

**EXH. MDM-1T
DOCKETS UE-19 ___/UG-19 ___
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-19 ___
Docket UG-19 ___**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

MATTHEW D. MCARTHUR

ON BEHALF OF PUGET SOUND ENERGY

JUNE 20, 2019

PUGET SOUND ENERGY

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

CONTENTS

I. INTRODUCTION1

II. PSE’S CAPITAL STRUCTURE REQUEST2

 A. PSE’s Test Year Capital Structure2

 B. PSE’s Requested Capital Structure4

III. PSE’S REQUESTED COST OF CAPITAL AND RATE OF RETURN5

 A. PSE’s Test Year Costs of Capital and Rate of Return5

 1. PSE’s Cost of Short-Term Debt During the Test Year Was
 2.41 Percent5

 2. PSE’s Cost of Long-Term Debt During the Test Year Was
 5.87 Percent6

 3. PSE’s Authorized Return on Equity During the Test Year
 Was 9.50 Percent6

 4. PSE’s Rate of Return During the Test Year Was
 7.64 Percent, As Adjusted by PSE6

 B. PSE’s Requested Costs of Capital and Rate of Return in This
 Proceeding9

 1. PSE Requests a Rate Year Short-Term Debt Cost Rate of
 4.18 Percent9

 2. PSE Requests a Rate Year Long-Term Debt Cost Rate of
 5.51 Percent12

 3. PSE Requests a Rate Year Return on Equity of
 9.80 Percent14

 4. PSE Requests a Rate Year Rate of Return of 7.62 Percent14

IV.	PSE’S ACTIONS TO MANAGE THE COST OF CAPITAL.....	16
V.	PSE HAS COMPLIED WITH ALL REGULATORY COMMITMENTS REGARDING CAPITAL STRUCTURE AND COSTS OF CAPITAL.....	18
VI.	CONCLUSION.....	20

PUGET SOUND ENERGY

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

LIST OF EXHIBITS

- | | |
|------------|--|
| Exh. MDM-2 | Professional Qualifications of Matthew D. McArthur |
| Exh. MDM-3 | Test Year Capital Structure and Costs of Capital (2018 Commission Basis Reports) |
| Exh. MDM-4 | Test Year Capital Structure and Costs of Capital (As Adjusted by PSE) |
| Exh. MDM-5 | Projected Rate Year Capital Structure and Costs of Capital |
| Exh. MDM-6 | PSE's Outstanding Issues of Callable Long-Term Debt as of December 31, 2018 |

1 **PUGET SOUND ENERGY**

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

4 **I. INTRODUCTION**

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

7 A. My name is Matthew D. McArthur. My business address is 355 110th Ave. NE,
8 Bellevue, WA 98004. I am the Corporate Treasurer for Puget Sound Energy
9 (“PSE”).

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

12 A. Yes, I have. Please see the First Exhibit to the Prefiled Exhibit to the Direct
13 Testimony of Matthew D. McArthur, Exh. MDM-2, for an exhibit describing my
14 education, relevant employment experience, and other professional qualifications.

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

16 A. As Corporate Treasurer for PSE, I have responsibility for administering PSE’s
17 short-term debt program, administering PSE’s long-term debt portfolio, and day-
18 to-day-management of PSE’s cash position. I am also responsible for interfacing
19 with credit rating agencies as well as with commercial and investment banks and
20 debt investors. I also oversee PSE’s energy risk control and manage the annual
21 budgeting and monthly forecasting processes. I am a member of the Qualified

1 Plan’s Committee, which oversees PSE’s retirement, 401(k) and health and
2 welfare plans. Finally, I am a Trustee and the Treasurer of the Puget Sound
3 Energy Foundation.

4 **Q. Please summarize the purpose of your testimony.**

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

7 **II. PSE’S CAPITAL STRUCTURE REQUEST**

8 **A. PSE’s Test Year Capital Structure**

9 **Q. What was PSE’s capital structure during the test year?**

10 A. As reported in the Commission Basis Reports filed with the Commission on
11 March 28, 2019, in Dockets UE-190211 and UG-190212 (the “2018 Commission
12 Basis Reports”), PSE’s capital structure during the test year consisted of a short-
13 term debt ratio of 3.06 percent, a long-term debt-ratio of 47.94 percent, and an
14 equity ratio of 49.00 percent. The capital structure of PSE during the test year, as
15 reported in the 2018 Commission Basis Reports, is provided in Table 1 below:

16 **Table 1. PSE’s Test Year Capital Structure (2018 Commission Basis Reports)**
17 **(Average of Monthly Averages)**

Components	Capital Structure
Short-Term Debt	3.06%
Long-Term Debt	47.94%
Total Debt	51.00%
Common Equity	49.00%
Overall Capitalization	100.0%

1 Please see the Second Exhibit to the Prefiled Direct Testimony of Matthew D.
2 McArthur, Exh. MDM-3, at pages 1 and 2, for PSE's test year capital structure, as
3 reported in the 2018 Commission Basis Reports.

4 **Q. Does PSE propose any adjustments to the test year capital structure, as**
5 **reported in the Commission Basis Reports filed with the Commission on**
6 **March 28, 2019, in Dockets UE-190211 and UG-190212?**

7 A. Yes. For purposes of its rate request in this proceeding, PSE has adjusted the
8 capital structure by removing short-term debt balances related to the refinancing
9 of PSE's \$250 million of junior subordinated notes. In March and April, PSE's
10 \$250 million of junior subordinated notes were tendered and called. PSE financed
11 this transaction with short-term debt for a little over two months until they were
12 refinanced in June 2018 with long-term debt. PSE excluded the short-term
13 borrowings related to the extinguishment of the junior subordinated notes from
14 short-term debt in the capital structure from the test year and included in long-
15 term debt. PSE excluded these borrowings from short-term balances because they
16 were a one-time event and not in the normal course of PSE's business.

17 During the test year (i.e., calendar year 2018), PSE's adjusted capital structure
18 consisted of a short-term debt ratio of 2.32 percent, a long-term debt-ratio of
19 48.67 percent, and an equity ratio of 49.00 percent. The capital structure of PSE
20 during the test year, as adjusted by PSE, is provided in Table 2 below:

Table 2. PSE’s Test Year Capital Structure (As Adjusted by PSE)
(Average of Monthly Averages)

Components	Capital Structure
Short-Term Debt	2.32%
Long-Term Debt	48.67%
Total Debt	51.00%
Common Equity	49.00%
Overall Capitalization	100.0%

Please see the Third Exhibit to the Prefiled Direct Testimony of Matthew D. McArthur, Exh. MDM-4, at pages 1 and 2, for PSE’s test year capital structure, as adjusted by PSE.

B. PSE’s Requested Capital Structure

Q. What capital structure is PSE requesting in this proceeding?

A. PSE is requesting a capital structure in this proceeding that consists of a short-term debt ratio of 2.3 percent, a long-term debt-ratio of 49.2 percent, and an equity ratio of 48.5 percent. The capital structure requested by PSE in this proceeding is provided in Table 3 below:

Table 3. Capital Structure Requested by PSE

Components	Capital Structure
Short-Term Debt	2.3%
Long-Term Debt	49.2%
Total Debt	51.5%
Common Equity	48.5%
Overall Capitalization	100.0%

1 Please see the Fourth Exhibit to the Prefiled Direct Testimony of Matthew D.
2 McArthur, Exh. MDM-5, at pages 1 and 2, for PSE's requested capital structure
3 in this proceeding.

4 **Q. How does the capital structure requested by PSE in this proceeding compare**
5 **to PSE's test year capital structure?**

6 A. The short-term debt ratio of 2.3 percent requested by PSE in this proceeding
7 reflects the short-term debt ratio of 2.32 percent in PSE's test year capital
8 structure, as adjusted by PSE.

9 The long-term debt ratio of 49.2 percent requested by PSE in this proceeding is
10 slightly more than half a percent higher than the long-term debt ratio of
11 48.67 percent in PSE's test year capital structure, as adjusted by PSE.

12 The equity ratio of 48.5 percent requested by PSE in this proceeding is half a
13 percent lower than the equity ratio of 49.00 percent in PSE's test year capital
14 structure.

15 **III. PSE'S REQUESTED COST OF CAPITAL AND**
16 **RATE OF RETURN**

17 **A. PSE's Test Year Costs of Capital and Rate of Return**

18 **1. PSE's Cost of Short-Term Debt During the Test Year Was**
19 **2.41 Percent**

20 **Q. What was PSE's cost of short-term debt during the test year?**

21 A. As reported in the 2018 Commission Basis Reports, PSE's cost of short-term debt
22 during the test year was 2.41 percent.

1 Please see Exh. MDM-3, at pages 3, 4, and 5, for the calculation of PSE's cost of
2 short-term debt during the test year, as reported in the 2018 Commission Basis
3 Reports.

4 Please see Exh. MDM-4, at pages 3, 4, and 5, for the calculation of PSE's cost of
5 short-term debt during the test year, as adjusted by PSE.

6 **2. PSE's Cost of Long-Term Debt During the Test Year Was**
7 **5.87 Percent**

8 **Q. What was PSE's cost of long-term debt during the test year?**

9 A. PSE's cost of long-term debt during the test year was 5.87 percent.

10 Please see the Exh. MDM-3, at page 6, for the calculation of PSE's cost of long-
11 term debt during the test year, as reported in the 2018 Commission Basis Reports.

12 Please see Exh. MDM-4, at page 6, for the calculation of PSE's cost of long-term
13 debt during the test year, as adjusted by PSE.

14 **3. PSE's Authorized Return on Equity During the Test Year Was**
15 **9.50 Percent**

16 **Q. What was PSE's authorized return on equity during the test year?**

17 A. PSE's authorized return on equity during the test year was 9.50 percent.

18 **4. PSE's Rate of Return During the Test Year Was 7.64 Percent,**
19 **As Adjusted by PSE**

20 **Q. What were PSE's costs of capital and rate of return for the test year?**

21 A. As reported in the 2018 Commission Basis Reports for the test year, PSE's
22 (i) cost of short-term debt was 2.41 percent, (ii) cost of long-term debt was

1 5.87 percent, and (iii) authorized return on equity was 9.5 percent. The test year
 2 rate of return, as reported in the 2018 Commission Basis Reports, was
 3 7.60 percent. Table 4 below presents the test year capital structure, costs of
 4 capital, weighted-average costs of capital, and rate of return, as reported in the
 5 2018 Commission Basis Reports.

6 **Table 4. Test Year Capital Structure, Costs of Capital,**
 7 **Weighted-Average Costs of Capital, and Rate of Return**
 8 **(2018 Commission Basis Reports)**

Components of Rate of Return	Capital Structure	Cost Rate	Weighted Cost
Short-Term Debt Rate			
Marginal Short-Term Debt Rate	3.06%	2.41%	0.07%
Commitment Fees			0.02%
Amortization of Short-Term Debt Issue Cost			0.01%
Weighted Short-Term Debt Rate			0.10%
Long-Term Debt Rate			
Marginal Long-Term Debt Rate	47.94%	5.87%	2.81%
Amortization of Reacquired Debt			0.03%
Weighted Long-Term Debt Rate			2.84%
Total Debt	51.00%		2.94%
Common Equity	<u>49.00%</u>	<u>9.50%</u>	<u>4.66%</u>
Overall Rate of Return	100.0%		7.60%

9 Please see Exh. MDM-3, for an exhibit that calculates PSE's test year capital
 10 structure, costs of capital, weighted-average costs of capital, and rate of return, as
 11 reported in the 2018 Commission Basis Reports.

As adjusted, PSE's (i) cost of short-term debt was 2.41 percent, (ii) cost of long-term debt was 5.87 percent, and (iii) authorized return on equity was 9.5 percent. The test year rate of return, as adjusted by PSE, was 7.64 percent. Table 5 below presents the test year capital structure, costs of capital, weighted-average costs of capital, and rate of return, as adjusted by PSE.

Table 5. Test Year Capital Structure, Costs of Capital, Weighted-Average Costs of Capital, and Rate of Return
(As Adjusted by PSE)

Components of Rate of Return	Capital Structure	Cost Rate	Weighted Cost
Short-Term Debt Rate			
Marginal Short-Term Debt Rate	2.32%	2.41%	0.06%
Commitment Fees			0.02%
Amortization of Short-Term Debt Issue Cost			0.01%
Weighted Short-Term Debt Rate			0.09%
Long-Term Debt Rate			
Marginal Long-Term Debt Rate	48.67%	5.87%	2.86%
Amortization of Reacquired Debt			0.03%
Weighted Long-Term Debt Rate			2.89%
Total Debt	51.00%		2.98%
Common Equity	<u>49.00%</u>	<u>9.50%</u>	<u>4.66%</u>
Overall Rate of Return	100.0%		7.64%

Please see Exh. MDM-4, for an exhibit that calculates PSE's test year capital structure, costs of capital, weighted-average costs of capital, and rate of return, as adjusted by PSE.

1 **B. PSE's Requested Costs of Capital and Rate of Return in This**
2 **Proceeding**

3 **1. PSE Requests a Rate Year Short-Term Debt Cost Rate of**
4 **4.18 Percent**

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

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

11 **Q. Is the presentation of the cost of short-term debt in this proceeding consistent**
12 **with PSE's presentation of the cost of short-term debt in the last general rate**
13 **case proceeding in Dockets UE-170033 and UG-170034 (consolidated)?**

14 A. Yes. PSE's presentation of the cost of short-term debt in this proceeding is
15 consistent with PSE's presentation of the cost of short-term debt in Dockets UE-
16 170033 and UG-170034 (consolidated) (the "2017 General Rate Case").

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

2 A. PSE currently has an \$800 million unsecured revolving credit facility, which
3 matures in October 2022. This unsecured revolving credit facility primarily serves
4 to provide necessary working capital to fund utility operational requirements and
5 the expected variability of such requirements.

6 **Q. Is the structure of the unsecured revolving credit facility consistent with**
7 **short-term credit facilities in the 2017 General Rate Case?**

8 A. No. In the 2017 General Rate Case, PSE had two short-term credit facilities:
9 (i) a \$650 million unsecured revolving credit facility for general corporate
10 purposes, and (ii) a \$350 million unsecured revolving credit facility to support
11 PSE's energy hedging activities. In October 2017, PSE replaced the two credit
12 facilities with one \$800 million unsecured revolving credit facility. The two
13 previous facilities were combined into one facility to ease administrative burden.

14 Although the \$800 million unsecured revolving credit facility has a lower
15 committed amount than the combined \$1 billion short-term credit facilities in the
16 2017 General Rate Case, the \$800 million unsecured revolving credit facility has
17 an accordion feature, which would allow PSE, if needed, to increase the
18 committed amount from to \$1.4 billion with the banking group approval.

19 Other than the overall reduction in the size of the facility from the two prior
20 facilities, the \$800 million unsecured revolving credit facility has very similar
21 features, pricing levels and fee structure to the two short-term credit facilities in
22 the 2017 General Rate Case. PSE uses the \$800 million unsecured revolving

1 credit facility for general corporate funding needs, to support the issuance of
2 commercial paper and hedging activities through borrowings, or issuance of
3 standby letters of credit.

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

6 A. Yes. In the past, PSE has met its short-term borrowing needs by using both
7 commercial paper and short-term credit facilities. PSE's decision to use
8 commercial paper or short-term credit facilities depends on pricing and
9 availability at the time of borrowing. Although commercial paper has been the
10 lower cost option for short-term financings in recent history, it is impossible to
11 predict what might happen in the commercial paper market.

12 PSE realizes that it cannot rely solely on commercial paper to fund its short-term
13 liquidity needs. Therefore, PSE has projected commercial paper issuances and
14 costs, along with borrowing under its credit agreements, into its rate year short-
15 term debt costs. This is consistent with PSE's projection of commercial paper
16 issuances and costs in the 2017 General Rate Case.

17 **Q. How has PSE calculated its projected cost of short-term debt during the rate**
18 **year?**

19 A. To calculate the projected cost of short-term debt during the rate year, PSE
20 determined the spread between its short-term borrowing costs and the London
21 Inter-bank Offered Rate ("LIBOR"). PSE then applied that spread to a projected

1 LIBOR during the rate year. Please see the Fourth Exhibit to the Prefiled Direct
2 Testimony of Matthew D. McArthur, Exh. MDM-5, at page 3 for this calculation.

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

4 A. PSE's requested cost rate of short-term debt in this proceeding is 4.18 percent.
5 Please see Exh. MDM-5 at page 3, line 20, column O.

6 **2. PSE Requests a Rate Year Long-Term Debt Cost Rate of**
7 **5.51 Percent**

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

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

14 **Q. Did PSE remove amortization costs on reacquired debt from its cost rate**
15 **calculation for long-term debt consistent with the 2017 General Rate Case?**

16 A. Yes. PSE removed amortization costs on reacquired debt from its cost rate
17 calculation for long-term debt consistent with the 2017 General Rate Case.

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

19 A. Yes, PSE has one new issue of long-term debt during the test year. On
20 June 4, 2018, PSE issued \$600.0 million of 30-year Senior Notes under its senior
21 note indenture at an interest rate of 4.223 percent with a maturity date of June 15,
22 2048. PSE used the proceeds from the issuance to pay the principal and accrued

1 interest on PSE's \$200.0 million secured notes that matured on June 15, 2018;
2 outstanding commercial paper borrowings of \$348.0 million; and other general
3 corporate expenses.

4 **Q. Are there any issues of PSE long-term debt that will mature or retire**
5 **between the end of the test year (i.e., December 31, 2018) and the end of the**
6 **rate year?**

7 A. No. None of the issues of PSE long-term debt will mature or retire between the
8 end of the test year and the end of the rate year.

9 **Q. Are any of PSE's outstanding issues of long-term debt callable as of**
10 **December 31, 2018?**

11 A. Yes. Certain of PSE's outstanding issues of long-term debt are callable, subject to
12 a penalty. Please see the Fifth Exhibit to the Prefiled Direct Testimony of
13 Matthew D. McArthur, Exh. MDM-6, for a list of PSE's outstanding issues of
14 long-term debt that are callable as of December 31, 2018.

15 To call these bonds, PSE must pay any required make-whole penalty put in place
16 to protect bondholders from early termination. At this time, PSE does not project
17 that it would be cost-effective to call any bond early. PSE will continue to
18 monitor call premium economics as a matter of standard operating protocols.

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

3 A. PSE used the actual total weighted average long-term debt rate from the test year
4 to determine the requested cost of long-term debt in this proceeding. Please see
5 Exh. MDM-5, at page 2 for this calculation.

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

7 A. PSE's requested cost of long-term debt in this proceeding is 5.51 percent. Please
8 see Exh. MDM-5, at page 2, line 27, column F.

9 **3. PSE Requests a Rate Year Return on Equity of 9.80 Percent**

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

11 A. As discussed in the Prefiled Direct Testimony of Daniel A. Doyle, Exh. DAD-1T,
12 PSE is requesting a return on equity of 9.8 percent. Please see the Prefiled Direct
13 Testimony of Roger A. Morin, Exh. RAM-1T, for the calculation of the requested
14 return on equity of 9.8 percent.

15 **4. PSE Requests a Rate Year Rate of Return of 7.62 Percent**

16 **Q. What overall rate of return is PSE requesting in this proceeding?**

17 A. PSE is requesting an overall rate of return 7.62 percent in this proceeding. The
18 overall rate of return requested by PSE in this proceeding is provided in Table 6
19 below:

1

Table 6. Overall Rate of Return Requested by PSE

Components of Rate of Return	Capital Structure	Cost Rate	Weighted Cost
Short-Term Debt Rate			
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%
Long-Term Debt Rate			
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>9.80%</u>	<u>4.75%</u>
Overall Rate of Return	100.0%		7.62%

2

Please see Exh. MDM-5 at page 1.

3

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

4

5

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.

6

7

8

9

10

1 **IV. PSE’S ACTIONS TO MANAGE THE COST OF CAPITAL**

2 **Q. What actions has PSE taken to manage the cost of capital?**

3 A. Over the past few years, external financial market conditions have allowed PSE to
4 take the following actions to reduce the impact of debt capital financings on its
5 cost of capital:

- 6 (i) in 2013, PSE refinanced two Pollution Control Bonds,
7 which resulted in annual savings of \$1.9 million;
- 8 (ii) in 2014, PSE refinanced and reduced the size of its
9 operating company credit facility, resulting in a
10 \$5.3 million reduction in commitment fees;
- 11 (iii) in 2015, PSE called two senior secured bonds with a
12 combined notional value of \$400 million and refinanced
13 them at lower rates, which resulted in \$6.1 million in
14 annual interest savings;
- 15 (iv) in October 2017, PSE refinanced and reduced the size of its
16 operating company credit facility, resulting in a \$350,000
17 reduction in commitment fees, annually;
- 18 (v) in March 2018, PSE tendered and called \$250 million
19 floating rate junior subordinated notes, thereby eliminating
20 floating interest rate risk;
- 21 (vi) in June 2018, PSE refinanced the 6.740% \$200 million 20-
22 year notes with new 4.223% \$600 million 30-year notes,
23 which resulted in \$5 million in annual interest savings.

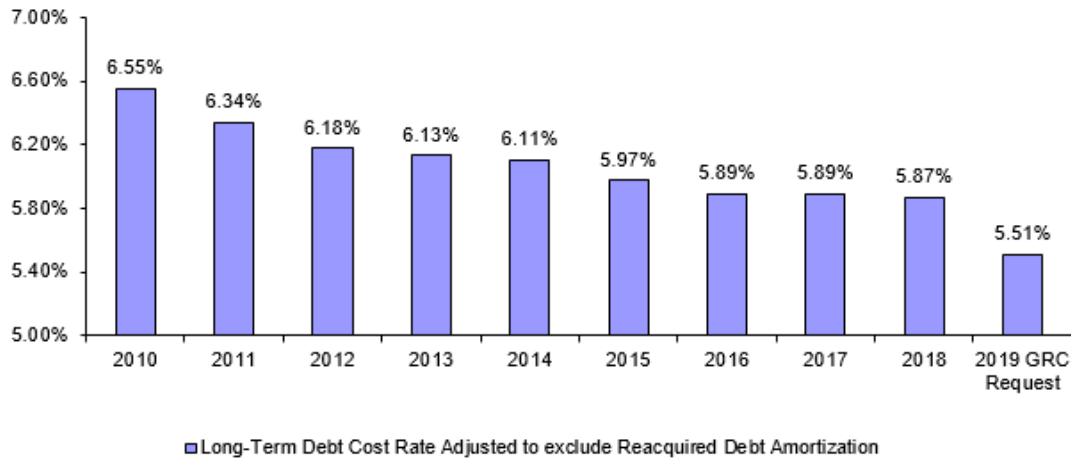
24 **Q. How has PSE’s cost of long-term debt changed over time?**

25 A. As shown in Figure 1 below, PSE’s overall cost of long-term debt has fallen about
26 100 basis points, when comparing PSE’s request in this rate proceeding to the
27 actual cost of long-term debt in calendar year 2010. This improvement is the
28 result of replacing higher cost debt with lower cost debt over time.

1

Figure 1. Improvement in Cost of Long-Term Debt

PSE Cost of LT Debt History Actuals from 2010-2018 vs 2019 GRC Request



2

3 Please note that the cost of long-term debt shown in Figure 1 is adjusted to
4 exclude amortization of losses on reacquired debt.

5

6 Applying the reduction of 104 basis points (6.55 percent minus 5.51 percent), to
7 the long-term debt of approximately \$3.8 billion results in the test year capital
8 structure results in a test year after-tax interest savings of approximately
9 \$31 million, compared to what it would have been at the cost of long-term debt
level from calendar year 2010.

1 **V. PSE HAS COMPLIED WITH ALL REGULATORY**
2 **COMMITMENTS REGARDING CAPITAL STRUCTURE**
3 **AND COSTS OF CAPITAL**

4 **Q. Are there regulatory commitments relevant to PSE’s proposed cost of debt**
5 **or equity relevant to this general rate case?**

6 A. Yes. On March 7, 2019, the Commission issued an order¹ that approved a
7 multiparty settlement² of a request to sell 43.99 percent of the indirect ownership
8 of Puget Holdings LLC in Docket U-180680, finding the transfer will result in no
9 harm to PSE customers and is in the public interest, as required by state law. The
10 multiparty settlement included 65 regulatory commitments, some of which are
11 relevant to PSE’s proposed cost of debt or equity relevant to this general rate case.
12 Regulatory Commitment 7 prohibits PSE from advocating for a higher cost of
13 debt or equity capital as compared to what PSE’s cost of debt or equity capital
14 would have been absent Puget Holdings’ ownership:

15 Puget Holdings and PSE will not advocate for a higher cost of debt
16 or equity capital as compared to what PSE’s cost of debt or equity
17 capital would have been absent the change in ownership at Puget
18 Holdings. For future ratemaking purposes, Commitments 6(iii), 7,
19 and 8(a) are clarified as follows:

20 (a) Determination of PSE’s debt and equity costs will be no
21 higher than such costs would have been assuming PSE’s
22 credit ratings by S&P and Moody’s in effect on the day
23 before the Proposed Transactions closed and applying those
24 credit ratings to then-current debt and equity markets, unless

¹ *In the Matter of the Joint Application of Puget Sound Energy, Alberta Investment Management Corporation, British Columbia Investment Management Corporation, OMERS Administration Corporation, and PGGM Vermogensbeheer B.V. for an Order Authorizing Proposed Sales of Indirect Interests in Puget Sound Energy*, Docket U-180680, Order 6 (Mar. 7, 2019).

² *See id.*, App. A (Settlement Stipulation and Appendices) (the “Docket U-180680 Multiparty Settlement Stipulation and Agreement”).

1 PSE proves that a lower credit rating is caused by
2 circumstances or developments not the result of financial
3 risks or other characteristics of the Proposed Transactions.

4 (b) Determination of the allowed return on equity in future
5 general rate cases will include selection and use of one or
6 more proxy group(s) of companies engaged in businesses
7 substantially similar to PSE, without any limitation related
8 to PSE's ownership structure.³

9 **Q. Has PSE complied with Regulatory Commitment 7?**

10 A. Yes. PSE has complied with Regulatory Commitment 7.

11 **Q. Does any regulatory commitment require PSE to maintain a capital structure
12 with a minimum equity ratio?**

13 A. Yes. Regulatory Commitment 29, in part, requires PSE to maintain a capital
14 structure with a minimum equity ratio:

15 PSE will have a common equity ratio of not less than 44 percent,
16 except to the extent a lower equity ratio is established for ratemaking
17 purposes by the Commission.⁴

18 **Q. Has PSE complied with Regulatory Commitment 29?**

19 A. Yes, PSE has complied with Regulatory Commitment 29. PSE's equity ratio
20 averaged 49.0 percent during the test year. PSE's equity has been above
21 44 percent over the past decade. Therefore, PSE has complied with Regulatory
22 Commitment 29.

³ Docket U-180680 Multiparty Settlement Stipulation and Agreement at 3.

⁴ *Id.* at 8.

VI. CONCLUSION

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Q. Does that conclude your prefiled direct testimony?

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A. Yes, it does.