

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION D/B/A/ AVISTA UTILITIES

Respondent.

DOCKETS UE-220053, UG-220054, and UE-210854 (Consolidated)

**DAVID J. GARRETT
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT DJG-10

CAPM Implied Equity Risk Premium Calculation

July 29, 2022

CAPM Implied Equity Risk Premium Estimate

| | [1] | [2] | [3] | [4] | [5] | [6] | [7] | [8] |
|------|--------------|--------------------|-----------|----------|----------------|----------------|---------------|------------------|
| Year | Market Value | Operating Earnings | Dividends | Buybacks | Earnings Yield | Dividend Yield | Buyback Yield | Gross Cash Yield |
| 2011 | 11,385 | 877 | 240 | 405 | 7.70% | 2.11% | 3.56% | 5.67% |
| 2012 | 12,742 | 870 | 281 | 399 | 6.83% | 2.20% | 3.13% | 5.33% |
| 2013 | 16,495 | 956 | 312 | 476 | 5.80% | 1.89% | 2.88% | 4.77% |
| 2014 | 18,245 | 1,004 | 350 | 553 | 5.50% | 1.92% | 3.03% | 4.95% |
| 2015 | 17,900 | 885 | 382 | 572 | 4.95% | 2.14% | 3.20% | 5.33% |
| 2016 | 19,268 | 920 | 397 | 536 | 4.77% | 2.06% | 2.78% | 4.85% |
| 2017 | 22,821 | 1,066 | 420 | 519 | 4.67% | 1.84% | 2.28% | 4.12% |
| 2018 | 21,027 | 1,282 | 456 | 806 | 6.10% | 2.17% | 3.84% | 6.01% |
| 2019 | 26,760 | 1,305 | 485 | 729 | 4.88% | 1.81% | 2.72% | 4.54% |
| 2020 | 31,659 | 1,019 | 480 | 520 | 3.22% | 1.52% | 1.64% | 3.16% |
| 2021 | 40,356 | 1,739 | 511 | 882 | 4.31% | 1.27% | 2.18% | 3.45% |

| | | |
|---------------------|-------|------|
| Cash Yield | 4.74% | [9] |
| Growth Rate | 7.09% | [10] |
| Risk-free Rate | 3.21% | [11] |
| Current Index Value | 3,905 | [12] |

| | [13] | [14] | [15] | [16] | [17] |
|------------------------------------|-------------|------|------|------|------|
| Year | 1 | 2 | 3 | 4 | 5 |
| Expected Dividends | 198 | 212 | 227 | 244 | 261 |
| Expected Terminal Value | | | | | 4655 |
| Present Value | 182 | 179 | 176 | 173 | 3196 |
| Intrinsic Index Value | 3905 | [18] | | | |
| Required Return on Market | 8.99% | [19] | | | |
| Implied Equity Risk Premium | 5.8% | [20] | | | |

[1-4] S&P Quarterly Press Releases, data found at <https://us.spindices.com/indices/equity/sp-500> (additional info tab) (all dollar figures are in \$ billions)

[1] Market value of S&P 500

[5] = [2] / [1]

[6] = [3] / [1]

[7] = [4] / [1]

[8] = [6] + [7]

[9] = Average of [8]

[10] = Compound annual growth rate of [2] = (end value / beginning value)^{1/4}-1

[11] Risk-free rate from DJG risk-free rate exhibit

[12] 30-day average of closing index prices from DJG stock price exhibit

[13-16] Expected dividends = [9]*[12]*(1+[10])ⁿ; Present value = expected dividend / (1+[11]+[19])ⁿ

[17] Expected terminal value = expected dividend * (1+[11]) / [19]; Present value = (expected dividend + expected terminal value) / (1+[11]+[19])ⁿ

[18] = Sum([13-17]) present values.

[19] = [20] + [11]

[20] Internal rate of return calculation setting [18] equal to [12] and solving for the discount rate