Exh. MDM-9, for the calculation of the overall rate of return request by PSE a
3 revised return on equity of 9.7 percent and upon which PSE calculated revenue
4 requirements in this proceeding.

5 It should be noted that Table 1 above uses the marginal short-term debt cost rate
6 of 4.18 percent proposed by PSE in its direct filing on June 20, 2019. As
7 discussed above, PSE proposes to update the marginal short-term debt cost rate in
8 its compliance filing to reflect the current one-month LIBOR rate in effect as of
9 the date that the Commission issues its final order in this proceeding.

10 Accordingly, the overall rate of return request by PSE could be higher or lower
11 than 7.48 percent, depending on the LIBOR rate for such date.

12 IV. CONCLUSION

13 **Q. Does that conclude your rebuttal testimony?**

14 **A.** Yes, it does.