

Exhibit No. DCP-1T
Dockets UE-090704/UG-090705
Witness: David C. Parcell

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET UE-090704

and

DOCKET UG-090705
(consolidated)

TESTIMONY

OF

DAVID C. PARCELL

ON BEHALF OF THE STAFF OF WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Cost of Capital

November 17, 2009

1 Puget Sound Energy, Inc. ("PSE" or "the Company") in these dockets. I have
2 performed independent studies and am making recommendations of the current cost
3 of capital for PSE.
4

5 **Q. Have you prepared any exhibits in support of your testimony?**

6 A. Yes, I have. Exhibit No. DCP-2 through Exhibit No. DCP-18 represent the analyses
7 that support my cost of capital recommendation. These exhibits were prepared either
8 by me or under my direction. The information contained in these exhibits is true and
9 correct to the best of my knowledge and belief.
10

11 **II. RECOMMENDATIONS AND SUMMARY**
12

13 **Q. What is your overall cost of capital recommendation in this proceeding?**

14 A. My overall cost of capital recommendation for PSE is 7.89 percent, as is shown on
15 Exhibit No. DCP-3, and can be summarized as follows:

	<u>Percent</u>	<u>Cost</u>	<u>Return</u>
Short-Term Debt	3.95%	2.47%	0.10%
Long-Term Debt	51.05%	6.45%	3.29%
Common Equity	45.00%	10.00%	4.50%
Total	100.00%		7.89%

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21 **Q. Please compare your 7.89 percent estimate to the Company's proposed cost of
22 capital.**

23 A. PSE requests a return on common equity of 10.8 percent and an overall rate of return
24 of 8.50 percent. My cost of capital recommendation differs from PSE's request in

1 versus 45 percent) at 5.757 percent. The resulting cost of long-term debt is 6.45
2 percent. This is shown on page 2 of Exhibit No. DCP-3.

3
4 **VII. COST OF EQUITY**

5
6 **A. Selection of Proxy Companies**

7
8 **Q. How have you estimated the cost of common equity for PSE?**

9 **A.** PSE is not a publicly-traded company. Consequently, market information is not
10 available for PSE's common stock, and it is not possible to directly apply cost of
11 equity models using that information. Moreover, PSE's parent is not publicly-
12 traded. As a result, it is generally preferable to analyze groups of comparison or
13 "proxy" companies as a substitute for PSE to determine its cost of common equity.
14 The use of proxy companies is also preferable to use of only a single company,
15 because a group of companies provides for a balancing or averaging of statistics for
16 multiple companies deemed to be of similar risk to the subject company.

17 Therefore, I examined three proxy groups for comparison to PSE. I selected
18 one group of electric utilities similar to PSE using the criteria listed on my Exhibit
19 No. DCP-10. These criteria are as follows:

- 20 (1) Net Plant of \$1 billion to \$10 billion;
21 (2) Electric revenues 50% or greater;
22 (3) Common equity ratio 40% or greater;
23 (4) S&P and Moody's bond ratings of BBB;
24 (5) S&P stock ranking of B or B+; and,
25 (6) Has paid dividends for 5 years.
26

1 Second, I conducted studies of the cost of equity for the two proxy groups
2 selected by PSE's witness Dr. Morin. It is my intention that, by using both my own
3 proxy group and Dr. Morin's proxy groups, the proxy group selection does not form
4 a major controversy in the cost of equity estimation process. I note, on the other
5 hand, that I regard my proxy group to be more appropriate than Dr. Morin's proxy
6 groups since my group was selected based on risk and operating characteristics more
7 directly reflective of PSE.

8
9 **B. Discounted Cash Flow Analysis**

10
11 **Q. What is the theory and methodological basis of the discounted cash flow model?**

12 A. The discounted cash flow (DCF) model is one of the oldest, as well as the most
13 commonly-used, models for estimating the cost of common equity for public
14 utilities. It is my understanding that the Commission's policy is to place primary
15 reliance on DCF results in setting the cost of capital for the utilities it regulates. The
16 DCF model is based on the "dividend discount model" of financial theory, which
17 maintains that the value (price) of any security or commodity is the discounted
18 present value of all future cash flows.

19 The most common variant of the DCF model assumes that dividends are
20 expected to grow at a constant rate. This variant of the dividend discount model is
21 known as the constant growth or Gordon DCF model. In this framework cost of
22 capital is derived by the following formula:

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$$K = \frac{D}{P} + g$$

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where: K = discount rate (cost of capital)
 P = current price
 D = current dividend rate
 g = constant rate of expected growth

This formula essentially recognizes that the return expected or required by investors is comprised of two factors: dividend yield (current income) and expected growth in dividends (future income).

Q. Please explain how you have employed the DCF model.

A. I have utilized the constant growth DCF model. In doing so, I have combined the current dividend yield for each group of proxy utility stocks described in the previous section with several indicators of expected dividend growth.

Q. How did you derive the dividend yield component of the DCF equation?

A. There are several methods that can be used for calculating the dividend yield component. These methods generally differ in the manner in which the dividend rate is employed; i.e., current versus future dividends or annual versus quarterly compounding of dividends. I believe the most appropriate dividend yield component is the version listed below:

$$Yield = \frac{D_0(1 + 0.5g)}{P_0}$$

This dividend yield component recognizes the timing of dividend payments and dividend increases.

1 The P_0 in my yield calculation is the average (of high and low) stock price for
2 each proxy company for the most recent three month period (August-October, 2009).
3 The D_0 is the current annualized dividend rate for each proxy company.
4

5 **Q. How have you estimated the dividend growth component of the DCF equation?**

6 A. The dividend growth rate component of the DCF model is usually the most crucial
7 and controversial element involved in using this methodology. The objective of
8 estimating the dividend growth component is to reflect the growth expected by
9 investors that is embodied in the price (and yield) of a company's stock. As such, it
10 is important to recognize that individual investors have different expectations and
11 consider alternative indicators in deriving their expectations. This is evidenced by
12 the fact that every investment decision resulting in the purchase of a particular stock
13 is matched by another investment decision to sell that stock. Obviously, since two
14 investors reach different decisions at the same market price, their expectations differ.

15 A wide array of indicators exists for estimating the growth expectations of
16 investors. As a result, it is evident that no single indicator of growth is always used
17 by all investors. It therefore is necessary to consider alternative indicators of
18 dividend growth in deriving the growth component of the DCF model.

19 I have considered five indicators of growth in my DCF analyses. These are:

- 20 1. 2004-2008 (5-year average) earnings retention, or fundamental
21 growth (per Value Line);
22
23 2. 5-year average of historic growth in earnings per share ("EPS"),
24 dividends per share ("DPS"), and book value per share ("BVPS") (per
25 Value Line);
26

- 1 3. 2009, 2010, and 2012-2014 projections of earnings retention growth
2 (per Value Line);
3
4 4. 2006-2008 to 2012-2014 projections of EPS, DPS, and BVPS (per
5 Value Line); and
6
7 5. 5-year projections of EPS growth as reported in First Call (per Yahoo!
8 Finance).
9

10 I believe this combination of growth indicators is a representative and appropriate set
11 with which to begin the process of estimating investor expectations of dividend
12 growth for the groups of proxy companies. I also believe that these growth
13 indicators reflect the types of information that investors consider in making their
14 investment decisions. As I indicated previously, investors have an array of
15 information available to them, all of which should be expected to have some impact
16 on their decision-making process.

17
18 **Q. Please describe your initial DCF calculations.**

19 A. Exhibit No. DCP-11 presents my DCF analysis. Page 1 shows the calculation of the
20 “raw” (i.e., prior to adjustment for growth) dividend yield for each company in the
21 proxy groups. Pages 2 and 3 show the growth rate for the groups of proxy companies.
22 Page 4 shows the “raw” DCF calculations, which are presented on several bases: mean,
23 median, and high values. These results can be summarized as follows:

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	Mean	Median	Mean		Median	
			Low	High	Low	High
27 Proxy Group	10.0%	9.6%	8.5%	12.3%	7.7%	11.2%
28 S&P Group	11.3%	11.1%	10.4%	12.8%	10.6%	11.5%
29 Integrated	10.4%	10.0%	9.6%	11.9%	9.1%	11.1%
30 Group						

1 I note that the individual DCF calculations shown on Exhibit No. DCP-11 should not
2 be interpreted to reflect the expected cost of capital for the proxy groups; rather, the
3 individual values shown should be interpreted as alternative information considered
4 by investors. The individual DCF calculations also demonstrate how the focus on a
5 single growth rate, i.e. EPS projections, can produce a DCF conclusion that is not
6 reflective of a broader perspective of available information.

7 The DCF results in Exhibit No. DCP-10 indicate average (mean and median)
8 DCF cost rates of 9.6 percent to 11.3 percent. The "high" DCF rates (i.e., using the
9 highest growth rates only) are 11.9 percent to 12.8 percent on an average basis and
10 11.1 percent to 11.5 percent on a median basis, while the "low" DCF rates (i.e., using
11 the lowest growth rates only) are 8.5 percent to 10.6 percent.

12
13 **Q. What do you conclude from your DCF analyses?**

14 A. This DCF analysis indicates a range of 9.6 percent to 11.3 percent for the proxy
15 groups. This is approximated by the average/mean values. I give less weight to the
16 lower end of the DCF results, as well as significantly less weight to the extreme
17 upper ends of the groups (which are impacted by outlier results).

18
19 **Q. Which portion of the DCF range do you recommend at this time?**

20 A. I believe that the lower portion of the 9.6 percent to 11.3 percent currently reflects
21 the proper DCF cost for PSE. I specifically recommend 10.0 percent, because the
22 DCF results are presently upwardly influenced by recent stock prices (i.e., higher
23 yield).

Exhibit No. DCP-8
Dockets UE-090704 and UG-090705
Witness: David C. Parcell

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DOCKET UE-090704

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EXHIBIT TO TESTIMONY OF

DAVID C. PARCELL

**ON BEHALF OF
STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

PSE Capital Structure Ratios 2004-2008

November 17, 2009

Exhibit No. DCP-8
Page 1 of 2

**PUGET SOUND ENERGY
CAPITAL STRUCTURE RATIOS
2004 - 2008
(\$000)**

YEAR	COMMON EQUITY	PREFERRED SECURITIES	LONG-TERM DEBT	SHORT-TERM DEBT
2004	\$1,592,433	\$282,139	\$2,095,360	\$150,000
	38.7%	6.8%	50.9%	3.6%
	40.1%	7.1%	52.8%	
2005	\$1,986,621	\$239,639	\$2,264,360	\$41,000
	43.8%	5.3%	50.0%	0.9%
	44.2%	5.3%	50.4%	
2006	\$2,092,283	\$39,639	\$2,733,360	\$352,358
	40.1%	0.8%	52.4%	6.8%
	43.0%	0.8%	56.2%	
2007	\$2,504,091	\$1,889	\$2,858,360	\$276,252
	44.4%	0.0%	50.7%	4.9%
	46.7%	0.0%	53.3%	
2008	\$2,249,186	\$1,889	\$2,678,860	\$990,753
	38.0%	0.0%	45.2%	16.7%
	45.6%	0.0%	54.3%	

Note: Percentages may not total 100.0% due to rounding.

Source: Response to WUTC Data Request No. 028

Exhibit No. DCP-8
Page 2 of 2

**PUGET ENERGY
CAPITAL STRUCTURE RATIOS
2003 - 2006
(\$000)**

YEAR	COMMON EQUITY	PREFERRED SECURITIES	LONG-TERM DEBT	SHORT-TERM DEBT
2003	\$1,622,276 39.0% 40.5%	\$282,139 6.8% 7.0%	\$2,100,360 50.6% 52.4%	\$150,000 3.6%
2004	\$2,027,047 44.3% 44.7%	\$239,639 5.2% 5.3%	\$2,264,360 49.5% 50.0%	\$41,000 0.9%
2005	\$2,116,029 40.6% 43.3%	\$39,639 0.8% 0.8%	\$2,733,360 52.4% 55.9%	\$328,055 6.3%
2007	\$2,521,954 44.7% 46.9%	\$1,889 0.0% 0.0%	\$2,858,360 50.7% 53.1%	\$260,486 4.6%
2008	\$2,273,201 38.4% 45.9%	\$1,889 0.0% 0.0%	\$2,678,860 45.3% 54.1%	\$964,700 16.3%

Note: Percentages may not total 100.0% due to rounding.

Source: Response to WUTC Data Request No. 028

Exhibit No. DCP-11
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EXHIBIT TO TESTIMONY OF

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**ON BEHALF OF
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WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Comparison Companies Dividend Yield

November 17, 2009

COMPARISON COMPANIES
RETENTION GROWTH RATES

COMPANY	2004	2005	2006	2007	2008	Average	2009	2010	'12-'14	Average
PROXY GROUP										
Allegheny Energy	5.0%	8.8%	15.3%	15.3%	10.3%	10.9%	10.0%	9.0%	8.5%	9.2%
Avista Corp	1.4%	2.4%	4.9%	0.8%	3.7%	2.6%	4.0%	3.5%	3.0%	3.5%
Cleco	3.9%	4.1%	3.0%	2.6%	4.5%	3.6%	4.5%	4.5%	4.0%	4.3%
Empire District Electric	0.0%	0.0%	0.8%	0.0%	0.0%	0.2%	1.0%	1.5%	3.0%	1.8%
Great Plains Energy	5.1%	3.2%	0.0%	0.9%	0.0%	1.8%	1.5%	2.5%	2.0%	2.0%
Hawaiian Electric Industries	1.1%	1.5%	0.7%	0.8%	0.5%	0.9%	0.0%	1.5%	3.0%	1.5%
Pinnacle West Capital	2.3%	1.0%	3.4%	2.5%	0.3%	1.9%	1.0%	2.0%	3.0%	2.0%
Westar Energy	3.2%	4.3%	5.5%	4.3%	1.2%	3.7%	2.5%	3.0%	3.0%	2.8%
Average						3.2%				3.4%
S&P Electric Utilities										
Allegheny Energy	5.0%	8.8%	15.3%	15.3%	10.3%	10.9%	10.0%	9.0%	8.5%	9.2%
American Electric Power	5.7%	5.2%	5.7%	5.1%	5.1%	5.4%	4.5%	4.5%	5.0%	4.7%
Ameren	0.9%	1.7%	0.2%	1.3%	1.0%	1.0%	3.5%	3.0%	3.5%	3.3%
CMS Energy	6.2%	9.9%	6.4%	5.1%	8.4%	7.2%	7.0%	6.5%	5.0%	6.2%
CenterPoint Energy	7.5%	7.8%	15.7%	10.0%	9.9%	10.2%	3.5%	4.0%	6.0%	4.5%
Consolidated Edison	0.8%	2.6%	2.6%	3.9%	3.1%	2.6%	2.0%	2.0%	3.5%	2.5%
Constellation Energy	7.7%	7.7%	9.1%	8.9%	0.0%	6.7%	0.0%	10.5%	8.5%	6.3%
DTE Energy	1.6%	3.7%	1.2%	1.5%	1.7%	1.8%	2.5%	3.0%	3.5%	3.0%
DomInon Resources	4.8%	1.1%	5.8%	5.0%	8.4%	5.0%	7.5%	7.0%	6.5%	7.0%
Duke Energy	--	--	4.1%	2.0%	0.6%	2.2%	1.0%	1.0%	1.5%	1.2%
Edison International	0.0%	12.2%	10.1%	9.2%	8.6%	8.0%	5.5%	6.0%	7.5%	6.3%
Entergy	5.8%	6.0%	8.3%	8.0%	8.1%	7.2%	8.0%	9.0%	8.0%	8.3%
Exelon	10.7%	11.9%	13.0%	15.3%	12.5%	12.7%	11.5%	10.0%	11.5%	11.0%
FPL Group	5.6%	4.2%	6.9%	6.1%	7.9%	6.1%	7.5%	8.5%	7.5%	7.8%
FirstEnergy Corp	4.9%	4.2%	7.4%	7.7%	8.1%	6.5%	5.0%	4.5%	7.0%	5.5%
Integrus Energy	6.6%	5.3%	3.4%	0.0%	0.0%	3.1%	0.0%	1.0%	2.0%	1.0%
PG&E	10.3%	7.7%	8.8%	8.0%	6.8%	7.5%	5.5%	5.5%	6.0%	5.7%
PPL Corp	9.3%	8.8%	9.3%	10.0%	8.5%	9.2%	1.0%	11.0%	10.0%	7.3%
Pepco Holdings	2.5%	2.4%	1.5%	2.3%	4.2%	2.6%	0.5%	2.5%	3.0%	2.0%
Pinnacle West Capital	2.3%	1.0%	3.4%	2.5%	0.3%	1.9%	1.0%	2.0%	3.0%	2.0%
Progress Energy	2.6%	1.7%	0.0%	0.7%	1.5%	1.3%	2.0%	2.5%	3.0%	2.5%
Public Service Enterprise	3.5%	5.3%	5.3%	9.9%	10.5%	6.9%	10.0%	10.0%	9.0%	9.7%
Sempra Energy	14.9%	10.1%	11.0%	9.7%	9.7%	11.1%	9.0%	9.0%	8.0%	8.7%
Southern Company	4.7%	4.6%	3.8%	4.3%	3.6%	4.2%	3.0%	3.5%	4.0%	3.5%
TECO Energy	0.0%	3.3%	5.0%	5.1%	0.0%	2.7%	2.5%	3.5%	4.5%	3.5%
Wisconsin Energy	4.9%	7.5%	7.1%	7.1%	7.0%	6.7%	6.0%	7.0%	6.0%	6.3%
Xcel Energy Inc.	3.9%	2.9%	3.6%	3.1%	3.8%	3.5%	3.5%	3.5%	5.0%	4.0%
Average						5.7%				5.3%
Integrated Electric Utilities										
Allegheny Energy	5.0%	8.8%	15.3%	15.3%	10.3%	10.9%	10.0%	9.0%	8.5%	9.2%
ALLETE	4.7%	5.2%	5.0%	5.8%	3.9%	4.9%	0.5%	1.5%	2.5%	1.5%
American Electric Power	5.7%	5.2%	5.7%	5.1%	5.1%	5.4%	4.5%	4.5%	5.0%	4.7%
Ameren	0.9%	1.7%	0.2%	1.3%	1.0%	1.0%	3.5%	3.0%	3.5%	3.3%
Cleco	3.9%	4.1%	3.0%	2.6%	4.5%	3.6%	4.5%	4.5%	4.0%	4.3%
DPL Inc	9.8%	0.8%	1.7%	11.4%	12.6%	7.3%	10.5%	13.5%	13.5%	12.5%
Duke Energy	--	--	4.1%	2.0%	0.6%	2.2%	1.0%	1.0%	1.5%	1.2%
Edison International	0.0%	12.2%	10.1%	9.2%	8.6%	8.0%	6.5%	6.5%	8.0%	7.0%
Empire District Electric	0.0%	0.0%	0.8%	0.0%	0.0%	0.2%	1.0%	1.5%	3.0%	1.6%
Entergy	5.8%	6.0%	8.3%	8.0%	6.1%	7.2%	8.0%	9.0%	8.0%	8.3%
FirstEnergy	4.9%	4.2%	7.4%	7.7%	6.1%	6.5%	5.0%	4.5%	7.0%	5.5%
FPL Group	5.6%	4.2%	6.9%	6.1%	7.9%	6.1%	7.5%	8.5%	7.5%	7.8%
Hawaiian Electric	1.1%	1.5%	0.7%	0.8%	0.6%	0.9%	0.0%	1.5%	3.0%	1.5%
IDACORP	2.7%	1.3%	4.3%	2.4%	3.4%	2.8%	4.0%	4.0%	3.5%	3.8%
NV Energy	4.8%	4.0%	9.0%	5.4%	4.1%	5.5%	3.0%	4.5%	4.5%	4.0%
PG&E	10.3%	7.7%	6.8%	6.0%	6.8%	7.5%	5.5%	5.5%	6.0%	5.7%
Portland General	7.2%	5.3%	3.5%	6.6%	2.0%	4.9%	2.5%	3.0%	3.5%	3.0%
Progress Energy	2.6%	1.7%	0.0%	0.7%	1.5%	1.3%	2.0%	2.5%	3.0%	2.5%
Southern Co.	4.7%	4.6%	3.8%	4.3%	3.5%	4.2%	3.0%	3.5%	4.0%	3.5%
UnISource Energy	4.1%	3.2%	6.1%	3.9%	0.0%	3.5%	7.0%	6.5%	5.5%	6.3%
Xcel Energy Inc.	3.9%	2.9%	3.6%	3.1%	3.8%	3.5%	3.5%	3.5%	5.0%	4.0%
Average						4.6%				4.8%

Source: Value Line Investment Survey.

Exhibit No. DCP-11
Page 3 of 4

COMPARISON COMPANIES
PER SHARE GROWTH RATES

COMPANY	5-Year Historic Growth Rates				Est'd '08-'08 to '12-'14 Growth Rates			
	EPS	DPS	BVPS	Average	EPS	DPS	BVPS	Average
PROXY GROUP								
Allegheny Energy	--	-24.5%	-2.0%	-13.3%	7.5%	30.0%	10.0%	15.8%
Avista Corp	4.0%	5.0%	3.0%	4.0%	6.5%	11.5%	3.5%	7.2%
Claco	0.5%	0.5%	9.0%	3.3%	9.5%	10.0%	4.5%	8.0%
Empire District Electric	3.5%	0.0%	1.5%	1.7%	6.0%	1.5%	2.0%	3.2%
Great Plains Energy	-4.5%	0.0%	7.0%	0.8%	0.6%	-6.5%	3.0%	-1.0%
Hawaiian Electric Industries	-6.0%	0.0%	1.0%	-1.7%	7.0%	0.0%	2.0%	3.0%
Pinnacle West Capital	-1.0%	5.0%	3.0%	2.3%	3.0%	1.0%	1.0%	1.7%
Westar Energy	21.5%	-0.5%	1.0%	7.3%	4.5%	4.5%	6.0%	5.0%
Average				0.8%				5.4%
S&P Electric Utilities								
Allegheny Energy	--	-24.5%	-2.0%	-13.3%	7.5%	30.0%	10.0%	15.8%
American Electric Power	--	-6.0%	2.5%	-1.8%	3.0%	3.0%	5.0%	3.7%
Ameren	-1.6%	0.0%	5.0%	1.2%	1.0%	-6.5%	2.5%	-1.0%
CMS Energy	--	-26.0%	-1.0%	-13.5%	10.0%	27.5%	6.0%	14.5%
CenterPoint Energy	-2.0%	-7.5%	-13.0%	-7.5%	3.0%	5.5%	8.6%	5.7%
Consolidated Edison	1.5%	1.0%	3.5%	2.0%	3.0%	1.0%	3.5%	2.5%
Constellation Energy	3.5%	16.0%	--	9.8%	2.5%	-6.0%	0.0%	-1.2%
DTE Energy	-2.5%	0.5%	4.0%	0.7%	7.5%	3.0%	2.5%	4.3%
Dominion Resources	5.5%	2.5%	1.5%	3.2%	8.0%	7.0%	8.0%	7.7%
Duke Energy	--	--	--	--	5.0%	NMF	-0.5%	2.3%
Edison International	13.5%	--	14.5%	14.0%	4.5%	4.5%	7.0%	5.3%
Entergy	10.5%	13.0%	3.0%	8.8%	6.0%	5.5%	6.5%	6.0%
Exelon	10.5%	15.0%	4.5%	10.0%	6.0%	4.5%	10.5%	7.0%
FPL Group	9.5%	7.0%	8.0%	8.2%	9.5%	6.0%	8.5%	8.0%
FirstEnergy Corp	12.5%	6.5%	3.0%	7.3%	4.0%	4.5%	4.5%	4.3%
Integrus Energy	-1.5%	3.5%	10.0%	4.0%	5.5%	1.5%	-0.5%	2.2%
PG&E	NMF	--	18.0%	18.0%	6.5%	7.5%	6.5%	6.8%
PPL Corp	7.5%	12.5%	13.5%	11.2%	7.5%	7.5%	6.0%	7.0%
Pepeco Holdings	-2.0%	17.5%	1.5%	5.7%	2.0%	0.0%	2.0%	1.3%
Pinnacle West Capital	-1.0%	5.0%	3.0%	2.3%	3.0%	1.0%	1.0%	1.7%
Progress Energy	-6.5%	2.0%	2.5%	-0.7%	6.0%	1.0%	2.0%	3.0%
Public Service Enterprise	5.5%	2.0%	7.0%	4.8%	7.5%	8.0%	9.0%	7.5%
Sampira Energy	9.0%	5.0%	16.0%	10.0%	5.5%	8.5%	8.5%	7.5%
Southern Company	4.0%	3.0%	5.5%	4.2%	4.5%	4.0%	5.0%	4.5%
TECO Energy	-5.0%	-9.0%	-6.5%	-6.8%	4.5%	2.5%	4.5%	3.8%
Wisconsin Energy	6.0%	4.5%	7.5%	6.0%	8.0%	13.5%	6.0%	9.2%
Xcel Energy Inc.	1.0%	-4.0%	1.0%	-0.7%	6.5%	3.0%	4.5%	4.7%
Average				3.3%				5.3%
Integrated Electric Utilities								
Allegheny Energy	--	-24.5%	-2.0%	-13.3%	7.5%	30.0%	10.0%	15.8%
ALLETE	--	--	--	--	-1.0%	3.0%	3.0%	1.7%
American Electric Power	--	-6.0%	2.5%	-1.8%	3.0%	3.0%	5.0%	3.7%
Ameren	-1.5%	0.0%	5.0%	1.2%	1.0%	-6.5%	2.5%	-1.0%
Claco	0.5%	0.5%	9.0%	3.3%	9.5%	10.0%	4.5%	8.0%
DPL Inc	7.0%	2.0%	2.5%	3.8%	8.5%	3.5%	5.0%	5.7%
Duke Energy	--	--	--	--	5.0%	NMF	-0.5%	2.3%
Edison International	13.5%	--	14.5%	14.0%	4.5%	4.5%	7.0%	5.3%
Empire District Electric	3.5%	0.0%	1.5%	1.7%	6.0%	1.5%	2.0%	3.2%
Entergy	10.5%	13.0%	3.0%	8.8%	6.0%	5.5%	6.5%	6.0%
FirstEnergy	12.5%	6.5%	3.0%	7.3%	4.0%	4.5%	4.5%	4.3%
FPL Group	9.5%	7.0%	8.0%	8.2%	9.5%	6.0%	8.5%	8.0%
Hawaiian Electric	-6.0%	0.0%	1.0%	-1.7%	7.0%	0.0%	2.0%	3.0%
IDACORP	1.5%	-6.0%	3.0%	-1.2%	4.5%	2.5%	5.0%	4.0%
NV Energy	--	-3.5%	-2.0%	-2.8%	4.5%	NMF	4.5%	4.5%
PG&E	NMF	--	18.0%	18.0%	6.5%	7.5%	6.5%	6.8%
Portland General	--	--	--	--	3.5%	5.5%	2.5%	3.8%
Progress Energy	-6.5%	2.0%	2.5%	-0.7%	6.0%	1.0%	2.0%	3.0%
Southern Co.	4.0%	3.0%	5.5%	4.2%	4.5%	4.0%	5.0%	4.5%
UniSource Energy	-1.5%	12.5%	6.5%	5.8%	17.5%	10.0%	7.0%	11.5%
Xcel Energy Inc.	1.0%	-4.0%	1.0%	-0.7%	6.5%	3.0%	4.5%	4.7%
Average				3.0%				5.2%

Source: Value Line Investment Survey.

COMPARISON COMPANIES
DCF COST RATES

COMPANY	ADJUSTED YIELD	HISTORIC RETENTION GROWTH	PROSPECTIVE RETENTION GROWTH	HISTORIC PER SHARE GROWTH	PROSPECTIVE PER SHARE GROWTH	FIRST CALL EPS GROWTH	AVERAGE GROWTH	DCF RATES
PROXY GROUP								
Allegheny Energy	2.5%	10.9%	9.2%		15.8%	15.3%	12.8%	15.3%
Avista Corp	4.4%	2.6%	3.5%	4.0%	7.2%	8.7%	5.2%	9.6%
Cleco	3.8%	3.6%	4.3%	3.3%	8.0%	12.5%	6.4%	10.1%
Empire District Electric	7.0%	0.2%	1.8%	1.7%	3.2%	6.0%	2.6%	9.6%
Great Plains Energy	4.9%	1.8%	2.0%	0.8%		2.0%	1.7%	8.5%
Hawaiian Electric Industries	7.0%	0.9%	1.5%		3.0%	3.0%	2.1%	9.1%
Pinnacle West Capital	6.5%	1.9%	2.0%	2.3%	1.7%	5.5%	2.7%	9.2%
Wester Energy	6.0%	3.7%	2.8%	7.3%	5.0%	3.0%	4.4%	10.4%
Mean	5.3%	3.2%	3.4%	3.3%	6.3%	7.0%	4.7%	10.0%
Median	5.4%	2.3%	2.4%	2.8%	5.0%	5.8%	3.5%	9.6%
Composite-Mean		8.5%	8.7%	8.5%	11.5%	12.3%	10.0%	
Composite-Median		7.7%	7.9%	8.3%	10.4%	11.2%	9.0%	
S&P Electric Utilities								
Allegheny Energy	2.5%	10.9%	9.2%		15.8%	15.3%	12.8%	15.3%
American Electric Power	5.4%	5.4%	4.7%		3.7%	3.8%	4.4%	9.8%
Amgen	6.0%	1.0%	3.3%	1.2%		3.0%	2.1%	8.1%
CMS Energy	3.9%	7.2%	6.2%		14.5%	6.3%	8.5%	12.4%
CenterPoint Energy	6.4%	10.2%	4.5%		5.7%	18.0%	9.6%	15.9%
Consolidated Edison	5.9%	2.6%	2.5%	2.0%	2.5%	3.4%	2.6%	8.5%
Constellation Energy	3.2%	6.7%	6.3%	9.8%		14.6%	9.4%	12.6%
DTE Energy	5.9%	1.9%	3.0%	0.7%	4.3%	2.5%	2.5%	8.4%
Dominion Resources	5.3%	5.0%	7.0%	3.2%	7.7%	6.5%	5.9%	11.1%
Duke Energy	6.2%	2.2%	1.2%		2.3%	3.2%	2.2%	8.4%
Edison International	3.9%	8.0%	6.3%	14.0%	5.3%	3.0%	7.3%	11.2%
Entergy	3.9%	7.2%	8.3%	8.8%	6.0%	8.5%	7.8%	11.7%
Exelon	4.4%	12.7%	11.0%	10.0%	7.0%	4.5%	9.0%	13.5%
FPL Group	3.7%	6.1%	7.8%	8.2%	8.0%	8.7%	7.8%	11.4%
FirstEnergy Corp	5.1%	6.5%	5.5%	7.3%	4.3%	5.0%	5.7%	10.8%
Integrus Energy	8.1%	3.1%	1.0%	4.0%	2.2%	28.2%	7.3%	15.4%
PG&E	4.2%	7.5%	5.7%	18.0%	6.8%	6.8%	9.0%	13.2%
PPL Corp	4.6%	9.2%	7.3%	11.2%	7.0%	12.5%	9.4%	14.1%
Peppco Holdings	7.6%	2.6%	2.0%	5.7%	1.3%	5.5%	3.4%	11.0%
Pinnacle West Capital	6.5%	1.9%	2.0%	2.3%	1.7%	5.5%	2.7%	9.2%
Progress Energy	6.6%	1.3%	2.5%		3.0%	4.4%	2.8%	9.4%
Public Service Enterprise	4.4%	6.9%	9.7%	4.8%	7.5%	5.3%	5.6%	11.2%
Sempra Energy	3.2%	11.1%	6.7%	10.0%	7.5%	6.3%	8.7%	11.9%
Southern Company	5.5%	4.2%	3.5%	4.2%	4.5%	5.0%	4.3%	9.8%
TECO Energy	6.0%	2.7%	3.6%		3.8%	8.4%	4.8%	10.6%
Wisconsin Energy	3.2%	6.7%	6.3%	6.0%	9.2%	8.7%	7.4%	10.5%
Xcel Energy Inc.	5.1%	3.5%	4.0%		4.7%	7.4%	4.9%	10.0%
Mean	5.1%	5.7%	5.3%	6.9%	5.9%	7.7%	6.3%	11.3%
Median	5.1%	6.1%	5.5%	6.0%	5.3%	6.3%	6.6%	11.1%
Composite-Mean		10.8%	10.4%	12.0%	10.9%	12.8%	11.3%	
Composite-Median		11.3%	10.6%	11.1%	10.5%	11.5%	12.0%	
Integrated Electric Utilities								
Allegheny Energy	2.5%	10.9%	9.2%		15.8%	15.3%	12.8%	15.3%
ALLETE	5.3%	4.9%	1.5%		1.7%	6.0%	3.5%	8.9%
American Electric Power	5.4%	5.4%	4.7%		3.7%	3.8%	4.4%	9.8%
Amgen	6.0%	1.0%	3.3%	1.2%		3.0%	2.1%	8.1%
Cleco	3.8%	3.6%	4.3%	3.3%	8.0%	12.5%	6.4%	10.1%
DPL Inc	4.7%	7.3%	12.5%	3.8%	5.7%	9.4%	7.7%	12.4%
Duke Energy	8.2%	2.2%	1.2%		2.3%	3.2%	2.2%	8.4%
Edison International	3.9%	8.0%	7.0%	14.0%	5.3%	3.0%	7.5%	11.4%
Empire District Electric	7.0%	0.2%	1.8%	1.7%	3.2%	6.0%	2.6%	9.6%
Entergy	3.9%	7.2%	8.3%	8.8%	6.0%	8.5%	7.8%	11.7%
FirstEnergy	5.1%	6.5%	5.5%	7.3%	4.3%	5.0%	5.7%	10.8%
FPL Group	3.7%	6.1%	7.8%	8.2%	8.0%	8.7%	7.8%	11.4%
Hawaiian Electric	7.0%	0.9%	1.5%		3.0%	3.0%	2.1%	9.1%
IDACORP	4.3%	2.6%	3.8%		4.0%	5.0%	3.9%	8.3%
NV Energy	3.6%	5.5%	4.0%		4.5%	10.0%	6.0%	9.5%
PG&E	4.2%	7.5%	5.7%	18.0%	6.8%	6.8%	9.0%	13.2%
Portland General	5.3%	4.9%	3.0%		3.8%	7.4%	4.8%	10.1%
Progress Energy	6.6%	1.3%	2.5%		3.0%	4.4%	2.8%	9.4%
Southern Co.	5.6%	4.2%	3.5%	4.2%	4.5%	5.0%	4.3%	9.6%
Unisource Energy	4.1%	3.5%	6.3%	5.8%	11.5%	5.0%	6.4%	10.5%
Xcel Energy Inc.	5.1%	3.5%	4.0%		4.7%	7.4%	4.9%	10.0%
Mean	4.9%	4.6%	4.8%	6.9%	5.5%	6.6%	5.5%	10.4%
Median	5.1%	4.9%	4.0%	5.8%	4.5%	6.0%	4.9%	10.0%
Composite-Mean		9.5%	9.8%	11.9%	10.4%	11.5%	10.1%	
Composite-Median		10.0%	9.1%	10.9%	9.6%	11.1%	10.0%	

Sources: Prior pages of this schedule.

Exhibit No. DCP-17
Dockets UE-090704 and UG-090705
Witness: David C. Parcell

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET UE-090704

DOCKET UG-090705

EXHIBIT TO TESTIMONY OF

DAVID C. PARCELL

ON BEHALF OF
STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

PSE Rating Agency Ratios

November 17, 2009

Exhibit No. DCP-17

**PUGET SOUND ENERGY
RATING AGENCY RATIOS**

ITEM	PERCENT	COST RATE	WEIGHTED COST	PRE-TAX COST
Short-Term Debt	3.95%	2.47%	0.10%	0.10%
Long-Term Debt	51.05%	6.45%	3.29%	3.29%
Common Equity	<u>45.00%</u>	10.00%	<u>4.50%</u>	<u>6.92%</u> (1)
TOTAL CAPITAL	100.00%		7.89%	10.31%

(1) Post-tax weighted cost divided by .65 (composite tax factor)

Pre-tax coverage = $10.21\% / (0.17\% + 3.12\%)$
3.04 X

Standard & Poor's Utility Benchmark Ratios:

	<u>BBB</u>
Pre-tax coverage (X)	
Business Position:	
5	2.4 - 3.5 x
Total Debt to Total Capital (%)	
Business Position	
5	50 - 60 %

Note: Standard & Poor's no longer employs the pre-tax coverage ratios as one of its qualitative ratings criteria. The above-cited S&P benchmark ratios reflect the 1999 criteria reported by S&P.