BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket No. UE-121373 – Centralia PPA
Docket No. UE-121697 and Docket No. UG-121705 – Decoupling Mechanisms
Docket No. UE-130137 and Docket No. UG-130138 – Expedited Rate Filing
Puget Sound Energy, Inc.

BENCH REQUEST NO. 006C

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On May 29, 2013, the Commission provided notice that it would include the publication Regulatory Research Associates, Regulatory Focus, Major Rate Case Decisions—January-March 2013 (April 10, 2013) in the record of the above-referenced proceedings as Bench Exhibit B-6C. The Commission indicated that wishes to comment or file evidence directly related to the data portrayed in Bench Exhibit B-6C must do so by 3:00 p.m. on Tuesday, June 4, 2013.

Response:

Bench Exhibit B-6C further supports the premise that PSE's current authorized return on equity of 9.8 percent should not be reduced in the above-referenced proceedings. The 9.8 percent return on equity ordered by the Commission in May 2012 was already below the average return on equity awarded in 2012 for both gas and electric utilities, according to the evidence in Bench Exhibit B-6C. The return on equity awarded to operating companies in Mr. Gorman's proxy group for the third quarter of 2012 through the first quarter of 2013 (after the Final Order in PSE's 2011 general rate case was entered) average 10.08. The average for first quarter 2013 only remains at 9.88—still above PSE's current authorized return on equity. One could infer that the Commission already reflected the downward trend that Mr. Gorman now claims is occurring when it decreased PSE return on equity to 9.8 percent last year.

Moreover, the average return on equity for electric utilities for the first quarter 2013 is far closer to PSE's current return on equity than those proposed by ICNU and Public Counsel. For example, Bench Exhibit B-6C reports that the Maryland Public Service Commission authorized a return on equity of 9.75 percent to Baltimore Gas & Electric Company ("BG&E"), a distribution-only gas and electric utility,[1] in February 2013. This authorized return on equity of 9.75 percent reflects revenue per customer decoupling for Baltimore Gas & Electric Company in the form of its Bill Stabilization Adjustments. Thus, the Maryland Public Service Commission authorized a return on equity for BG&E—a utility that already had a decoupling mechanism—that is likely higher than

[1] *See In re Application of Baltimore Gas & Electric Co. For Adjustment in its Electric and Gas Base Rates,* Case No. 9299, Order No. 85374, pp 2-3 (Feb. 22, 2013) (granting 9.75 return on equity for "electric distribution" and 9.60 return on equity for "gas distribution").

PSE’s currently authorized return on equity, when adjusted for BG&E’s lack of generation risk.

Finally, the Commission should carefully consider all of the information contained within Bench Exhibit B-6C. For example, Bench Exhibit B-6C reports an average authorized return on equity for gas utilities of 9.57 percent but only reports on three gas utilities with authorized returns on equity in the range of 9.3 percent and 9.8 percent. Thus, there are too few samples of gas utilities in Bench Exhibit B-6C to draw any conclusion as to the direction of return on equity for gas utilities. Furthermore, Bench Exhibit B-6C expressly recognizes that the three lowest authorized returns on equity for electric utilities (9.3 percent, 9.6 percent, and 9.6 percent) are for transmission- and distribution-only utilities (Niagara Mohawk Power, Cross Texas Transmission, and Wind Energy Transmission Texas, respectively). (Bench Exhibit B-6C provides a footnote of “D” for each of these utilities and explains on the last page that footnote “D” applies “[a]pplies to electric delivery only”.) This lack of generation risk must be taken into consideration when comparing the authorized returns on equity for these three utilities to PSE, which is a vertically-integrated gas and electric utility, with a fundamentally different business model.