EXHIBIT NO. ___(BJL-1T)
DOCKETS UE-17____/UG-17____
2017 PSE GENERAL RATE CASE
WITNESS: BRANDON J. LOHSE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-17____** **Docket UG-17____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

BRANDON J. LOHSE

ON BEHALF OF PUGET SOUND ENERGY

JANUARY 13, 2017

PUGET SOUND ENERGY

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PUGET SOUND ENERGY

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I. INTRODUCTION

Q. Please state your name, business address, and position with Puget Sound Energy.

A. My name is Brandon J. Lohse. My business address is 10885 NE Fourth Street, P.O. Box 97034, Bellevue, Washington 98009-9734. I am the Corporate Treasurer for Puget Sound Energy ("PSE").

Q. Have you prepared an exhibit describing your education, relevant employment experience, and other professional qualifications?

A. Yes, I have. It is Exhibit No. ___(BJL-2).

Q. What are your duties as Corporate Treasurer for PSE?

A. As Corporate Treasurer for PSE, I have responsibility for administering PSE's short term debt program, administering PSE's long term debt portfolio, and day-to-day-management of PSE's cash position. I am also responsible for maintaining relations with credit rating agencies as well as with commercial and investment banks and debt investors. In addition, I oversee PSE's energy risk control and insurance programs. I am also a member of the Qualified Plan's Committee, which oversees PSE's retirement, 401(k) and health and welfare plans. Finally, I am a Trustee and the Treasurer of the Puget Sound Energy Foundation.

Q. Please summarize the purpose of your testimony.

A. This prefiled direct testimony describes PSE's requested capital structure and overall rate of return.

II. PSE'S CAPITAL STRUCTURE REQUEST

Q. What is the capital structure and rate of return that PSE is requesting in this proceeding?

A. PSE's requested overall rate of return in this proceeding is 7.74 percent, as shown in Table 1 below:

Table 1. Capital Structure and Requested Overall Rate of Return

Components of Rate of Return	Capital Structure	Cost Rate	Weighted Cost
Marginal Short-Term Debt Rate	1.0%	3.06%	0.03%
Commitment Fees			0.02%
Amortization of Short-Term Debt Issue Cost			0.01%
Weighted Short-Term Debt Rate			**0.06%**
Marginal Long-Term Debt Rate	50.5%	5.73%	2.90%
Amortization of Reacquired Debt			0.03%
Weighted Long-Term Debt Rate			**2.93%**
Total Debt	**51.5%**		**2.99%**
Common Equity	**48.5%**	**9.80%**	**4.75%**
Overall Rate of Return	**100.0%**		**7.74%**

Q. What is PSE's requested equity ratio in this proceeding?

A. As discussed in the Prefiled Direct Testimony of Daniel A. Doyle, Exhibit No. ___(DAD-1T), PSE is requesting an equity ratio of 48.5 percent.

Q. How does short-term debt requested by PSE in this proceeding compare to the level of short-term debt in PSE's last general rate case?

A. First, PSE has included the 1 percent short-term debt reflected in its actual capital structure from the test year. Please see Exhibit No. ___(BJL-3) for PSE's actual capital structure from the test year. Second, PSE's requested rate of return includes low short-term interest rates through PSE's $250 million of junior subordinated notes that will have short-term floating interest rate in the rate year. Currently, the coupon rate on these notes is 6.974%. Beginning on December 1, 2017, the interest rate on these securities resets quarterly to Three-Month LIBOR plus 2.53 percent and captures the prevailing short-term interest rate environment on the reset dates. The amount of the variable rate securities, $250 million, is about 3.3 percent of PSE's total capitalization. The short-term debt and junior subordinated notes together produce a level above 4 percent short-term debt that the Commission approved in PSE's last general rate case.[1] Please see Table 2 below for the effective rate year capital structure.

Table 2. Effective Rate Year Capital Structure

Components	Capital Structure
Short-Term Debt + Floating Rate Jr. Sub Notes	4.3%
Long-Term Debt	**47.2%**
Total Debt	**51.5%**
Common Equity	**48.5%**
Overall Capitalization	**100.0%**

[1] *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08, ¶ 57 (May 7, 2012).

III. CAPITAL COMPONENTS OF PSE'S REQUESTED RATE OF RETURN

Q. Has PSE prepared an exhibit that demonstrates projected rate year costs that support PSE's requested rate of return of 7.74 percent?

A. Yes. Please see Exhibit No. ___(BJL-4) for the calculation of PSE's requested rate of return of 7.74 percent.

Q. Does PSE recommend the same overall rate of return for electric and natural gas operations?

A. Yes. PSE is an integrated electric and natural gas utility and does not run separate electric and natural gas divisions. Capital acquired to finance PSE's activities is not earmarked for either electric or natural gas operations. Therefore, it is appropriate for the Commission to set rates for PSE based on a single overall rate of return for electric and natural gas operations as it has consistently done in the past.

A. The Cost of Short-Term Debt

Q. Please summarize PSE's calculation of the cost rate for short-term debt.

A. To calculate the cost rate for short-term debt, PSE calculates total interest expense for short-term borrowing such as commercial paper or credit agreement loans for the period. This interest cost is then divided by the total weighted average short-term debt balance for the period to determine the weighted average short-term debt cost rate for the period.

Q. How is the presentation for cost of short-term debt PSE seeks to recover in this proceeding different from PSE's 2011 general rate case?

A. In this proceeding, PSE has removed commitment fees and amortization of issue cost from the cost rate calculation for short-term debt, and instead included these costs on separate lines in the rate of return calculation. While this modification changes the cost rate for short-term debt, it does not affect overall rate of return. This method of presentation more clearly shows the individual components of short-term debt.

In PSE's 2011 general rate case in Dockets UE-111048 and UG-111049, annual commitment fees and amortization of upfront issue costs were added to interest expense to obtain total short-term debt costs for the period. PSE then divided this total cost by weighted average short-term debt balance to determine weighted average short-term debt cost rate for the period. This method resulted in an all-in cost of short-term debt that includes interest expense, as well as credit facility commitment fees and short-term debt issue cost amortization.

Since commitment fees and amortization costs do not decrease when borrowings decrease, all else equal, a lower short-term debt outstanding balance results in a higher cost rate. An artificially high short-term cost rate as a result of low short-term debt outstanding balance is not reflective of incremental borrowing cost. Therefore, for presentation purposes, PSE removed the effect of semi-fixed costs to reflect only the interest cost specific to the short-term debt outstanding balance.

Q. Please describe PSE's short-term credit facilities.

A. PSE currently has the following two credit facilities, which total $1.0 billion:

(i) a $650 million unsecured revolving credit facility for general corporate purposes; and

(ii) a $350 million unsecured revolving credit agreement to support PSE's energy hedging activities.

The two credit facilities mature on April 15, 2019. These short-term credit facilities primarily serve to provide necessary working capital to fund utility operational requirements and the expected variability of such requirements.

Q. Is the credit facility structure consistent with past arrangements?

A. Yes.

Q. Are these two PSE credit facilities the same PSE credit facilities in place during the test year in this case?

A. Yes, these are the same two PSE credit facilities in place during the test year.

Q. Is PSE including costs of the credit facility supporting energy hedging in the cost of capital?

A. Yes. In 2015, the Commission approved in the PCA Settlement to include costs associated with the line of credit to support wholesale power hedging transactions in PSE's cost of capital in its next general rate case.[2] As a result, PSE has included costs for the existing $350 million facility supporting energy hedging in the proposed rate of return for this proceeding. In prior proceedings, PSE included

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[2] *WUTC v. Puget Sound Energy*, Docket UE-130617 *et al*, Order 11, ¶ 21 (Aug. 7, 2015).

these costs in energy costs and allocated such costs between the Power Cost Adjustment ("PCA") and Purchased Gas Adjustment ("PGA") mechanisms.

Additionally, PSE has historically managed to avoid posting hedging collateral by transacting mostly in the bilateral commodity markets. Dodd-Frank regulation has begun to dramatically reduce the number of counterparties participating in the bilateral markets. As more and more counterparties move to exchange trading, better trading execution can now be found on the exchanges. Therefore, although PSE's $350 million hedging facility has received limited use in recent years, it will become an integral part of supporting PSE's hedging operations in 2017 as PSE shifts much of its commodity trading to the exchanges, which require maintaining daily collateral margins.

Q. Is the cost of commercial paper included in PSE's requested cost of short-term debt in this proceeding?

A. Yes. Although PSE realizes that it cannot rely solely on commercial paper to fund its short-term liquidity needs, it has projected some commercial paper issuances and costs, along with borrowing under its credit agreements, into its rate year short-term debt costs, similarly as has been done in previous rate proceedings.

Q. How does PSE calculate its projected cost of short-term debt during the rate year?

A. To calculate the projected cost of short-term debt during the rate year, PSE determined the spread between its short-term borrowing costs and the LIBOR.

PSE then applied that spread to a projected LIBOR during the rate year. Please see page 3 of Exhibit No. ___(BJL-4) for this calculation.

Q. What is PSE's requested cost rate of short-term debt in this proceeding?

A. PSE's requested cost rate of short-term debt in this proceeding is 3.06 percent. Please see Exhibit No. ___(BJL-4), at page 3, line 20, column O.

B. The Cost of Long-Term Debt

Q. Please summarize PSE's calculation of the cost of long-term debt.

A. To calculate the cost of long-term debt, PSE calculated the yield-to-maturity, or cost rate, of each debt issue using the issue date, maturity date, net proceeds to PSE, and coupon rate of that security. PSE then used the proportional share that each issue's principal amount represents of the total amount of long-term debt outstanding to weigh these cost rates.

Q. Please explain why PSE removed amortization costs on reacquired debt from its cost rate calculation for long-term debt?

A. PSE removed amortization costs related to reacquired high coupon debt that has been refinanced with lower coupon debt from the cost rate calculation for long-term debt. Similar to the presentation for short-term debt cost rate, PSE removed fixed costs from long-term debt cost rate calculation in order to better represent an incremental borrowing cost for long-term debt.

PSE has shown amortization of costs on reacquired debt in a separate line in rate of return calculation. Although this modification changes the cost rate for long-term debt for presentation purposes, it does not affect overall rate of return.

Q. Did PSE have any new issues of long-term debt during the test year?

A. No. PSE did not have any new issues of long-term debt during the test year.

Q. Are there any issues of PSE long-term debt that will mature or retire between September 30, 2016 and the end of the rate year?

A. Yes. After September 30, 2016, and before December 31, 2018, PSE has one series that will have matured. It is PSE's $200 million, 6.74 percent, senior notes that will mature on June 15, 2018. Please see page 6 of Exhibit No. ___(BJL-3).

Q. Are any of PSE's outstanding debt issues callable as of September 30, 2016?

A. Certain of PSE's outstanding debt issues are callable but at a penalty. Please see Exhibit No. ___(BJL-5) for a list of all PSE bonds that are callable as of September 30, 2016. To call these bonds, PSE must pay any required make-whole penalty put in place to protect bondholders from early termination. At this time, it is not economical for PSE to call any bond early. PSE will continue to monitor call premium economics as a matter of standard operating protocols.

Q. Does PSE project new issues of long-term debt before the end of the rate year?

A. Yes, one. PSE projects one long-term debt issue before the end of the rate year to refinance the $200 million 6.74 percent senior notes maturing on June 15, 2018.

Q. One issuance of the securities in PSE's long-term debt portfolio will bear variable rates in the rate year, please explain.

A. Starting on December 1, 2017, PSE's $250 million junior subordinated notes will switch from paying 6.974 percent fixed coupon rate to floating rate at three-month LIBOR plus 2.53 percent, with LIBOR reset quarterly.

Q. How has PSE determined the requested cost of long-term debt in this proceeding?

A. The actual total weighted average long-term debt rate from the test year was used for the fixed rate portion of PSE's long-term debt portfolio. To calculate the projected cost of floating rate long-term debt, PSE added 2.53 percent to a projected 3-month LIBOR rate during the rate year. Please see page 4 of Exhibit No. ___(BJL-4) for this calculation.

Q. What is PSE's requested cost of long-term debt in this proceeding?

A. PSE's requested cost of long-term debt in this proceeding is 5.73 percent as shown in Exhibit No. ___(BJL-4), at page 2, line 29, column F.

C. PSE's Overall Cost of Debt

Q. What actions has PSE taken towards managing its debt?

A, PSE has recognized external financial market conditions and taken several actions that have reduced the impact of debt capital financings on its cost of capital:

(i) in 2013, PSE refinanced two Pollution Control Bonds, which resulted in annual savings of $1.9 million;

(ii) in 2014, PSE refinanced and reduced the size of its operating company credit facility, resulting in a $5.3 million reduction in commitment fees;

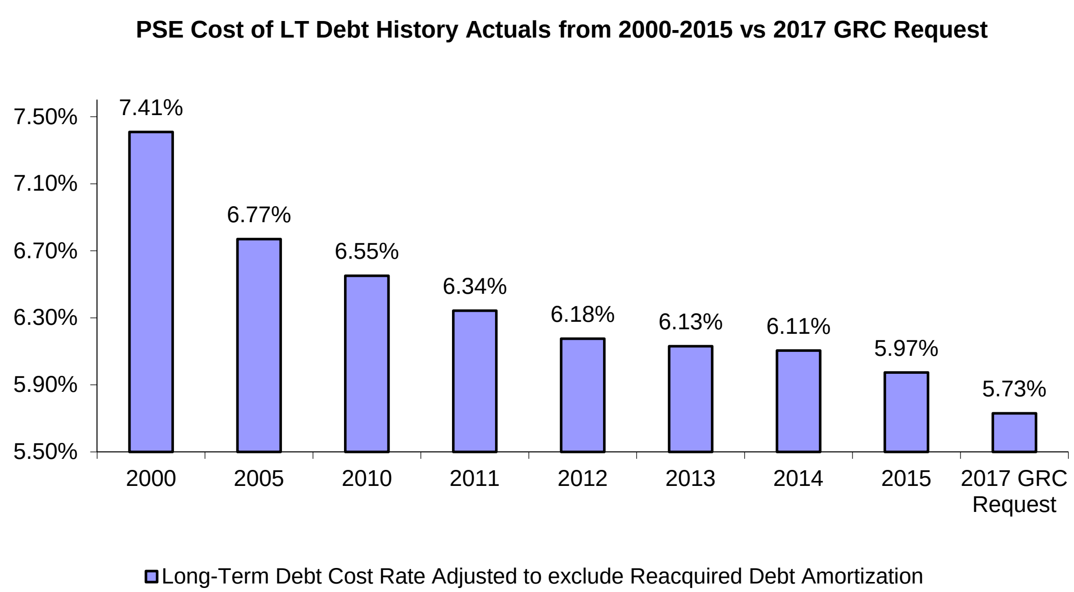
(iii) and in 2015, PSE called two senior secured bonds with a combined notional value of $400 million and refinanced them at lower rates, which resulted in $6.1 million in annual interest savings.

Q. How has PSE's cost of long-term debt changed over time?

A. PSE's overall cost of long-term debt has fallen well over 100 basis points, when comparing PSE's request in this rate proceeding to the actual cost of long-term debt in calendar year 2000. This improvement is the result of replacing higher cost debt with lower cost debt over time.

Figure 1 below shows the reduction in the actual cost of long-term debt over time from calendar year 2000 up to the cost of long-term debt requested in this rate proceeding.

Figure 1. Improvement in Cost of Long-Term Debt



Please note that the cost of long-term debt shown in Figure 1 is adjusted to exclude amortization of losses on reacquired debt. Applying the reduction of 168 basis points (7.41 percent minus 5.73 percent) to the long-term debt in the test year capital structure of approximately $3.8 billion results in a test year after-tax interest savings equivalent to approximately $42 million, compared to what it would have been at the cost of long-term debt level from calendar year 2000.

Q. Please explain how PSE's long-term debt costs have been reduced from the credit ratings upgrade resulting from the merger.

A. The closing of the merger in February of 2009 resulted in an equity contribution of $805 million to PSE. This equity infusion is, in part, one of the reasons for the upgrade in PSE's credit ratings from pre-merger levels. In 2009, Standard & Poor's ("S&P") increased the corporate credit rating of PSE from "BBB-" to "BBB". In 2011, Moody's Investor Services ("Moody's") raised the corporate credit rating of PSE from "Baa3" to "Baa2". This equity has been productively invested since the merger, and customers have benefited from lower interest cost on long-term fixed rate bonds.

Q. How does this long-term debt savings relate to PSE's rate request?

A. The significant estimated cost benefits derived from the merger in the form of interest savings on long-term debt, as well as the other improvements over time, are built into PSE's cost of capital request in this and prior rate proceedings. These estimated cost savings are substantial and will continue to benefit customers for years to come.

D. The Cost of Common Equity

Q. What is PSE's requested return on equity in this proceeding?

A. As discussed in the Prefiled Direct Testimony of Daniel A. Doyle, PSE is requesting a return on equity of 9.8 percent. Please see Exhibit No. ___(DAD-1T).

IV. PSE'S CREDIT RATINGS

Q. What are rating agencies and credit ratings?

A. Rating agencies are independent agencies that assess risks for investors. The two most widely recognized rating agencies are S&P and Moody's. These rating agencies issue credit ratings to companies and their securities. These ratings provide information to investors regarding risks associated with such companies and their debt securities.

Q. What are PSE's current credit ratings?

A. PSE's current credit ratings are shown in Table 3 below:

Table 3. PSE Credit Ratings

Security	S&P	Moody's
Corporate credit/issuer rating	BBB	Baa1
Senior Secured Debt	A-	A2
Junior Subordinated Notes	BB+	Baa2
Commercial Paper	A-2	P-2
Bank Facilities	BBB	Baa1

Q. Have the credit ratings of PSE changed since the last general rate case?

A. Yes. In late 2013 both S&P and Moody's revised their individual utility industry ratings methodology. As a result of that ratings methodology change, many utility companies were upgraded, of which PSE was included. In November 2013, S&P affirmed PSE's existing credit ratings, and then in January 2014, Moody's upgraded PSE from Baa2 to Baa1.

Q. Why are credit ratings important to PSE?

A. Credit ratings are important because PSE will be issuing long-term debt securities to finance utility operations going forward. In addition, credit ratings have a direct impact on PSE's liquidity position through short-term borrowings. Furthermore, PSE agreed to continue to be rated by S&P and Moody's going forward in Merger Commitment 39.

Q. Why are credit ratings important to customers?

A. Credit ratings are important to customers because they are an overall representation of a company's financial health. As a result, they are a major factor in determining the cost of capital to PSE and ultimately its customers. A low credit rating reflects increased risks for investors, which, in turn, results in a higher cost of capital, which increases the cost of service to customers.

Q. What is PSE's view on its credit ratings at the present time?

A. PSE is seeking to at least retain its current senior secured debt ratings of "A-" and "A2" and its corporate ratings of BBB and Baa1 by S&P and Moody's respectively.

Q. Do the rating agencies have targets or guidelines that relate certain credit metrics with specific credit ratings?

A. Yes. On November 19, 2013, S&P issued a report that revised its ratings criteria.[3] In that report, S&P published the following table related to indicative ratios for medial volatility industries,[4] which PSE falls under:

Table 4. S&P Select Cash Flow/Leverage Analysis Ratios–
Medial Volatility Core Ratios

	FFO/debt (%)	**Debt/EBITDA (x)**
Minimal	50+	less than 1.75
Modest	35-50	1.75-2.5
Intermediate	23-35	2.5-3.5
Significant	13-23	3.5-4.5
Aggressive	9-13	4.5-5.5
Highly leveraged	Less than 9	Greater than 5.5

Under the new criteria, PSE is classified as having a Business Risk Profile of "Strong" and a Financial Risk Profile of "Significant" with a credit rating of BBB. Furthermore, S&P provided its expectations for PSE's funds from operations (FFO) to debt ratio in its most recent credit report. In the Rationale section of its latest report for PSE, dated December 20, 2016, S&P states as follows:

> Credit measures consistently reflect the significant financial risk profile category, including funds from operations (FFO) to debt that we expect to range from 20%-22%.

[3] Standard and Poor's, *Corporate Methodology: Ratios and Adjustments* (Nov. 19, 2013).

[4] *See id*. at page 35 (Table 18 (Cash Flow/Leverage Analysis Ratios--Medial Volatility)).

Please see Exhibit No. ___(BJL-6) for the S&P report for PSE, dated December 20, 2016.

In a December 2013 report, Moody's revised rating methodology for regulated gas and electric utilities, Moody's shows benchmark ranges for certain financial metrics associated with its various ratings levels.[5]

Table 5 below includes the Moody's benchmark range for certain credit ratings:[6]

Table 5. Moody's Select Key Ratios

	CFO pre-W/C to Debt	**CFO pre-W/C to Interest**	**CFO pre-W/C less Dividends to Debt**	**Debt Ratio**
"A"	22% to 30%	4.5x to 6.0x	17% to 25%	35% to 45%
"Baa"	13% to 22%	3x to 4.5x	9% to 17%	45% to 55%
"Ba"	5% to 13%	2x to 3x	0% to 9%	55% to 65%

Q. What are PSE's credit metrics for the test year?

A. For financial statements as of September 30, 2016, they are:

(i) Adjusted cash from operations to debt: 21.3%;

(ii) Adjusted cash from operations to interest: 4.7x;

(iii) Adjusted cash from operations less dividends to debt: 14.2%; and

(iv) Adjusted Debt to total capitalization: 44.7%.

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[5] Moody's Investors Service, *Rating Methodology, Regulated Electric and Gas Utilities* (Dec. 23, 2013).

[6] *See id.* at page 24 (Factor 4: Financial Strength).

S&P credit metrics for financial statements as of September 30, 2016 are:

(i) Funds from operations to debt: 22.8%; and

(ii) Debt to EBITDA: 3.5x.

Q. What other considerations do the credit rating agencies make when issuing credit ratings?

A. The credit rating agencies consider a number of factors which are both quantitative and qualitative in nature. In addition to credit metrics, credit ratings agencies also consider qualitative measures, including, but not limited to, regulation, markets and competition, and operations and management.

For example, Moody's revised rating methodology bases its ratings on four major factors. These factors, and the weights assigned to each, are shown below:[7]

(i)	Regulatory Framework	25 percent
(ii)	Ability to Recover Costs and Earn Returns	25 percent
(iii)	Diversification	10 percent
(iv)	Financial Strength, Liquidity and Key Metrics	40 percent

As indicated here, the regulatory framework and the ability to recover prudently-incurred costs and earn allowed returns comprise 50 percent of Moody's ratings considerations.

[7] Moody's Investors Service, *Rating Methodology, Regulated Electric and Gas Utilities*, supra note 8, at page 6.

Q. How do the rating agencies characterize the importance of supportive regulation?

A. Supportive regulation is an important component of credit assessment, including support to help with reducing the impact of regulatory lag as noted below by S&P:

> The regulatory framework/regime's influence is of critical importance when assessing regulated utilities' credit risk because it defines the environment in which a utility operates and has a significant bearing on a utility's financial performance.
>
> We base our assessment of the regulatory framework's relative credit supportiveness on our view of how regulatory stability, efficiency of tariff setting procedures, financial stability, and regulatory independence protect a utility's credit quality and its ability to recover its costs and earn a timely return. Our view of these four pillars is the foundation of a utility's regulatory support...[8]

Q. Does PSE expect that its credit ratings will improve during the rate year or shortly thereafter?

A. No. PSE does not expect its credit ratings to improve during the rate year or shortly thereafter. Rather, a reasonable expectation is that the ratings could be maintained, assuming business as usual with continued regulatory support.

PSE desires to at least maintain its current credit ratings to benefit customers with lower debt costs as discussed in this testimony and to provide it with a measure of financial flexibility in difficult economic conditions.

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[8] Standard and Poor's, *Key Credit Factors For the Regulated Utilities Industry*, at page 6 (Nov. 19, 2013).

Q. What is Moody's view on PSE's regulatory environment?

A. In the Outlook section of its report dated August 5, 2016, Moody's states as follows:

> The stable outlook reflects PSE's cooperative relationship with WUTC and its stable and predictable cash flow. The outlook also incorporates a view that the WUTC will remain supportive to long term credit quality.

Exhibit No. ___(BJL-7) at page 2.

Q. What is S&P's view on PSE's regulatory environment?

A. In the Rationale section of its report dated December 20, 2016, S&P states:

> The company's management of regulatory risk is gradually improving primarily due to constructive regulatory mechanisms, including decoupling that somewhat mitigates regulatory lag.

Exhibit No. ___(BJL-6) at page 2.

V. PSE HAS COMPLIED WITH ALL MERGER COMMITMENTS REGARDING CAPITAL STRUCTURE AND COSTS OF DEBT

Q. Are there merger commitments related to PSE's proposed cost of debt or equity in this general rate case?

A. Yes. Merger Commitment 24 prohibits PSE from advocating for a higher cost of debt or equity capital as compared to what PSE's cost of debt or equity capital would have been absent Puget Holdings' ownership:

> Puget Holdings and PSE will not advocate for a higher cost of debt or equity capital as compared to what PSE's cost of debt or equity capital would have been absent Puget Holdings' ownership.[9]

The Eighth Condition of the Merger Order clarified Merger Commitment 24 (among other merger commitments) as follows:

> (a) Determination of PSE's debt and equity costs will be no higher than such costs would have been assuming PSE's credit ratings by S&P and Moody's in effect on the day before the transaction closes and applying those credit ratings to then-current debt and equity markets, unless PSE proves that a lower credit rating is caused by circumstances or developments not the result of financial risks or other characteristics of the transaction.
>
> (b) PSE bears the burden to prove prudent in a future general rate case any pre-payment premium or increased cost of debt associated with existing PSE debt retired, repaid, or replaced as a part of the transaction.
>
> (c) Determination of the allowed return on equity in future general rate cases will include selection and use of one or more proxy group(s) of companies engaged in businesses substantially similar to PSE, without any limitation related to PSE's ownership structure.[10]

Q. Has PSE complied with Merger Commitment 24, as clarified by the Eighth Condition of the Merger Order?

A. Yes. PSE has complied with Merger Commitment 24, as clarified by the Eighth Condition of the Merger Order.

9 *See In re Puget Holdings LLC & Puget Sound Energy, Inc.*, Docket No. U-072375, Order 08, Attachment A at page 3 (Dec. 30, 2008).

10 *In re Puget Holdings LLC & Puget Sound Energy, Inc.*, Docket No. U-072375, Order 08, Attachment B (Dec. 30, 2008).

Q. Does any merger commitment require PSE to maintain a capital structure with a minimum equity ratio?

A. Yes. Merger Commitment 35, in part, requires PSE to maintain a capital structure with a minimum equity ratio:

> as of the closing of the transaction (or within sixty (60) days thereof), PSE will have a common equity ratio of not less than 50 percent. Joint Applicants commit that at all times thereafter, PSE will have a common equity ratio of not less than 44 percent, except to the extent a lower equity ratio is established for ratemaking purposes by the Commission.[11]

Q. Has PSE complied with Merger Commitment 35?

A. Yes, PSE has complied with Merger Commitment 35. PSE's equity ratio averaged 48.9 percent in the test year. PSE's equity has been above 44 percent since the merger. Therefore, PSE complies with Merger Commitment 35.

VI. CONCLUSION

Q. Does that conclude your direct testimony?

A. Yes, it does.

[11] *See In re Puget Holdings LLC & Puget Sound Energy, Inc.*, Docket No. U-072375, Order 08, Attachment A at page 7 (Dec. 30, 2008).